# 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.

Answer Question No. 1 and 8 are compulsory; Answer any four from Question No. 2, 3, 4, 5, 6 & 7.

## SECTION – A

**1. (a)**

| Sl. No. | Answer | Justification |
|---|---|---|
| (i) | (b) | Loss for 5 months (1st November, 2020 to 31st March, 2021)<br>= \$ 50,000 x (₹64.25 - ₹61.50) x 5/6 = ₹1,14,583.<br>So, the correct option is (b) |
| (ii) | (a) | Profits after Taxes = (₹ 1,00,000 - 28% of ₹ 1,00,000) = ₹72,000<br>Capitalisation of Profits = ₹72,000/0.12 = ₹6,00,000<br>Therefore, Goodwill = ₹ 6,00,000 – ₹ 4,80,000 = ₹ 1,20,000<br>So, the correct option is (a) |
| (iii) | (a) | No. of shares to be issued = 70,000 x 3/7 = 30,000<br>Purchase consideration = 30,000 x 14 = ₹4,20,000.<br>So, the correct option is (a) |
| (iv) | (d) | Exchange Gain for the year 2021-22 = (76.76 -75.91) x 100000<br>= ₹ 85,000<br>So, the correct option is (d) |
| (v) | (b) | Fair value of INA = 960 – 160 = ₹800 lakh<br>Purchase consideration = ₹560 lakh.<br>NCI at fair value = 560 x 20/80 = ₹140 lakh.<br>Gain on bargain purchase = 800 – (560 + 140) = ₹100 lakh.<br>So, the correct option is (b) |

| | | |
|---|---|---|
| (vi) | (a) | The Government Accounting Standards Advisory Board (GASAB) was constituted by the Comptroller and Auditor General of India (C&AG) with the support of Government of India through a notification dated August 12, 2002. This Board was constituted to establish and improve the standards of governmental accounting and financial reporting, and enhance the accountability mechanisms.<br>So, the correct option is (a) |
| (vii) | (d) | External benefits of sustainability reporting can include:<br>⦿ Mitigating – or reversing – negative environmental, social and governance impacts<br>⦿ Improving reputation and brand loyalty<br>⦿ Enhanced perception on organisation's value<br>So, the correct option is (d) |
| (viii) | (d) | As per Ind AS 103, the acquirer in its financial statements recognizes and measures –<br>a. the identifiable assets acquired, the liabilities assumed at Fair Value<br>b. any non-controlling interest in the acquiree at Fair Value or at Proportionate Value<br>c. the goodwill acquired in the business combination or a gain on bargain purchase<br>So, the correct option is (d) |
| (ix) | (c) | Appendix C of Ind AS 103 deals with accounting for combination of entities or businesses under common control. As per this Appendix C, business combinations involving entities or businesses under common control shall be accounted for using the pooling of interest method.<br>So, the correct option is (c) |
| (x) | (a) | As per Ind AS 109, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.<br>So, the correct option is (a) |

## SECTION – B

2. (a) Asset is recognized in the class Machinery under PPE as non-current asset. It is valued at initial cost measured as follows:

| Particulars | (₹) |
|---|---|
| Cost of construction of new site | 96,000 |
| Price of the new plant | 6,40,000 |
| Present value estimate of dismantling the site | 32,000 |
| Installation and trial run | 11,200 |
| Freight | 16,000 |
| Machinery at initial cost | 7,95,200 |

So, the value to be recognised as the assets is ₹7,95,200. The above calculations should be shown as the Notes. In addition, the following journal entries should be given effect.

**Journal Entries**

| Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| Old Machinery A/c | Dr. | 16,000 | |
| To, Cash A/c | | | 16,000 |
| (Dismantling of old sets) | | | |
| Cast A/c | Dr. | 2,000 | |
| To, Old Machinery A/c | | | 2,000 |
| (Scrap realized) | | | |
| Machinery (New) A/c | Dr. | 7,95,200 | |
| To, Old Machinery A/c. (2,00,000 + 16,000 – 2,000) | | | 2,14,000 |
| To, Profit on Sale of Old Plant A/c (2,52,000 – 2,14,000) | | | 38,000 |
| To, Supplier A/c or Cash A/c (6,40,000 – 2,52,000) | | | 3,88,000 |
| To Cash A/c (Freight installation + construction of site) | | | 1,23,200 |
| To Liability for dismantling A/c | | | 32,000 |

**(b)** It is a transaction of Business Combination Under Common Control under Ind AS 103 Appendix C, where control lies with the same parties before and after the transaction.

Thus, Pooling of Interest method should be applied. Consideration is measured only at nominal value of shares. Difference of consideration and other equity carried, with net assets be recognized as Goodwill or Capital Reserve. Net assets and Other Equity of the transferee company will be carried at book value.

| **Workings:** | | | ₹ |
|---|---|---|---|
| Consideration to X Ltd. | = 40,000 × ₹10 | = | 4,00,000 |
| Consideration to Y Ltd. | = 37,500 ×₹10 | = | 3,75,000 |
| Total Consideration | | = | 7,75,000 |
| Other Equity of X Ltd. and Y Ltd. | = ₹3,50,000 + ₹3,00,000 | = | 6,50,000 |
| Total Net assets | = ₹6,00,000 + ₹5,00,000 | = | 11,00,000 |
| Goodwill | 7,75,000 + 6,50,000 – 11,00,000 | | 3,25,000 |

**Journal in the books of Z Ltd. Dr. Cr.**

| **Particulars** | | **(₹)** | **(₹)** |
|---|---|---|---|
| Net Assets of X Ltd. A/c | Dr. | 6,00,000 | |
| Net Assets of Y Ltd. A/c | Dr. | 5,00,000 | |
| Goodwill A/c | Dr. | 3,25,000 | |
| To, Consideration A/c (₹4,00,000 + ₹3,75,000) | | | 7,75,000 |
| To, Other Equity A/c (₹3,50,000 + ₹3,00,000) | | | 6,50,000 |
| Consideration A/c<br>To, Equity Share Capital A/c | Dr. | 7,75,000 | <br>7,75,000 |

**3.**

**In the books of Titanic Ltd.**

**Journal Dr. Cr.**

| Date | Particulars | ₹ | ₹ |
|---|---|---|---|
| 31.03.21 | Equity Share Capital (₹10) A/c [60000 x 10]<br>To Equity Share Capital (₹ 3) A/c [ 60000 x 3]<br>To Reconstruction A/c<br>(Being 60,000 equity shares of ₹10 each fully paid-up reduced to 60,000 equity shares of ₹ 3 each fully paid-up, as per Board's Resolution No…. dated… and approved by the Tribunal.) | 6,00,000 | <br>1,80,000<br>4,20,000 |
| 31.03.21 | 8 % Preference Share Capital A/c .... Dr.<br>To 16% Preference Share Capital A/c [(1,000 x 100)- WN:1]<br>To Reconstruction A/c [B/Fig.]<br>(Being 2,000 8% Preference Share of ?100 each converted to 4,000 16% Preference Share of ₹100 each fully paid-up, as per Resolution No.... dated .... and approved by the Tribunal) | 2,00,000 | <br>1,00,000<br>1,00,000 |

| | | | |
|---|---|---|---|
| 31.03.21 | 6% Debentures A/c (₹ 1 00) .... Dr. | 1,00,000 | |
| | To 12% Debentures A/c (₹50) [1,000 X 50] | | 50,000 |
| | To Equity Share Capital (₹3) A/c [(1,000 x 6) X 3] | | 18,000 |
| | To Reconstruction A/c [B/Fig.] | | 32,000 |
| | (Being 1,000, 6% Debentures of ₹100 each converted into 1,000, 12% Debentures of ₹50 each and 6,000 Equity shares of ₹1 each as per scheme of internal reconstruction) | | |
| 31.03.21 | Reconstruction A/c .... Dr. | 5,52,000 | |
| | General Reserve A/c ... Dr. | 1,50,000 | |
| | To P/LA/c | | 1,20,000 |
| | To Inventories A/c [3,25,000 x 60%) | | 1,95,000 |
| | To Debtors A/c [2,75,000 x 60%] | | 1,65,000 |
| | To Property, Plant and Equipment A/c [WN:2] | | 2,22,000 |
| | (Being losses written off, assets written down as per internal reconstruction scheme and balance of Reconstruction A/c transferred to Capital Reserve A/c) | | |

**Balance Sheet of Titanic Ltd. (and reduced) as at March 31, 2021**

| Particulars | Note No. | ₹ |
|---|---|---|
| I. EQUITY AND LIABILITIES | | |
| I. Shareholders' funds | | |
| Share capital | 1 | 2,98,000 |
| 2. Non-current liabilities: | | |
| Long-term Borrowing: 12% Debentures | | 50,000 |
| 3. Current liabilities | | 40,000 |
| Total | | 3,88,000 |
| II. ASSETS | | |
| 1. Non-current assets | | |
| Property, Plant and Equipment | | |
| Tangible assets [3,00,000-2,22,000] | | 78,000 |
| 2. Current assets | | |
| (a) Inventories [3,25,000 * 40%] | | 1,30,000 |
| (b) Trade receivables [2,75,000 * 40%] | | 1,10,000 |
| (c) Cash and cash equivalents | | 70,000 |
| Total | | 3,88,000 |

**Note to Accounts:**

| Particulars | ₹ |
|---|---|
| 1. Share capital | |
| 66,000 Equity shares of ₹ 3 each | 1,98,000 |
| 1,000, 16% Pref. shares of ₹100 | 1,00,000 |
| | 2,98,000 |

Working Notes**:**

1. Value of new 16% Preference Share Capital:
   Total Return on the existing 8% Preference Shares = ₹2,00,000x 8% = ₹16,000;
   Rate of dividend on new preference shares = 16%
   Value of 16% Preference Shares: ₹ 16,000 x 100/16 = ₹1,00,000.
   No. of Preference Shares = 1,00,000/100 =1,000 shares

2. Amount of Property., Plant and Equipment written-off:

| Source of written off & written down | ₹ | Items to be written-off & written down | ₹ |
|---|---|---|---|
| Balance of Reconstruction A/c [4,20,000 + 1,00,000 + 32,000] | 5,52,000 | Deficit balance of Profit & Loss | 1,20,000 |
| | | 60% of book value of Stock [3,25,000 x 60%] | 1,95,000 |
| | | 60% of book value of Debtors [2,75,000 x 60%] | 1,65,000 |
| Balance of General Reserve A/c | 1,50,000 | Property, Plant and Equipment [B/Fig] | 2,22,000 |
| | 7,02,000 | | 7,02,000 |

Note: Alternatively, the excess balance of Reconstruction A/c and General Reserve A/c after writing off losses and writing down other assets (in the Journal Entry for writing off losses and writing down assets) could have been used to write down the value of Property, Plant and Equipment.

**4. (a) (i)** The market price of equity shares subsequent to grant date is considered only when fair value at the grant date is not reliably measurable. Hence, market price ₹ 168 is not considered.

Calculation of Expenses recognized during the vesting period:

| **Year** | **Calculation** | **Cumulative remuneration expense (₹)** | **Remuneration expense recognized in each year (₹)** |
|---|---|---|---|
| 1 | 800 × 200 × 60 × 84% × 1/3 (Note #) | 26,88,000 | 26,88,000 |
| 2 | 800 × 200 × 60 × 87% × 2/3 (Note #) | 55,68,000 | 28,80,000 |
| 3 | 696 × 200 × 60 × 3/3 (Note #) | 83,52,000 | 27,84,000 |

Note #: At the end of year 1, 16% is revised estimated departure, balance 84% is taken for calculation, at the end of year 2, 13% is revised estimated departure, balance 87% is taken for calculation and at the end of year 3, 52 is actual departure, and balance 348 is taken for calculation.

**During the vesting period**

**In the books of Z Ltd.**

**Journal** **Dr.** **Cr.**

| | Particulars | | (₹) | (₹) |
|---|---|---|---|---|
| Year 1 | Employee Expenses A/c | Dr. | 26,88,000 | |
| | To, Share Based Payment Reserve (Other Equity) A/c | | | 26,88,000 |
| Year 2 | Employee Expenses A/c | Dr. | 28,80,000 | |
| | To, Share Based Payment Reserve (Other Equity) A/c | | | 28,80,000 |
| Year 3 | Employee Expenses A/c | Dr. | 27,84,000 | |
| | To, Share Based Payment Reserve (Other Equity) A/c | | | 27,84,000 |

When shares are actually issued:

Exercise price ₹100; Cash Payment for subscription in shares ₹100. Fair Value of Option granted ₹60. Equity shall be credited by Exercise price plus option value = ₹ (100+60) = ₹160; nominal value ₹10 and Security premium ₹150; market price ₹ 168 is not recognised.

**In the books of Z Ltd.:**

**Journal** **Dr.** **Cr.**

| Particulars | | ₹ | ₹ |
|---|---|---|---|
| Bank A/c [696 × 200 × 100] | Dr. | 1,39,20,000 | |
| Share Based Payment Reserve (Other Equity) A/c | Dr. | 83,52,000 | |
| To, Equity Share Capital A/c [696 × 200 × 10] | | | 13,92,000 |
| To, Other Equity (Security Premium) A/c | | | 2,08,80,000 |

**4. (a) (ii)** In the instant case, the fraud is discovered after the end of the reporting period of say, 20X3-X4, which related to F.Y. 20X1-X2. Since the fraud has taken place before the end of the reporting period, the condition was existing which has been confirmed by the detection of the same after the end of the reporting period but before the approval of financial statements. Therefore, it is an adjusting event. Moreover, Ind AS 10 in paragraph 9, specifically provides that the discovery of fraud or error after the end of the reporting period, that shows that financial statements are incorrect, is an adjusting event. Such a discovery of fraud should be accounted for in accordance with Ind AS 8, if it meets the definition of prior period error.

**(b) Workings:**

Net Assets on 31.03.2021 = ₹5,00,000 + ₹1,00,000 (TCI) = ₹6,00,000

Carrying amount of 15% holding sold i.e., NCI recognized (assumed at proportionate net asset)

= 15% × ₹6,00,000 = ₹90,000

Sale Price = ₹1,10,000

Gain credited to Other Equity = ₹1,10,000 – ₹90,000 = ₹20,000

**Journal**

| Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| Bank A/c | Dr. | 1,10,000 | |
| To, NCI A/c | | | 90,000 |
| To, Other Equity A/c | | | 20,000 |

**5. (a)** Valuation of share under Earnings method:

| Earnings available to Equity Shareholders | ` | |
|---|---|---|
| EBDIT | 2,74,000 | Earnings available to Equity |
| (-) Depreciation | (50,000) | Shareholders = ₹1,20,800 |
| Earnings Before Interest & Tax | 2,24,000 | Number of shares = 4,000 shares |
| (-) Interest on Debentures [4,00,000x10%] | 40,000 | EPS = Earnings available to |
| Profit Before Tax | 1,84,000 | Equity Shareholders/ No. of |
| (-) Income Tax @ 30% | 55,200 | Equity shares = 1,20,800/4,000 |
| Profit After Tax | 1,28,800 | = ₹30.20 |
| (-) Preference dividend [(1,000x100)x 8%] | 8,000 | Here, E/P ratio (i.e., EPS/ MPPS) |
| Earnings available to Equity Shareholders | 1,20,800 | = 1/8 |

Value per share under Earnings method (i.e., MPPS) = EPS x 8 = 30.20 x 8 = ₹241.60

Valuation of share under Dividend method

| |
|---|
| Expected Rate of Dividend = (20% + 19% + 27%)/ 3 = 22%;<br>Dividend yield of the industry = Normal rate of dividend = 16% |
| ∴ Value per Equity share<br>= Paid-up Value per share x Expected Rate of Dividend/ Normal Rate of Dividend |

| |
|---|
| = 100 x 22/16 = `137.50 |

**(b)** Computation of the debt component on 01.04.2021

| Particulars | ₹ |
|---|---|
| A. PV of principal repayable after 4 years= 25,00,000 x 50% x 1.10 x 0.68 | 9,35,000 |
| B. PV of interest = 1,50,000 x PVIFA (10%, 4) = 150000 x 3.17 | 4,75,500 |
| Total PV (A + B) | 14,10,500 |
| Issue proceeds | 25,00,000 |
| Value of equity component | 10,89,500 |

The journal entry on initial recognition will be –

| | | |
|---|---|---|
| Bank A/c....................................................Dr. | 25,00,000 | |
| To 6% Debenture A/c (Liability Component) | | 14,10,500 |
| To 6% Debenture A/c (Equity Component) | | 10,89,500 |

**6. (a)** Working note 1: Net Identified Assets at fair value

| Particulars | Fair Value (₹) |
|---|---|
| PPE | 6,00,000 |
| Current Assets | 8,40,000 |
| Less Creditors | 72,000 |
| Less Debenture | 20,000 |
| Net Identified Assets at fair value | 13,48,000 |

Working note 2: Consideration [Debentures exchanged are separately considered and Transaction cost is expensed through P&L of Acquirer.]

| Particulars | (₹) |
|---|---|
| Cash Payment | 7,20,000 |
| Issue of shares | 3,00,000 |
| Contingent Consideration | 1,20,000 |
| Consideration | 11,40,000 |

Working note 3: Fair value of previously held interest

| **Particulars** | **(₹)** |
|---|---|
| Carried value | 2,00,000 |
| Fair Value for 20% interest (based on fair value of NCI) | 2,20,000 |
| Profit on Revaluation through P&L | 20,000a |

Working note 4: NCI

Non-Controlling Interest is recognized at Fair value of ₹ 2,20,000

Working note 5: Goodwill

| Particulars | (₹) |
|---|---|
| Consideration | 11,40,000 |
| Fair value of previously held shares | 2,20,000 |
| NCI | 2,20,000 |
| Total | 15,80,000 |
| Net Identified Assets at fair value | 13,48,000 |
| Goodwill | 2,32,000 |

Working note 6: Journal for consolidated accounting:

| Particulars | | (₹) | (₹) |
|---|---|---|---|
| Investment A/c<br>To, Profit and Loss A/c | Dr. | 20,000 | <br>20,000 |
| PPE A/c | Dr. | 6,00,000 | |
| Current Assets A/c | Dr. | 8,40,000 | |
| Goodwill A/c | Dr. | 2,32,000 | |
| To, Consideration A/c | | | 11,40,000 |
| To, Creditors A/c | | | 72,000 |
| To, 12% Debentures A/c | | | 20,000 |
| To, NCI A/c | | | 2,20,000 |
| To, Investment A/c | | | 2,20,000 |
| | | | |
| Consideration A/c | Dr. | 11,40,000 | |
| To, Equity Share Capital A/c | | | 2,00,000 |
| To, Security Premium A/c | | | 1,00,000 |
| To, Cash A/c | | | 7,20,000 |
| To, Liability for Contingent Consideration A/c | | | 1,20,000 |
| Transaction Cost A/c<br>To, Cash A/c | Dr. | 40,000 | <br>40,000 |
| Profit and Loss A/C<br>To, Transaction Cost A/c | Dr. | 40,000 | <br>40,000 |

Working note 7: Journal for separate accounting:

| Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| Investment A/c | Dr. | 11,60,000 | |
| To, Equity Share Capital A/c | | | 2,00,000 |
| To, Security Premium A/c | | | 1,00,000 |
| To, Cash A/c | | | 7,20,000 |
| To, Liability for Contingent Consideration A/c | | | 1,20,000 |
| To, 12% Debenture A/c | | | 20,000 |
| Transaction Cost A/c<br>To, Cash A/c | Dr. | 40,000 | <br>40,000 |
| Profit and Loss A/C<br>To, Transaction Cost | Dr. | 40,000 | <br>40,000 |

Summarised Separate Balance Sheet of S Ltd. and Consolidated Balance Sheet of the Group as at 01.04.20X2

(Amount in ₹)

| Particulars | Working for consolidation | Working for Separate | Separate | Consolidated |
|---|---|---|---|---|
| PPE | 3,60,000+6,00,000 | 3,60,000 | 3,60,000 | 9,60,000 |
| Investment | | 2,00,000+11,60,000 | 13,60,000 | |
| Goodwill | Note 5 | | | 2,32,000 |
| Current Assets | 13,20,000+8,40,000-7,20,000-40,000 | 13,20,000-7,20,000-40,000 | 5,60,000 | 14,00,000 |
| **Total** | | | **22,80,000** | **25,72,000** |
| Equity Share Capital | 9,20,000+2,00,000 | | 11,20,000 | 11,20,000 |
| Other Equity | 7,40,000 + 1,00,000 + 20,000a – 40,000b (Transaction cost) | 7,40,000+1,00,000-40,000 | 8,00,000 | 8,20,000 |
| NCI | Note 4 | | | 2,20,000 |
| 12% Debenture | 1,200,000+20,000 | | 1,40,000 | 1,40,000 |
| Liability for contingent consideration | | | 1,20,000 | 1,20,000 |
| Trade Payables | 1,00,000+72,000 | 1,00,000 | 1,00,000 | 1,72,000 |
| **Total** | | | **22,80,000** | **25,72,000** |

Note 1:

### In the above problem regarding the carried amount of the old investment of 20 % interest in T Ltd. the question was silent whether it is at cost or at equity method value.

In the solution to avoid complication it is assumed that both cost and equity method value are same.

**(b)** An entity shall determine the type of joint arrangement in which it is involved. A joint arrangement is either a joint operation or a joint venture.

The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

**7. (a)** As per the Integrated Reporting Framework issued by International Integrated Reporting Council2 (IIRC), an integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term. In other words, integrated report is the representation of the financial and non- financial performance of a company in a single report. IR provides non-financial data such as how the company performs on environmental, social and governance (ESG) parameters, how sustainability is embedded in the core business strategy etc.

The objectives of integrated reporting are:

(i) To improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

(ii) To promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time.

(iii) To enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies.

(iv) To support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

**(b)** The role of Public Accounts Committee is discussed below:

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.

## SECTION – C

8. **(a)** (i) Amount to be capitalised in 2021-22 = Expenditure incurred after the production process met the intangible asset recognition criteria for development on 1st January 2022 = ₹1800 lakh.

Carrying amount of intangible (before impairment test) on 31.03.2022 = ₹1800 lakh
Recoverable amount on 31.03.2022 = ₹1000 lakh
Impairment for 2021-22 = 1800 – 1000 = ₹800 lakh.
Final carrying amount on 31.03.2022 (after impairment) = ₹1000 lakh.

(ii) Expenditure to be capitalised during 2022-23 = ₹ 6,000 lakh.
Total carrying amount of the intangible on 31.03.2023 (before impairment test) = ₹ 7,000 lakh
Recoverable amount on 31.03.2023 = ₹5000 lakh
Impairment for 2022-23 = 7000 – 5000 = ₹2000 lakh
Final carrying amount on 31.03.2023 (after impairment) = ₹5000 lakh.

**(b)** Since FV less cost of disposal is not available, Recoverable amount = Value in Use
Again, value in use = PV of Cash flows.
So, Recoverable amount of P = 600×3.6048 + 300×2.0454 = ₹ 2776.50 lakhs.
So, Recoverable amount of Q = 350×3.6048 = ₹ 1,261.68 lakhs.
So, Recoverable amount of XYZ Ltd. = 950×3.6048 + 400×2.0454 = ₹ 4,242.72 lakhs

Break-up of administrative building:

| CGU | Proportion (based on carrying value × remaining no. of years) | Allocated administrative building |
|---|---|---|
| P | 3000×10 = 30000 | 1000 (i.e., 1,200×30000/35000) |
| Q | 1000×5 = 5000 | 200 |
| | 35,000 | 1,200 |

Calculation for impairment loss:

| CGU | Carrying amount | Allocated H.O Building | Total carrying amount | Recoverable Amount | I/L |
|---|---|---|---|---|---|
| P | 3000 | 1000 | 4000 | 2,776.50 | 1,223.50 |
| Q | 1000 | 200 | 1200 | 1,261.68 | - |

Impairment loss adjusted against CGU Asset = 1223.50×3000/4000 = ₹917.625 and administrative building = 1223.50×1000/4000 = ₹ 305.875 lakhs.

Revised carrying amount before R&D adjustment: administrative building = 1200 – 305.875 = ₹894.125 lakhs; P = ₹3000 – 917.625 lakhs = 2,082.375; and Q = ₹1,000 lakhs.

Impairment test on overall basis:
Carrying amount of CGU P, Q, administrative building and R&D = 2082.375 + 1,000 + 894.125 + 900 = ₹ 4,876.50 lakhs.
Recoverable amount = ₹ 4,242.72 lakhs.
Impairment loss = 4,876.50 – 4,242.72 = 633.78
Since carrying amount is higher than recoverable amount, the asset is impaired.
Set off Impairment loss against CGU Asset P = 633.78×2082.375 /4876.50 = ₹270.64, Q = 633.78×1000/4876.50 = 129.96, administrative building = 633.78×894.125 /4876.50 = ₹ 116.34 lakhs and R&D = 633.78×900 /4876.50 = 116.96
So, final carrying amount: A = 2082.375 – 270.64 = 1811.735, B= 1000-129.96= 870.04, administrative building = 894.125 – 116.34 = 777.785, R&D = 900- 116.96 =783.04