FINAL EXAMINATION SET - 1

MODEL ANSWERS TERM – DECEMBER 2023

PAPER – 18 SYLLABUS 2022

CORPORATE FINANCIAL REPORTING

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

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

SECTION – A (Compulsory)

1. Choose the correct option: **[15 x 2 = 30]**

(i) The Income approach for Valuation of Shares includes the models/Techniques:

a. Discounted Cash Flow

b. Dividend Discount Model

c. Maintainable Profits Basis

d. All of the above

(ii) Ind As 109 deals with _______________.

a. recognition and measurement of financial instruments and hedge accounting

b. presentation of financial instruments

c. disclosure of financial instruments

d. None of the above

(iii) IND AS is applicable to NBFCs on and from ____________.

a. 1.4.2016

b. 1.4.2017

c. 1.4.2015

d. 1.4.2018

(iv) In business combination, control of business can be obtained by _________________.

a. acquiring assets and assuming liabilities (such assets and liabilities must constitute a business, otherwise it is not a business combination)

b. by acquisition of shares

c. by other legal process

d. All of the above

(v) As per Ind AS 112: Disclosure of Interests in Other Entities, an entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

a. that it has control of another entity, i.e. an investee as described in paragraphs 5 and 6 of Ind AS 110, Consolidated Consolidated Financial Statements
b. that it has joint control of an arrangement or significant influence over another entity
c. the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle
d. All of the above

(vi) A Ltd acquires B Ltd by purchasing 70% of its equity for ₹ 17.5 lakh in cash. The fair value of non – controlling interest in determined as ₹12 lakh. The value of net identifiable assets and liabilities, as measured in accordance with Ind-AS 103 is determined as ₹ 8 Lakh. How much goodwill is recognized?
a. ₹21.5 Lakh
b. ₹ 19.5 Lakh
c. ₹ 12.7 Lakh
d. None

(vii) Ind AS 16 does not apply to which of the following?
a. PPE classified as held for sale as per Ind AS 105
b. Biological assets (other than bearer plants) related to agricultural activity
c. Assets in exploration for and evaluation of Mineral Resources
d. All of the above

(viii) On 01.08.2021 A Ltd. enter into a contract with a hotel for daily sanitisation of the building for 3 years at ₹12,000 per month. The customer receives and consume benefits each day. Determine the revenue to be recognized in 2021-22.
a. ₹12,000
b. ₹4,32,000
c. ₹96,000
d. None of the above

(ix) The ways of determining the value of goodwill using the capitalisation approach ____________
a. Capitalisation of Average Profits
b. Capitalisation of Super Profits
c. Both a and b

d. Capitalisation of Average Future maintainable profit

(x) From the following particulars you are required to determine value of goodwill of ABX Ltd.

Super Profit (Computed)	: ₹ 4,50,000
Normal rate of return	: 12%
Present value of annuity of ₹1 for 4 years @ 12%	: 3.0374

a. ₹13,66,830
b. ₹54,000
c. ₹5,04,000
d. ₹4,50,000

(xi) An investment entity is an entity that _________________.

a. obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services
b. commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both
c. measures and evaluates the performance of substantially all of its investments on a fair value basis
d. All of the above

(xii) Which of the following is not a general principal of Government Accounting?

a. Reporting of Utilisation of Public Funds
b. Expenditures are classified under Sectors, major heads, minor heads, sub-heads and detailed heads of Accounts
c. Budget Based
d. Single Entry System

(xiii) As per Ind AS 103, accounting and reporting for business combination is done under _________________.

a. Acquisition Method
b. Purchase method
c. Pooling of interest method
d. None of the above

(xiv) International Integrated Reporting Council (IIRC) launched IR as a global framework in _____________.

a. November 2013
b. December 2012

c. November 2012
d. December 2013

(xv) Consolidated Fund of India is the fund referred to in ____________ of the Constitution of India.

a. Article 266(1)
b. Article 266(2)
c. Article 266(3)
d. Article 266(4)

Answer:

(i)	d	(ii)	a	(iii)	d	(iv)	d	(v)	d
(vi)	a	(vii)	d	(viii)	c	(ix)	c	(x)	a
(xi)	d	(xii)	d	(xiii)	c	(xiv)	d	(xv)	a

SECTION - B

(Answer any 5 questions out of 7 questions given. Each question carries 14 marks.)

[5 x 14 = 70]

2. (a) On 1.4.2020, Vishnu Limited installed a machine in the rented premises at a cost of ₹ 25 lakh, whose life is 3 years. As per the rental agreement, the machine should be decommissioned and the building should be brought into the original position. The company should incur ₹4,00,000 at the end of the 3rd year to restore the premises into the original position. Assume borrowing rate applicable to the entity is 10%. Record the journal entries. [7]

(b) A Ltd. Has a machine whose original cost was ₹45,000. The accumulated depreciation on the machine is ₹15,000. Similar machine has recently been sold in the same locality at ₹25,000 with selling expenses ₹2,000. Management determined the entity specific present value of future cash flows of the machine as ₹28,000.

Compute:

(i) Fair value less cost to sell
(ii) Recoverable amount
(iii) Impairment loss
(iv) Carrying amount of the machine after impairment. [7]

Answer:

2.(a) As per Ind. AS 16 cost includes recommissioning (or) restoration cost. The entity should capitalize the PV of such costs to be incurred in the future for discounting. We should use before tax borrowings rate applicable to the specific entity. Considering the above PV of decommissioning cost @ 10% (PVF 0.751).

₹4,00,000 x 0.751 = ₹3,00,400
Total cost of PPE to be capitalized = ₹25,00,000 + ₹3,00,400 = ₹28,00,400

2. (b)

i. Fair value less cost to sell = ₹25,000 – ₹2,000 = ₹23,000
ii. Recoverable amount is the higher of the fair value less cost to sell and value in use i.e. higher of ₹ 23,000 and ₹ 28,000 i.e. ₹ 28,000
iii. Impairment loss is the carrying amount before impairment less the recoverable amount = ₹ (45,000 – 15,000) - ₹ 28,000 = ₹ 2,000
iv. Carrying and after impairment = ₹ 30,000 – ₹ 2,000 = ₹28,000 (equal to recoverable amt.) If the machine were revalued and there remains any revaluation profit accumulated balance as OCI under other equity, that should be used first and then Profit and Loss A/c will be used to close the Impairment Loss A/c.

3. (a) On 01.01.2022 A Ltd. entered into a contract with B to sell 20 TV sets at a price of ₹50,000 per set and the goods were delivered in February, 2022. Determine revenue to be recognised by A in 2021-22 in the following circumstances:

(i) 2 sets found damaged at the time of receiving and returned by B.

(ii) 4 sets found not properly functioning in March, 2022 and they were replaced by A as per terms of warranty.

(iii) It is not a sale but goods sent on consignment and B will sell the TV sets at ₹50,000 per set. 12 sets were sold by B.

(iv) It is a contract of sale or return. The TV sets can be returned by B unconditionally within 3 months. The entity expects (a) full return; (b) 50% return **[7]**

(b) The Capital Structure of M/s XYZ Ltd. on 31st March, 2022 was as follows:

	₹
Equity Capital 18,000 Shares of ₹100 each	**18,00,000**
12% Preference Capital 5,000 Shares of ₹100 each	**5,00,000**

12% Secured Debentures	**5,00,000**
Reserves	**5,00,000**
Profit earned before interest and taxes during the year	**7,20,000**
Tax Rate	**40%**

Generally the return on equity shares of this type of Industry is 15%. Subject to:

(i) **The profit after tax covers fixed interest and Fixed Dividends at least 4 times.**

(ii) **The Debt Equity ratio is at least 2:**

(iii) **Yield on shares is calculated at 60% of distributed profits and 10% of undistributed profits.**

The Company has been paying regularly an Equity dividend of 15%.

The risk premium for Dividends is generally assumed at 1%.

Find out the value of Equity shares of the Company. **[7]**

Answer:

3.(a)

(i) Revenue is recognised for 18 sets at ₹ 9,00,000. 2 sets returned to inventory of defective items.

(ii) Revenue is recognised for 20 sets at ₹10,00,000 at delivery (assumed warranty is required by law and subsequent replacement is not considered as performance obligation to be satisfied over time and to attract any allocation of contract price).

(iii) Revenue is recognised for 12 sets at ₹6,00,000. The other 8 sets are recognised as asset (inventory) at cost.

(iv) (a) No revenue is recognised on delivery as right of the customer to unconditionally return the goods has not expired and full return is expected. The amount received or receivable on delivery of the sets is recognised as a liability and asset (inventory) is recognised for all 20 sets at cost. The performance obligation will be satisfied at the point of time when that right to return will expire and then only revenue will be recognised cancelling the liability.

(b) Revenue will be recognised at ₹5,00,000 (50% of delivery) and for balance ₹5,00,000, liability will be recognised. Further, asset (inventory) should be recognised for 10 sets at cost.

3. (b) WN (1) -

a) Profit available to ESH

Particulars	₹
Profit before interest & tax	7,20,000

(-) Interest on debentures [52@112%]	60,000
PBJ	6,60,000
(-) Tax @40%	2,64,000
PAT	3,96,000
(-) Preference dividend (5Le 12%)	60,000
Profit to EsH	3,36,000

b) Distributed & Undistributed Profits:

Particulars	₹
Profit to ESH	3,36,000
(-) Distributed profit (18L @ 15%)	2,70,000
Retained earnings	66,000

WN (2): Value per E.S under yield basis:

Yield = 60% of distributed profits + 10% of undistributed profits

Yield = ₹1,62,000 +₹ 6,600 = ₹1,68,600

Yield Percentage = $\frac{168600}{1800000} \times 100 = 9.37\%$

Yield per E.S = ₹ 9.37 per ES

WN(3): Interest & fixed Dividend coverage ratio:

$$= \frac{PAT + \text{int}}{\text{int}\,erest + pre.\ dividend}$$

$$= \frac{396000 + 60000}{120000} = 3.8$$

4 times given in question but actual ratio calculated is 3.8 times it is below the required rate.

WN(4): Debt equity ratio = $\frac{LT\ Debt}{ESC + PSC + \text{Re}\,serves}$

$$= \frac{5L}{18L + 5L + 5L} = 0.17857$$

→As given it should be 2, but actual is 0.17857 so risk premium is to be considered

→As ratios are below required, we have to calculate adjusted NRR

WN(5): Adjusted NRR:

Industry Avg rate = 15%
(+) risk premium = 1%
Adjusted NRR = 16%

Value Per E.s$= \frac{Yield}{Adj\ NRR} = \frac{9.37}{16\%} = 58.56$

4. (a) While closing its books of accounts as on 31.12.2022 a non-banking finance company (NBFC) has its advances classified as under:

	₹ in lakhs
Standard Assets	**10,000**
Sub-standard portion of doubtful debts	**1,000**
Secured portions of doubtful debts:	
- **Upto one year**	**160**
- **One year to three years**	**70**
- **More than three years**	**20**
Unsecured portions of doubtful debts	**90**
Loss assets	**30**

Calculate the provision to be made against advances by NBFC as per prudential norms. [7]

(b) On 01.04.2021 the summarised balance sheets of Satellite Ltd. and Planet Ltd. are provided as:

(₹'000)

Particulars	**Satellite Ltd.**		**Planet Ltd.**
	B/S (₹)	**Fair Value (₹)**	**B/S (₹)**
Equity Share Capital (₹10)	**8,000**		**12,000**
Other Equity	**6,000**		**4,000**
Borrowings	**2,000**	**2,050**	**3,000**
Trade Payables	**2,500**	**2,400**	**2,000**
Property, Plant and Equipment	**9,000**	**10,000**	**12,000**

Investment Property	**5,000**	**7,000**	**1,000**
Investments	**1,000**		**3,500**
Current Assets	**3,500**	**3,200**	**4,500**
Contingent Liabilities	**800**	**750**	

Market price of equity shares of Planet Ltd. and Satellite Ltd. are ₹16 and ₹15 respectively on the day. On thebasis of the above data, you are required to make the necessary accounting for the following cases.

Planet Ltd. takes over Satellite Ltd. and purchase consideration is settled by issue of 1050000 equity shares. Pass journal entries in the books of Satellite Ltd. the companies and re-draft the balance sheet of Planet Ltd. after the business combination. [7]

Answer:

4. (a)

Particular	Loan (Lakhs)	Provision %	Provision Amount
Standard Assets	10000	0.40%	40
Sub-Standard Assets	1000	10%	100
Secured Portion of Doubt full debt.			
Upto 1 year	160	20%	32
1 year to 3 years	70	30%	21
More than 3 years	20	50%	10
Unsecured portion of Doubt full debts	90	100%	90
Loss Assets	30	100%	30
			323

4. (b)

In the books of Satellite Ltd.

Journal **(₹'000)**

Date	Particulars		Dr. (₹)	Cr. (₹)
	Realisation A/c	Dr.	18,500	
	To, Property, Plant and Equipment A/c			9,000
	To, Investment Property A/c			5,000
	To, Investments A/c			1,000
	To, Current Assets A/c			3,500
	Equity Shares in Planet Ltd.	Dr.	16,800	

	Borrowings Trade Payables To, Realisation A/c	Dr. Dr.	2,000 2,500	21,300
	Realisation A/c To, Equity Shareholders A/c	Dr.	2,800	2,800
	Equity Share Capital A/c Other Equity To, Equity Shareholders A/c	Dr. Dr.	8,000 6,000	14,000
	Equity Shareholders A/c To, Equity Shares in Planet Ltd.	Dr.	16,800	16,800

WN 1. Net Assets of Satellite Ltd. at fair value: (₹'000)

Particulars	(₹)	(₹)
Property, Plant and Equipment	10,000	
Investment Property	7,000	
Investments	1,000	
Current Assets	3,200	
Total Assets		21,200
Borrowings	2,050	
Trade Payables	2,400	
Liabilities (Recognised)	750	
Total Liabilities		5,200
Net assets		16,000

Summarised Balance sheet of Planet Ltd. as at 01.04.2021 (after take over) (₹'000)

Particulars	Workings (₹)	(₹)
Property, Plant and Equipment	12,000 + 10,000	22,000
Goodwill		800
Investment Property	4,000 + 4,000	8,000
Investments	3,500 + 1,000	4,500
Current Assets	4,500 + 3,200	7,700
Total Assets		**43,000**
Equity Share Capital	12,000 + 10,500	22,500
Other Equity	4,000 + 6,300	10,300
Borrowings	3,000 + 2,050	5,050
Trade Payables	2,000 + 2,400	4,400

Liabilities (contingent recognised)		750
Total Equity and Liabilities		**43,000**

5. On March 31, 2022, P Ltd acquired 100% shares of Q Ltd. P Ltd. issued 3,00,000 equity shares (₹10) that were trading at ₹16 on March 31.

The summarized Balance Sheets of the companies as at March 31, 2022 (before acquisition):

(Amount in ₹)

Partclars	(Book Value)		(Market Value)	
	P Ltd.	**Q Ltd.**	**P Ltd**	**Q Ltd**
Net Assets	**80,00,000**	**42,00,000**	**110,00,0000**	**45,00,000**
Equity Sh. Cap	**60,00,000**	**25,00,000**		
Other Equity	**20,00,000**	**17,00,000**		

Show acquisition journal entry under Ind AS 103 and summarized balance sheet after business combination. Alsoshow the necessary accounting in the books of the Acquiree.

[14]

Answer:

Purchase consideration (at fair value) = 3,00,000×₹16 = ₹ 48,00,000; FV of Net Assets ₹ 45,00,000

Goodwill = Consideration – Net Assets = ₹ (48,00,000 – 45,00,000) = ₹ 3,00,000.

Journal (individual set of P Ltd.)

Particulars		Dr. (₹)	Cr. (₹)
Net Assets A/c Dr.		45,00,000	
Goodwill A/c Dr.		3,00,000	
To, Consideration A/c			48,00,000
Consideration A/c Dr.		48,00,000	
To, Equity Share Capital A/c			30,00,000
To, Security Premium A/c			18,00,000

Summarized Individual Balance sheet of K Ltd. as at March 31 (Post-acquisition)

Particulars	(₹)	(₹)
Net Assets:		

Carrying amount of Acquirer P Ltd.	80,00,000	
Fair Value of Acquiree Q Ltd.	45,00,000	1,25,00,000
Goodwill		3,00,000
Total Net Assets		**1,28,00,000**
Equity:		
Equity Share Capital		
Existing	60,00,000	
Issue for consideration	30,00,000	90,00,000
Other Equity:		
Carrying amount	20,00,000	
Security Premium (on issue of shares)	18,00,000	38,00,000
Total Equity and Liabilities		**1,28,00,000**

No consolidated or separate set is required.

In books of Q
Accounts are closed through Realisation Account

Particulars			Dr. (₹)	Cr. (₹)
Realisation A/c	Dr.		42,00,000	
To, Net Assets A/c				42,00,000
Equity Shares in K Ltd. A/c	Dr.		48,00,000	
To, Realisation A/c				48,00,000
Realisation A/c	Dr.		6,00,000	
To, Equity Shareholders' A/c				6,00,000

Particulars			Dr. (₹)	Cr. (₹)
Equity Share Capital A/c	Dr.		25,00,000	
Other Equity A/c	Dr.		17,00,000	42,00,000
To, Equity Shareholders' A/c				
Equity Shareholders' A/c	Dr.		48,00,000	
To, equity Shares in K Ltd.				48,00,000

Dr. **Realisation Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
Net Assets A/c	42,00,000	Equity Shares in P A/c	48,00,000
Equity Shareholders' A/c	6,00,000		
	48,00,000		48,00,000

Dr. **Equity Shareholders' Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
Equity Shares in P Ltd. A/c	48,00,000	Equity Share Capital A/c	25,00,000
		Other Equity A/c	17,00,000
		Realisation A/c	6,00,000
	48,00,000		**48,00,000**

Now, what changes take place in accounting in the books of the Acquirer and the Acquiree if the following changes take place:

a. P Ltd acquired 100% shares of Q Ltd.

b. P Ltd acquired 80% shares of Q Ltd.

[for guidance you may also follow the solutions in illustration 1(b) and 1(c)]

6. P acquires 60% shares in Q on 01.10. 2021 at ₹30,000. Q makes profits of ₹20,000 in the year 2021-22 and declared dividend of ₹9,000. NCI is valued at proportionate net assets. Abstracts of Separate Balance Sheet of P (Dividend fromsubsidiary not accounted) and Individual Balance Sheet of Q as at 31.03.2022:

(₹ in 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 Share Capital (₹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

Prepare: Consolidated Balance Sheet and Separate Balance Sheet of P. **[14]**

Answer:

Consolidated Balance Sheet and Separate Balance Sheet of P

(₹ in 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 Dividend 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

(20000 + 28000 = 48000); In Consolidated balance sheet Inter-company dividend is set off and does not appear.

Working Notes:

1. Analysis of profits of Q:

   Opening P/L = Other Equity at the end + Dividend – Profits for the year
   = ₹(15,000 + 9,000 - 20,000)
   = ₹4,000

2. Net Assets identified on acquisition in the mid of the year, represented by Value of Equity of Q

   = ₹25,000 + Pre acquisition profits (Opening P/L + 50% of yearly profit)
   = ₹(25,000 + 4,000 + 10,000)
   = ₹39,000 (A)

3. Goodwill = B + C - A
   = ₹(15,600 + 30,000 – 39,000)
   = ₹6,600

   Where: A = ₹39,000
   B NCI = 40% × ₹39,000 = ₹15,₹600
   C Consideration = Investment in shares of Q = ₹30,000.

4. NCI at the reporting date

= NCI at acquisition + Share of NCI in post-acquisition profits of Q – Dividend payable to NCI

= ₹15,600 + 40% × ₹10,000 (50% of yearly profit) - 40% × 9000 (dividend payable to be shown separately)

= ₹15,600 + ₹4,000 – ₹3,600

= ₹16,000.

5. Consolidated Other Equity

= P's Other Equity + Share from Post acquisition profits of Q

= ₹25,000 + 60% × ₹10,000

= ₹31,000

6. Separate Other Equity = ₹25,000 + ₹ 2,700 (post-acquisition profits)

= ₹27,700

7. (a) LG. and Co. provides you with the following as at 31st March, 2022.

(₹ in lakhs)

Liabilities	₹	Assets	₹
Share Capital	1,000	Fixed Asset (Net)	3,000
Reserves and surplus	2,000	Investments	150
Long term debt	200	Current assets	100
Sundry creditors	50		
Total	3,250	Total	3,250

Additional information provided is as follows:

i. Profit before interest and tax is ₹ 1,000 Lakhs

ii. Interest: ₹ 20 Lakhs

iii. Tax: 35.875%

iv. Risk Free Rate – 10%

v. Market Rate – 15%

vi. Beta (β) Factor – 1.4

Compute economic value added. [7]

(b) Discuss the suggested frame work for business responsibilities. [7]

Answer:

7. (a)

Total Assets	3,250
(-) Creditors	(50)
CE→	3,200

Ke $= R_f + B(R_m - RF)$
$= 10 + 1.4\ (15-10)$
$K_e = 17$

K_d before tax $= \frac{20L}{200L} \times 100 = 10\%$

K_d after tax = 10(1-35.875%)=6.4125%

$K_o = 17\left(\frac{3000}{3200}\right) + 6.1425\left(\frac{200}{3200}\right) = 15.9375 + 0.4$

$K_o = 16.34\%$

NOPAT =EBIT(1-T)=1000-(1.035875) = ₹ 641.25 Lakhs

EVA = NOPAT-(CE X K_D)=641.25 – (3200-16.34%)= ₹118.37 Lakhs

7. (b) Suggested Framework for Business Responsibility Report

There are five sections (A, B, C, D and E) in the suggested format. [ANNEXURE I to SEBI Circular]

Section A: General Information about the Company

1. Corporate Identity Number (CIN) of the Company
2. Name of the Company
3. Registered address
4. Website
5. E-mail id
6. Financial Year reported
7. Sector(s) that the Company is engaged in (industrial activity code-wise)
8. List three key products/services that the Company manufactures/provides (as in balance sheet)
9. Total number of locations where business activity is undertaken by the Company
   i. Number of International Locations (Provide details of major 5)
   ii. Number of National Locations
10. Markets served by the Company – Local/State/National/International

Section B: Financial details of the company

1. Paid up Capital (INR)

2. Total Turnover (INR)

3. Total profit after taxes (INR)

4. Total Spending on Corporate Social Responsibility (CSR) as percentage of profit after tax (%)

5. List of activities in which expenditure in 4 above has been incurred

Section C: Other details

a. Does the Company have any Subsidiary Company/ Companies?

b. Do the Subsidiary Company/Companies participate in the BR Initiatives of the parent company? If yes, then indicate the number of such subsidiary company(s)

c. Do any other entity/entities (e.g., suppliers, distributors etc.) that the Company does business with, participate in the BR initiatives of the Company? If yes, then indicate the percentage of such entity/ entities? [Less than 30%, 30- 60%, More than 60%]

Section D: BR information

1. Details of Director/Directors responsible for BR

8. (a) List the responsibilities of GASAB. [5]

(b) Write briefly about IGAS-3. [5]

(c) On 01.04.2020 BB Ltd. acquired 90% share of CM Ltd. at ₹10,80,000, when the fair value of its Net Assets was ₹10,00,000. During 01.04.2020 to 31.03.21 CM Ltd. made TCI ₹ 2,00,000. On that date BM sold 15% holding to outsiders at ₹2,20,000. Pass journal entries for sale of partial holding retaining control. [4]

Answer:

8.(a) Responsibilities of GASAB

GASAB, inter alia, has the following responsibilities:

1. To formulate and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
2. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
3. To keep the standards current and reflect change in the Governmental environment.
4. To provide guidance on implementation of standards.
5. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.

6. To improve the common understanding of the nature and purpose of information contained in the financial reports.

8.(b) IGAS - 3 Loans and Advances Made by Government

The Government of India has been empowered under proviso (2) of Article 293 of the Constitution of India to make loans to the States, subject to such conditions as may be laid down by or under any law made by Parliament, any sums required for the purpose of making such loans being chargeable to the Consolidated Fund of India.

The Union Government has been providing financial assistance to the State Governments, a substantial portion of which is in the form of loans. These loans are advanced to the States both in the form of plan and non-plan assistance intended for both developmental and non-developmental purposes. Loans are also provided by the Union Government to Foreign Governments, Government companies and Corporations, Non-Government institutions and Local bodies. The Union Government also disburses recoverable advances to Government servants.

The State Governments disburse loans to Government Companies, Corporations, Local Bodies, Autonomous Bodies, Cooperative Institutions, Statutory Corporations, quasi-public bodies and other non-Government/private institutions. The State Governments also disburse recoverable advances to Government servants.

Objective: The objectives of the Standard are:

- to lay down the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Union and the State Governments in their respective Financial Statements to ensure complete, accurate, realistic and uniform accounting practices, and
- to ensure adequate disclosure on Loans and Advances made by the Governments consistent with best international practices.

Scope: This Standard applies to Loans and Advances given by the Government for incorporation and presentation in the Financial Statements of the Government. Financial Statements shall not be described as complying with this Standard unless they comply with all the requirements contained therein. This standard shall apply only to government accounts being maintained on a cash basis.

8.(c) Net Assets on 31.03.2021 = ₹10,00,000 + ₹2,00,000 (TCI) = ₹12,00,000

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

= 15% ×₹12,00,000 = ₹1,80,000

Sale Price = ₹2,20,000

Gain credited to Other Equity = ₹2,20,000 – ₹1,80,000 = ₹40,000

Journal Entry

Particulars	Dr. ₹	Cr. ₹
Bank A/c Dr.	2,20,000	
To, NCI A/c		1,80,000
To, Other Equity A/c		40,000

Alternative Solution

NCI assumed to be recognized at fair value:

Carrying amount of 15% holding sold ie. NCI recognized (at fair value) = 15% × ₹10,80,000 + 15% of ₹2,00,000 (TCI) = ₹1,92,000

Sale price = ₹2,20,000

Gain credited to Other Equity = ₹2,20,000 – ₹1,92,000 = ₹28,000

Journal Entry

Particulars	Dr. ₹	Cr. ₹
Bank A/c Dr.	2,20,000	
To, NCI A/c		1,92,000
To, Other Equity A/c		28,000