FINAL EXAMINATION **SET - 2**

MODEL ANSWERS **TERM – DECEMBER 2024**

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) A ____________________ is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities

a) equity instrument
b) puttable instrument
c) financial instrument
d) None of the above

(ii) X. ltd sells goods to Y ltd, a retailer, at ₹100 per item. Y ltd. in turn sells the goods to the public at large through its chain of retail outlets at ₹120. Any inventory remaining unsold can be returned by Y ltd to X Ltd. As per Ind AS 115, Revenue should be recognised by X ltd when:

a) goods are delivered to Y ltd at ₹100
b) goods are sold by Y ltd. at ₹120
c) goods are delivered to Y ltd at ₹120
d) goods are sold by Y ltd. at ₹100

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

a) Reporting of Utilisation of Public Funds.
b) Maintained according to the government rules and regulations.
c) Budget Based.
d) Single Entry System.

(iv) The term 'Public Funds' in government accounting includes:

a) Debentures
b) Funds raised directly or indirectly through public deposits
c) Bank finance
d) All of the above.

(v) The major basis of asset valuation for a going concern is:

a) Book Value
b) Net Replacement Value
c) Net Realisable Value
d) All of the above

(vi) Q Ltd. acquired a 60% interest in R Ltd. on 31st march, 2024. Q Ltd. paid ₹900 Lakhs in cash for their interest in R Ltd. The fair value of R Ltd.'s assets is ₹2,000 Lakhs, and the fair value of its liabilities is ₹1,000 Lakhs. If NCI is valued at proportionate net asset, value of Goodwill:

a) ₹300 lakhs
b) ₹250 lakhs
c) ₹400 lakhs

d) ₹350 lakhs

(vii) 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 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

(viii) Rajesh ltd. has acquired 30% shares of Suresh ltd. as on 01.04.2023 at ₹50,00,000 giving Rajesh Ltd. significant influence over Suresh ltd. From the date of acquisition till 31st march 2024, Suresh Ltd. has earned a profit of ₹2,50,00,000 and revalued its property for ₹30,00,000 and also accounted for it in the revaluation reserve. Calculate the carrying value of Rajesh's investment in Suresh Ltd. in its consolidated books of accounts as on 31st march 2024:
a) ₹2,50,00,000
b) ₹30,00,000
c) ₹1,34,00,000
d) ₹1,25,00,000

(ix) On 1st January 2024, P ltd. acquired a 100% voting interest of S ltd. for ₹2,00,000. On acquisition date, the fair value of identifiable net assets of S ltd. was Assets ₹3,50,000, liabilities ₹1,50,000, Equity ₹2,00,000 and contingent liabilities ₹50,000. The amount of goodwill/bargain purchase in the books of P ltd as at January 1st 2024 as follows:
a) ₹50,000 – goodwill
b) ₹20,000 – goodwill
c) ₹1,00,000 – bargain purchase
d) ₹80,000 – bargain purchase

(x) A company creates provision for Gratuity and Leave encashment and recognises liability of ₹50,000. This is theonly difference between taxable profits and accounting profits. The company measures current tax of ₹48,000 at tax rate of 25%. What will be the Tax Expenses.
a) ₹35,500
b) ₹48,500
c) ₹12,000
d) ₹62,000

(xi) A firm values goodwill under 'Capitalisation of profits' method. Its average profits for past 4 years has been determined at ₹72,000. Net Assets and Capital employed in the business is ₹4,80,000 and ₹5,00,000 respectively, and its normal rate of return is 12%. Determine value of goodwill based on Capitalisation of Average Profits
a) ₹57,600
b) ₹1,20,000
c) ₹6,00,000

d) ₹1,00,000

(xii) D Ltd. has acquired 100% of the equity of F Ltd. on March 31, 2024. The purchase consideration comprises of an immediate payment of ₹10 lakhs and two further payments of ₹1.21 lakhs if the Return on Equity exceeds 20% in each of the subsequent two financial years. A discount rate of 10% is used. Compute the value of total consideration at the acquisition date.
a) ₹12.42 lakhs
b) ₹12.10 lakhs
c) ₹11.21 lakhs
d) ₹10 lakhs

(xiii) A Ltd. takes over B Ltd. for ₹12,60,000. Fair Value (FV) of B's net assets at time of acquisition amounts ₹11,80,000.
a) ₹50,500
b) ₹60,000
c) ₹80,000
d) None of the above

(xiv) 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. Find impairment loss
a) ₹23,000
b) ₹28,000
c) ₹5,000
d) ₹2,000

(xv) The following details relate to M/s XYZ, a firm:
Average profit of last four years : ₹7,00,000
Average capital employed by the firm : ₹55,00,000
Normal rate of return : 10%
Present value of annuity of ₹1 for 4 years @ 10% : 3.1699
Determine the super profit.
a) ₹7,00,000
b) ₹5,50,000
c) ₹1,50,000
d) ₹4,75,485

Answer:

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

SECTION-B

(Answer any five questions out of seven questions given. Each question carries 14 Marks.)

[5×14=70]

2. (a) B Ltd. has incurred the following transactions in respect of acquiring a plant is exchange of an old plant :

- **i) The old site was dismantled at a cost of ₹8,000, No estimated dismantling cost was capitalized for the old plant. Scrap from the old site sold at ₹1,000.**
- **ii) The new site was constructed at a cost of ₹48,000.**
- **iii) The supplier of the new plant agreed to take away the old plant at fair value of ₹1,26,000.**
- **iv) The new plant price was ₹3,20,000. The carrying amount of the old plant was ₹1,00,000.**
- **v) The present value estimate of dismantling the site is ₹16,000.**
- **vi) Wages paid for installation of the plant ₹4,000 for trial run ₹1,600.**
- **vii) Freight paid ₹8,000.**
- **viii) Loss amounted to ₹40,000 for low capacity utilization of the plant after installation.**
- **ix) ₹10,000 was paid as cost of launching the product to be produced from the plant. Calculate the asset value at the initial time and pass journal. [7]**

(b) An entity has the following assets with relevant data on the reporting data :

(₹ in Lakhs)

Assets	Carrying Amount	Fair value less cost to sell	Value-in-use
A	280	300	250
B	460	400	390
C	220	240	270
D	180	150	170
E	100	80	—

Assets C and D were revalued before. The carrying amounts of revaluation surplus are ₹40 Lakhs and ₹30 Lakhs respectively. Asset E falls in the cash generating unit (CGU) consisting of goodwill ₹50 Lakhs and intangible asset ₹90 lakhs. The fair value less cost to sell of the CGU is ₹180 Lakhs and value-in-use is ₹170 Lakhs.
Calculate impairment loss and revised carrying amount of all the assets stated above and show the accounting treatment. [7]

Answer:

(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	48,000
Price of the new plant	3,20,000
Present value estimate of dismantling the site	16,000

Installation and trial Run	5,600
Freight	8,000
Machinery at initial cost :	3,97,600

Particulars		Dr. (₹)	Cr. (₹)
Old Machinery A/c To, Cash A/c (Dismantling of old sets)	Dr.	8,000	 8,000
Cash A/c To, Old Machinery A/c(Scrap realized)	Dr.	1,000	 1,000
Machinery (New) A/c To, Old Machinery A/c.(1,00,000 + 8,000 – 1,000) To, Profit on Sale of Old Plant A/c (1,26,000 – 1,07,000) To, Supplier A/c or Cash A/c (3,20,000 – 1,26,000) To Cash A/c (Freight installation + construction of site) To Liability for dismantling A/c	Dr.	3,97,600	 1,07,000 19,000 1,94,000 61,600 16,000

Note: Loss of ₹40000 and cost of launching product of ₹10,000 are charged to Profit and Loss A/c.

(b) (₹ in lakhs)

Asset	Recoverable Amount	Impairment Loss	Revised Carrying Amount
A	300	—	280
B	400	60	400
C	270	—	220
D	170	10 β	170
CGU	180	60	180
Goodwill		50@	NIL
Intangible asset		4.47	85.26
E		5.26	94.74

Working Note:

CGU consist of :	(₹ in lakhs)
Goodwill	50
In-Tangible	90
Asset E	100
Carrying Amount	240
Recoverable Amount	180

Difference in Impairment Loss is ₹60,00,000.

∴ Impairment loss is charged to P & L a/c except β.

@ : First goodwill is reduced by the impairment loss of the CGU.

& : Next other assets are reduced impairmentloss CGU pro-rata.

β : Impairment Loss is charged against revaluation surplus.

3. **(a) Z Ltd. grants 100 share options to each of its 400 employees conditional on their continuing in service for 3 years. Fair value of share option on the grant date is ₹30. During year 1, 18 employees leave. The entity revises its estimate of total employee departures over the three- year period from 20 per cent to 16 per cent. During year 2, a further 20 employees leave. The entity revises its estimate of total employee departures over the three-year period from 16 per cent to 13 per cent. During year 3, a further 14 employees leave. All the continuing employeesexercised the option to subscribe in the equity shares of ₹10 each at ₹50 only, when market price stands at ₹84. Pass Journal Entries of all the years and demonstrate the working. [7]**

(b) X Ltd. has EPS ₹12 and no. of shares 1000. Its CF ₹15,000 and Sales ₹80,000. Calculate the value per share of X Ltd.based on the data of similar other companies as provided below:

Companies	**PAT (₹)**	**CF (₹)**	**Sales (₹)**	**MC (₹)**
A	**20,000**	**25,000**	**1,20,000**	**1,50,000**
B	**16,000**	**20,000**	**1,40,000**	**1,75,000**
C	**25,000**	**32,000**	**1,60,000**	**2,00,000**
D	**18,000**	**24,000**	**1,44,000**	**1,92,000**

[7]

Answer:

(a) The market price of equity shares subsequent to grant date is considered only when fair value at the grant date isnot reliably measurable. Hence, market price ₹84 is not considered.

Calculation of Expenses recognized during the vesting period:

Year	Calculation	Cumulative remuneration expense (₹)	Remuneration expense recognized in each year (₹)
1	400 × 100 × 30 × 84% × 1/3 (Note #)	3,36,000	3,36,0001
2	400 × 100 × 30 × 87% × 2/3 (Note #)	6,96,000	3,60,0002
3	348 × 100 × 30 × 3/3 (Note #)	10,44,0004	3,48,0003

Note #: At the end of year 1, 16% is revised estimated departure, balance 84% is taken for calculation, at the endof 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

	Particulars	Dr. (₹)	Cr. (₹)
Year 1	Employee Expenses A/c Dr. To, Share Based Payment Reserve (Other Equity) A/c	3,36,000	 3,36,0001
Year 2	Employee Expenses A/c Dr. To, Share Based Payment Reserve (Other Equity) A/c	3,60,000	 3,60,0002
Year 3	Employee Expenses A/c Dr. To, Share Based Payment Reserve (Other Equity) A/c	3,48,000	 3,48,0003

When shares are actually issued:

Exercise price ₹50; Cash Payment for subscription in shares ₹50. Fair Value of Option granted ₹30. Equity shall be credited by Exercise price plus option value = ₹(50+30) = ₹80; nominal value ₹10 and Security premium ₹70; market price ₹84 is not recognised.

In the books of Z Ltd.:

Journal

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c [348 × 100 × 50] Dr. Share Based Payment Reserve (Other Equity) A/c Dr. To, Equity Share Capital A/c [348 × 100 × 10] To, Other Equity (Security Premium) A/c	17,40,000 10,44,0004	 3,48,000 24,36,000

(b) PAT of X Ltd. = EPS × No. of shares = 12 × 1000 = 12000

For the 4 companies in the peer group Relatives are computed as MC/ Base Value

For PAT as base value M1 is the multiple.For CF as base value M2 is the multiple. For Sales as base value M3 is the multiple.

Comparator is the average value of the multiples for the 4 companies.

Value of equity of X for each base = Base Value of X × Comparator

					Multiples		
Companies	**PAT (₹)**	**CF (₹)**	**Sales (₹)**	**MC (₹)**	**M1 =MC/PAT**	**M2=MC/CF**	**M3 = MC/Sales**
A	20000	25000	120000	150000	7.5	6	1.25
B	16000	20000	140000	175000	10.9375	8.75	1.25
C	25000	32000	160000	200000	8	6.25	1.25
D	18000	24000	144000	192000	10.66667	8	1.333333
				Comparator	9.276042	7.25	1.270833
			Base of X		PAT	CF	Sales
			Base Value of X ₹		12000	15000	80000
			Value of equity of X ₹		111312.5	108750	101666.7

			No. of equity shares	1000	1000	1000
Value per share based on Base value ₹				111.3125	108.75	101.6667
Average Value per share of X ₹			107.243056			

4. (a) **While closing its books of accounts on 31stMarch 2024, a NBFC has its advances classified as follows-**

Particulars	₹ Lakhs	Particulars	₹ Lakhs
Standard Assets	**8,400**	**Unsecured Portion of Doubtful Debts**	**87**
Sub-Standard Assets	**910**	**Loss Assets**	**24**
Secured Portions of Doubtful Debts:			
- Up to one year	**160**		
- One year to three years	**70**		
- more than three years	**20**		

Calculate the amount of provision which must be made against the advances. [7]

(b) **On 01.04.2024 the summarised balance sheets of Satellite Ltd. and Planet Ltd. are provided as: (₹000)**

	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**	**10000**	**12,000**
Investment Property	**5,000**	**7000**	**1,000**
Investments	**1,000**		**3,500**
Current Assets	**3,500**	**3200**	**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 the basis of the above data, Prepare necessary accounting for the following cases.

Planet Ltd. takes over Satellite Ltd. and purchase consideration is settled by issue of 10,50,000 equity shares. Pass journal entries in the books of both the companies and redraft the balance sheet of Planet Ltd. after the business combination. [7]

Answer:

(a)

Particulars	Loan (₹ Lakhs)	Provision (%)	Provision (₹ Lakhs)
Standard Assets	8,400	0.40%	33.6
Sub- Standard Assets	910	10%	91
Secured Portions of Doubtful Debts:			
- Up to one year	160	20%	32
-1 year to 2 years	70	30%	21
-more than three years	20	50%	10
Unsecured Portions of Doubtful Assets	87	100%	87
Loss Assets	24	100%	24
Total			298.6

Note: The percentage of provision for Standard Asset is 0.25 as per Non-Banking Financial Company - Non Systemically Important Non-Deposit taking Company.

(b) 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

In the books of Planet Ltd.

Journal **(₹000)**

Date	Particulars		Dr.	Cr.
01.04.2024	Property, Plant and Equipment	Dr.	10,000	
	Investment Property	Dr.	7,000	
	Investments	Dr.	1,000	

	Current Assets Dr.	3,200	
	Goodwill Dr.	800	
	To, Borrowings		2,050
	To, Trade Payables		2,400
	To, Liabilities (Contingent liabilities recognised)		750
	To, Equity Share Capital (₹10)		10,500
	To, Security Premium (₹6)		6,300

Summarised Balance sheet as at 01.04.2021 (after take over) (₹000)

	Workings (₹)	(₹)
Property, Plant and Equipment	12,000 + 10,000	22,000
Goodwill		800
Investment Property	7,000 + 1,000	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 of equity and liabilities		43,000

In the books of Satellite Ltd.

Journal (₹000)

Date	Particulars	Dr. (₹)	Cr. (₹)
	Realisation A/c Dr. To, Property, Plant and Equipment A/c To, Investment Property A/c To, Investments A/c To, Current Assets A/c	18,500	 9,000 5,000 1,000 3,500
	Equity Shares in Planet Ltd. Dr. Borrowings Dr. Trade Payables Dr. To, Realisation A/c	16,800 2,000 2,500	 21,300

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

5. DA Ltd. and TA Ltd. were amalgamated to form a new company DATA Ltd. on 31.03.2024 who issued requisite number of equity shares of ₹10 to take over the businesses of DA and TA. The abstract of balance sheets of the companies on 31.03.2024: (₹in Lakhs)

Particulars	DA Ltd.	TA Ltd.	DATA Ltd.
PPE	**7,500**	**8,000**	**15,500**
Financial Assets	**800**	**500**	**1,300**
Current Assets	**4,700**	**6,500**	**11,200**
Equity Share Capital	**6,000**	**8,000**	**14,000**
Other Equity	**3,000**	**3,000**	**6,000**
Borrowings	**2,000**	**3,000**	**5,000**
Current Liabilities	**2,000**	**1,000**	**3,000**

Calculate the purchase consideration and pass journal entries in the books of DA, TA and DATA Ltd. and show balance sheet abstract after merger. [14]

Answer:

The combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination. It is a business combination under common control, and pooling of interest method of accounting is be followed.

WN 1. Carrying amount after merger: (₹ in Lakhs)

Particulars	DA Ltd.	TA Ltd.	DATA Ltd.
PPE	7,500	8,000	15,500
Financial Assets	800	500	1,300
Current Assets	4,700	6,500	11,200
Equity Share Capital	6,000	8,000	14,000
Other Equity	3,000	3,000	6,000
Borrowings	2,000	3,000	5,000
Current Liabilities	2,000	1,000	3,000

Purchase consideration: (₹ in Lakhs)

Particulars	DA Ltd.	TA Ltd.	DATA Ltd.
Equity Share Capital	6,000	8,000	14,000
Other Equity	3,000	3,000	6,000
Equity	9,000	11,000	20,000
Share	9/20	11/20	20/20
Particulars	DA Ltd.	TA Ltd.	DATA Ltd.
Purchase consideration	(9/20)×14,000 = 6,300	(11/20)×14,000 = 7,700	14,000

Journal in the books of transferor company DA Ltd.

Particulars		Dr. (₹)	Cr. (₹)
Current Liabilities A/c	Dr.	2,000	
Borrowings A/c	Dr.	2,000	
Realisation A/c	Dr.	9,000	
To, PEE A/c			7,500
To, Current Assets A/c			4,700
To, Financial Assets A/c			800
(Transferred to Realisation A/c)			
Shares in DATA Ltd. A/c	Dr.	6,300	
To, Realisation A/c(Consideration)			6,300
Equity Shareholders A/c	Dr.	2,700	
To, Realisation A/c			2,700
(Loss on Realisation)			
Equity Share Capital A/c	Dr.	6,000	
Other Equity A/c	Dr.	3,000	
To, Equity Shareholders A/c			9,000
Equity Shareholders A/c	Dr.	6,300	
To, Shares in DATA Ltd. A/c			6,300

Journal in the books of transferor company TA Ltd.

Particulars		Dr. (₹)	Cr. (₹)
Current Liabilities A/c	Dr.	1,000	
Borrowings A/c	Dr.	3,000	
Realisation A/c	Dr.	11,000	
To, PPE A/c			8,000
To, Current Assets A/c			6,500
To, Financial Assets A/c			500
(Transferred to Realisation A/c)			

Shares in DATA Ltd. A/c To, Realisation A/c(Consideration)	Dr.	7,700	 7,700
Equity Shareholders A/c To, Realisation A/c (Loss on Realisation)	Dr.	3,300	 3,300
Equity Share Capital A/c Other Equity A/c To, Equity Shareholders A/c	Dr. Dr.	8,000 3,000	 11,000
Equity Shareholders A/c To, Shares in DATA Ltd.A/c	Dr.	7,700	 7,700

In the books of Transferee company DATA Ltd.

Journal

Particulars		Dr. (₹)	Cr. (₹)
PPE A/c Current Assets A/c Financial Assets A/c To, Consideration A/c To, Borrowings A/c To, Current Liabilities A/c To, Other Equity*	Dr. Dr. Dr.	15,500 11,200 1,300	 14,000 5,000 3,000 6,000
Consideration A/c To, Equity Share Capital A/c	Dr.	14,000	 14,000

Balance sheet abstract of DATA Ltd. as at 31.03.2024

Particulars	₹ in lakh
PPE	15,500
Financial Assets	1,300
Current Assets	11,200
Total	28,000
Equity Share Capital	14,000
Other Equity	6,000
Borrowings	5,000
Current Liabilities	3,000
Total	28,000

6. Company P Ltd. (a listed company) invests in shares of company Q Ltd. on 01.04.2023 at a cost of ₹66,000, paid by cash. During the financial year 2023-2024, Q made profits of ₹20000 and other comprehensive income of ₹10,000. The following alternative scenarios are presented:

I. Investment entails 25% voting power and significant influence over Q.

II. P does have joint control of Q, a joint venture.

III. Investment entails significant influence over Q, which is a Joint Venture and P does not have joint control of Q.

IV. P does not have significant influence over Q.

V. P does not have joint control of or significant influence over Q, which is a joint venture.

For each of the cases I, II , III, IV and V:

(a) State whether for the investment in shares of Q, P requires preparation of consolidated financial statements and separate financial statements.

(b) Pass the journal entries in books of P at the time of purchase of shares.

(c) Demonstrate the relevant accounting treatment at the end of the year for

(i) consolidated financial statements,

(ii) separate financial statements and

(iii) Individual financial statements of P. **[14]**

Answer:

(a) In cases I, II and III, P Ltd. requires preparation of consolidated financial statements for its investment in Q Ltd.

In case I, Q is an Associate because P has significant influence in Q by virtue of its 25% voting power. In case II, Q is a joint venture in which P has joint control.

In case III, Q is a joint venture in which P does not have joint control, but has significant influence. For each of the above cases, Ind AS 28 requires that accounting for investment in associate or in joint venture (having joint control or significant influence) should be made under equity method in the consolidated financial statement.

Ind AS 28 also requires P the investor company to prepare separate financial statement as per Ind AS 27. For cases IV and V, P requires preparation of Individual financial statements.

(b) Journal Entry on 01.04.2023 for cases I, II and III for both Consolidated and separate financial statements:

Particulars	**Dr. (₹)**	**Cr. (₹)**
Investment A/c Dr.	66,000	
To, Cash A/c		66,000

Journal Entry for cases IV and V: As per Ind AS 109 for Individual financial statements. At initial measurement:

Particulars	Dr. (₹)	Cr. (₹)
Investment A/c Dr.	66,000	
To, Cash A/c		66,000

(c) Journal Entry on 31-03-2024 for cases I, II and III:

There will be two sets of accounting at the end the year, one (i) for consolidated accounts and the other (ii) for separate financial statements.

(i) For consolidated accounts Ind AS 28 requires the recognition of investment by equity method.

Particulars	Dr. (₹)	Cr. (₹)
Investment A/c Dr.	7,500	
To Profit and Loss A/c		5,000
To Other Comprehensive Income A/c		2,500

Working Note: Change in investee's Net Assets = ₹20,000 + ₹10,000 = ₹30,000

Share of P = 25% of ₹30,000 = ₹7500.

Investor's Profit or loss includes 25% of ₹20,000 = ₹5,000 and other comprehensive income includes 25% of ₹10,000 = ₹2,500.

(ii) At the yearend for the separate financial statements of P, Investment is valued at cost at ₹66,000 or at a value as per Ind AS 109.

Note: There will be no individual financial statement of P for cases I, II and III.

For cases IV and V: Investment shall be valued as per Ind AS 109 in Individual financial statements. There will be no consolidated and no separate financial statement

7. (a) From the following Profit and Loss Account of Kalyani Ltd, prepare a Gross Value Added Statement. Show also the reconciliation between Gross Value Added and Profit before Taxation.

Profit and Loss Account for the year ended 31st March, 2024

	(₹ in lakhs)	**Amount (₹ in lakhs)**
Sales		**619.26**
Other Income		**30.60**
		649.86
Expenditure		
Production and Operational Expenses	**499.71**	
Administration Expenses	**18.36**	
Interest and Other Charges	**24.00**	
Depreciation	**17.07**	**599.14**
Profit before Taxes		**90.72**
Provision for Taxes		**9**
		81.72
Investment Allowance Reserve Written Back		**1.38**
Balance as per Last Balance Sheet		**4.05**
		87.15
Transferred to:		
General Reserve	**72.9**	
Proposed Dividend	**9.00**	**81.90**
Surplus Carried to Balance Sheet		**5.25**
		87.15

Notes:		
(1) Production and Operational Expenses		
Increase in Stock		**91.50**
Consumption of Raw Materials		**241.71**
Consumption of Stores		**15.90**
Salaries, Wages, Bonus and Other Benefits		**38.40**
Other Taxes and Duties		**9.60**
Other Manufacturing Expenses		**102.60**
		499.71
(2) Administration expenses		
Audit fees		**3**
Salaries and commission to directors		**6.60**
Provision for doubtful debts		**7.50**
		17.1
(3) Interest and Other Charges:		
On Fixed Loans from Financial Institutions		**11.70**
Debentures		**5.40**
On Working Capital Loans from Bank		**6.90**
		24.00

[7]

(b) Discuss the benefits of Sustainable Reporting. **[7]**

Answer:

(a) **Kalyani Ltd.**

Value Added Statement for the year ended 31st March, 2024

	(₹ in lakhs)	**(₹ in lakhs)**
Sales		619.26
Less: Cost of bought in material and services:		
Production and operational expenses	451.71	
Administration expenses	11.76	
Interest on working capital loans	6.90	470.37
Value Added by manufacturing and trading activities		148.89
Add: Other income		30.6
Total Value Added		174.49
Application of Value Added:		
To Pay Employees:		
Salaries, Wages, Bonus and other benefits		38.40
To Pay Directors:		
Salaries and Commission		6.60
To Pay Government:		
Other Taxes and Duties	9.60	
Income Tax	9.00	

		18.60
To Pay Providers of Capital:		
Interest on Debentures	5.40	
Interest on Fixed Loans	11.70	
Dividend	9.00	
		26.10
To Provide for maintenance and Expansion of the company		
Depreciation	17.07	
General Reserve (72.90-1.38)	71.52	
Retained profit (5.25-4.05)	1.20	
		89.79
		179.49

Reconciliation Between Total Value Added and Profit Before Taxation:

	(₹ in lakhs)	**(₹ in lakhs)**
Profit before tax		90.72
Add back:		
Depreciation	17.07	
Salaries, Wages, Bonus and other benefits	38.40	
Directors' Remuneration	6.60	
Cess and Local Taxes	9.60	
Interest on Debentures	5.40	
Interest on Fixed Loans	11.70	88.77
Total Value Added		179.49

(b) The internal benefits for companies and organizations can include:

- Increased understanding of risks and opportunities
- Enhanced link between financial and non-financial performance
- More focus on long term management strategy and policy, and business plans
- Streamlining processes, reducing costs and improving efficiency
- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives

The external benefits of sustainability reporting can include:

- Mitigating – or reversing – negative environmental, social and governance impacts
- Improving reputation and brand loyalty
- Enhanced perception on organisation’s value

Sustainability reporting does also have the potential to deliver financial returns and related competitiveness benefits. It contributes to positive results in both financial and non-financial areas including reputation and brand, human resources, and risk management, good governance, business climate, supply chain, social and environmentalmatters.

8. (a) Explain the Role and Duties of the Comptroller and Auditor General of India(C&AG). **[5]**

(b) Describe the responsibilities of Government Accounting Standard Advisory Board

(GASAB). **[5]**

(c) On 1 January 2024 M Ltd. acquires 80 per cent of the equity interests of P Ltd. by issue of equity shares of paid-up value of ₹100 Lakhs (market value ₹240 Lakhs). The identifiable assets are measured at ₹380 Lakhs and the liabilities assumed are measured at ₹60 Lakhs. Non-controlling Interest is measured at proportionate net asset value. Calculate goodwill/ Gain on Bargain Purchase(GBP) and Pass the necessary journals. **[4]**

Answer:

(a) The role and duties of the C&AG are:

- **Comptroller and Auditor General to prepare and submit accounts to the President Governors of States and Administrators of Union territories having Legislative Assemblies:** The Comptroller and Auditor-General shall from the accounts compiled by him or by the Government or any other person responsible in that behalf prepare in each year accounts (including, in the case of accounts compiled by him,appropriation accounts) showing under the respective heads the annual receipts and disbursements for the purpose of the Union, of each State and of each Union territory having a Legislative Assembly, and shall submit those accounts to the President or the Governor of a State or Administrator of the Union territory having a Legislative Assembly, as the case may be on or before such dates as he may, with the concurrenceof the Government concerned, determine.

  However, the President may, after consultation with the Comptroller and Auditor-General, by order, relievehim from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursements for the purpose of the Union or of a Union territory having a Legislative Assembly. Further the Governor of a State may, with the previous approval of the President and after consultation withthe Comptroller and Auditor-General, by order, relieve him from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursements for the purpose of the State.

- **Comptroller and Auditor General to give information and render assistance to the Union and States:**The Comptroller and Auditor-General shall, in so far as the accounts, for the compilation or keeping of which he is responsible, enable him so to do, give to the Union government, to the State Governments or tothe Governments of Union Territories having Legislative Assemblies, as the case may be, such informationas they may, from time to time, require, and render such assistance in the preparation of their annual financial statements as they may reasonably ask for.

- **Audit of receipts of Union or of States:** It shall be the duty of the Comptroller and Auditor-General to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Unionterritory having a Legislative Assembly and to satisfy himself that the rules and procedures in that behalf aredesigned to secure an effective check on the assessment, collection and proper allocation of revenue and arebeing duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon.

- **Audit of accounts of stores and stock:** The Comptroller and Auditor-General shall have authority to auditand report on the accounts of stores and stock kept in any office or department of the Union or of a State.
- **Audit of Government companies and corporations:** The duties and powers of the Comptroller and Auditor- General in relation to the audit of the accounts of Government

companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 1956

- to audit all expenditure from the Consolidated Fund of India and of each State and of each Union territory having a Legislative Assembly and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which theyhave been applied or charged and whether the expenditure conforms to the authority which governs it;
- to audit all transactions of the Union and of the States relating to Contingency Funds and Public Accounts;
- to audit all trading, manufacturing, profit and loss accounts and balance-sheets and other subsidiary accounts kept in any department of the Union or of a State; and in each case to report on the expenditure,transactions or accounts so audited by him.

(b) The responsibilities of GASAB are:

1. To formulate and improve standard of Government accounting and financial reporting in order to enhanceaccountability mechanisms.
2. To formulate and propose standards that improve the usefulness of financial reports based on the needs of theusers.
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 financialreports.

(c) [₹ in lakhs]

Working Note 1: Amount of the identifiable net assets acquired ₹(380 – 60) = 320
Working Note 2: Non-controlling Interest = ₹320 × 20% = 64
Working Note 3: Gain on Bargain Purchase = B – A = ₹320 – ₹(240 + 64) = 16

M Ltd. would record its acquisition of control of P Ltd. in its consolidated financial statements as follows:

Journal for Consolidation Dr. Cr.

Particulars		₹ inLakhs	₹ inLakhs
Identifiable Assets Acquired A/c	Dr.	380	
To, Consideration A/c			240
To, Liabilities assumed A/c			60
To, Non-controlling Interest in P Ltd. A/c			64
To, Gain on the Bargain Purchase A/c			16

Note: The gain on bargain purchase will be recognised in other comprehensive income and accumulated in otherequity as capital reserve.