FINAL EXAMINATION — SET - 1

MODEL ANSWERS — TERM – JUNE 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 × 2 = 30]**

(i) Ind AS 113 deals with ________________________.

a. Fair Value Measurement
b. Share Based payments
c. Joint Arrangements
d. Statement of Cash Flows

(ii) Ind AS 16 does not apply to which of the following?

a. Biological assets (other than bearer plants) related to agricultural activity
b. Assets in exploration for and evaluation of Mineral Resources
c. Mineral rights and mineral reserves such as oil, natural gas etc.
d. All of the above

(iii) Property Plant and Equipment (PPE) are initially recognized at ______

a. purchase price
b. fair value
c. cost
d. future economic benefits

(iv) X Ltd. borrowed $6000 for construction of a qualifying asset at 3% interest p.a. on 01.04.2021 when $1 = ₹60, which is due for payment on 31.03.2023. The company could borrow the amount in rupees at 12% interest p.a. Interest is payable on 31st 2023. Construction of asset will continue till 31.03.2023. If on 31.03.2022 $1 =₹70 which of the following statements is not true?

a. Exchange loss=₹ (60– 70) × $6,000 = ₹60,000
b. Cost of borrowing in foreign currency = 3% × $6,000 ×₹70 = ₹12,600
c. Cost of borrowing in functional currency = 12% × $ 6,000 ×₹60 = ₹43,200
d. Cost of borrowing in foreign currency = 3% × $ 6000 ×₹60 =₹10,800

(v) The following details relates 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 value of goodwill on the basis of annuity of super profit.

a. ₹ 4,75,485
b. ₹4,85,585
c. ₹1,50,000
d. None of the above

(vi) Indian Accounting Standards relevant for recognition, measurement and disclosure of financial instruments are:
a. Financial instruments: Presentation (Ind AS 32)
b. Financial instruments: Disclosure (Ind AS 107)
c. Financial instruments: (Ind AS 109)
d. All of the above

(vii) Q Ltd. acquired a 75% interest in R Ltd. on January 1, 2021. 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₹ 920 Lakhs. NCI valued at Fair Value and at Proportionate Value are:
a. ₹ 300 lakhs and ₹ 360 lakhs
b. ₹ 225 lakhs and ₹ 270 lakhs.
c. ₹ 300 lakhs and ₹ 270 lakhs.
d. ₹ 225 lakhs and ₹ 360 lakhs.

(viii) On March 31,201X, A Ltd Absorbed B Ltd. A Ltd. issued 60,000 equity shares (₹10 par value) that were trading at ₹25 on March 31. The book value of B's net assets was ₹12,00,000, Equity Share Capital ₹5,00,000 and Other Equity ₹7,00,000 on March 31. The fair value of net assets of B Ltd. was assessed at ₹13,00,000. Compute purchase consideration as per Ind AS 103.
a. ₹15,00,000
b. ₹17,00,000
c. ₹20,00,000
d. ₹18,00,000

(ix) On 1 January 2021 A Ltd. Acquires 80 percent of the equity interests of B Ltd in exchange of cash of ₹ 600 lakhs. The identifiable assets are measured at ₹925 lakh and the liabilities assumed are measured at ₹150 lakh. The fair value of the 20 per cent non-controlling interest in P is ₹ 90 lakhs. The gain on bargain purchase will be:
a. ₹90 lakhs
b. ₹85 lakhs
c. ₹105 lakhs
d. ₹75 lakhs

(x) **Consolidated financial statements are required to be prepared by an Ind AS complied company if it holds shares in the investee company ________________.**

a. **Entailing 20% or more voting rights having significant influence over the investee company (called Associate as per Ind AS 28)**
b. **Entailing joint control over the investee company (called a Joint Venture as per Ind AS 28)**
c. **Entailing control over investee company (called subsidiary company as per Ind AS 110)**
d. **All of the above**

(xi) **On the year ended 31st March, 2024, a Non-Banking Financial Company (NBFC) had following advances-**

Assets Classification	₹ in lakhs
Standard	1050
Sub – standard	750
Doubtful up to one year	200
Doubtful for one year to two year	220

The amount of provision which must be made against the advances will be________.

a. **₹254.70 Lakhs**
b. **₹159 Lakhs**
c. **₹163 Lakhs**
d. **₹181 Lakhs**

(xii) **A Company takes a Machinery on lease for a term of 6 years at a lease rent of ₹4,00,000 p.a. payable at end of each year with guaranteed and unguaranteed residual value of ₹3,00,000. The gross investment will be ______________.**

a. **₹24,00,000**
b. **₹7,00,000**
c. **₹1,00,000**
d. **₹27,00,000**

(xiii) **XY Ltd, a partnership firm, earned profits during the past 5 years as follows:**

Year	2017	2018	2019	2020	2021
Profits (₹)	27,000	36,000	37,200	42,000	46,800

Determine the value of goodwill on the basis of 3 years' purchase of weighted average profit of last five years giving maximum weightage to the recent results

a. **₹ 1,22,520**
b. **₹1,15,000**
c. **₹1,46,000**

d. ₹ 142,520

(xiv) The three pillars of sustainability are often referred to as ______________________.

a. Planet – People – Profit
b. People – Planet – Profit
c. People–Profit–Planet
d. People – Plant – Profit

(xv) NUPUR Ltd has equity share capital of ₹30 lakhs consisting of fully paid equity shares of ₹10 each. Net profit for the year 2023-24 was ₹45 lakhs. It has also issued 27,000, 10% convertible Debentures of ₹50 each. Each Debenture is convertible into 5 equity shares. The applicable tax rate is 30%. Compute the diluted earnings.

a. ₹46,35,000
b. ₹44,59,500
c. ₹45,94,500
d. ₹45,00,000

Answer: 1.

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

SECTION-B

(Answer any 5 questions out of 7 questions given. Each question carries 14 marks.) [5×14 = 70]

2. (a) A company measured accounting profit of ₹80,000 after charging depreciation of ₹12,000. On interest receivable income tax is levied on cash basis. Included in accounting profits Interest accrued ₹5,000, which is not included in taxable profit of ₹67,000. Tax rate is 30%. For tax purpose depreciation admissible is ₹20,000. Carrying amount of fixed assets was ₹68,000 and tax base of fixed assets ₹60,000 before charging depreciation for the current year.

Find:

(i) Carrying amount and tax base of the fixed assets and tax base of Interest accrued at the end of the year.
(ii) Temporary Differences for fixed assets and interest accrued
(iii) Current tax expenses and deferred tax expenses
(iv) Deferred tax liabilities and deferred tax assets, if any.

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

Determine impairment loss and revised carrying amount of all the assets stated above. Show the accounting treatment. **[7+7=14]**

Answer:

2. (a)

Particulars	Carrying amount ₹	Tax base ₹	Taxable Temporary difference ₹	Current tax ₹	Deferred Tax ₹	Deferred tax liabilities ₹	Tax Expense ₹
	(i)	(ii)	(ii)	(iii)	(iii)	(iv)	(v)
Fixed Assets (before depreciation)	68,000	60,000					
Less: Depreciation	12,000	20,000					
Balance	56,000	40,000	16,000		4,800	4,800	
Interest Accrued	5,000	0	5,000		1,500	1,500	
Total			1,000		6,300	6,300	
Taxable Profit			67,000	20,100			
Accounting Profit			80,000				24,000

2. (b)

Asset	Recoverable Amount (₹ in Lakhs)	Impairment Loss (₹ in Lakhs)	Revised Carrying Amount (₹ in Lakhs)
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 impairment loss CGU pro-rata.
β : Impairment Loss is charged against revaluation surplus.

3. (a) On 31.03.2023 A Ltd. enter into a contract with a customer for sale of goods of ₹4,000 granting 50% discount voucher to be availed in future purchase up to ₹ 3,000 within 30 days. Ordinarily 10% discount is allowed on sales. Ordinary discount will not be available to avail the 50% discount voucher. There is 60% probability that the customer will redeem the discount voucher and the estimated amount of purchase is ₹2,000. In April 2023 the discount vouchers are redeemed for purchase of additional goods of ₹2,800. Find revenue recognition in2022-23 and in 2023-24.

(b)

Forthcoming Year 1	₹ in Lakh
Data provided:	
EBIT	**700**
Depreciation	**120**
Capex	**180**
Interest	**60**
Increase in non-cash working capital	**100**
Debt Capital	**3,000**

Tax rate = t	**25%**
WACC	**10%**
No of equity shares	**50,00,000**

Compute:

(a) NOPAT,

(b) CF,

(c) FCFF,

(d) Value of business based on

(i) **CF;**

(ii) **FCFF,**

(e) Value of business when growth rate is 5% based on

(i) **CF;**

(ii) **FCFF,**

(f) Value per share based on FCFF when growth rate id 5% and

(g) Value per share based on FCFE when constant growth rate is 5%.

[7+7=14]

Answer:

3. (a)

There are two performance obligations one for sale of goods and other for sale of discount vouchers. Their standalone prices:

Goods ₹4,000 less 10% ordinary discount	₹3,600
Discount Vouchers	₹480
Total	₹4,080

[Value of vouchers = Discount in excess of ordinary rate of 10%× estimated Purchase amount × probability of purchase = (50 – 10) % ×₹2,000 × 60% = ₹480]

Transaction price is ₹3,600 which is sale price less current discount of 10%. It is to be allocated between performance obligations of goods and discount vouchers proportionately.

Allocation to goods ₹3,600 × (₹3,600/ ₹4,080) = ₹3,176
Allocation to Discount Voucher ₹3,600 × (₹480/₹4,080) = ₹424

Thus in 2022-23 Revenue is recognised for ₹3,176 only, which is transaction price less future discount. Discount Voucher is carried as a liability at ₹424.

In 2023-24 this liability will be cancelled and revenue will be recognised for ₹424, when the discount voucher is redeemed or expired.

The Transaction Price for additional sale is ₹2,800 less 50% discount voucher = ₹1,400;
Total Revenue recognised is ₹1,400 + ₹424 =₹1,824.

Thus we see that ₹424 is deducted from revenue of 2022-23 and added to revenue of 2023-24.

3. (b) (₹ in Lakhs)

(a) NOPAT = EBIT × (1 – t)
= 700 × (1 - 0.25)
= 525

(b) CF = NOPAT + Depreciation - Increase in non-cash working capital
= 525 + 120 – 100
= 545

(c) FCFF = CF – Capex
= 545 – 180
= 365

(d) Value of business based on -

(i) CF:

Value of business = V_0 = Continuing Value = CF/WACC (at constant cash flows assumption)
= 545/ 0.1 = 5450

Value of business based on:

(ii) FCFF

Value of business = V_0 = Continuing Value = FCFF/WACC (at constant cash flows assumption)
= 365/0.1 = 3,650 Lakhs

(e) (i) CF;
Value of business = V_0 = Continuing Value at growth rate of 5%
= CF/ (k – g) = 545/ (0.10 – 0.05)
= 545/ 0.05 = 10,900

(ii) FCFF;
Value of business = V_0 = Continuing Value = FCFF/ (k – g)
= 365/ (0.10 – 0.05) = 365/ 0.05 = 7,300

(f) Value per share based on FCFF when constant growth rate is 5%
V_0 = 7,300;
Equity = V_0 – Debt Capital = 7,300 –3,000 = 4,300
No. of equity shares = 50 lakhs Value per share = 4,300/50 = 86

(g) FCFE = FCFF – Interest net of tax + Net Debt Issued
= 365 – 80× (1 – 0.25) + (140 – 90)
= 355
Value of equity = FCFE/ (K_e – g) = 355/ (0.125 – .05) = 355/0.075 = 4,733.33
Value per share = Equity/ n = 4,733.33/50 = 94.67

4. (a) While closing its books of accounts on 31st March, a NBFC has its advances classified as follows:

Particulars	**₹ Lakhs**
Standard Assets	**40,000**
Sub Standard Assets	**4,000**
Secured Positions of Doubtful Debts:	
- Up to one year	**1000**
- one year to three years	**600**
- more than three years	**200**
Unsecured Portions of Doubtful debts	**160**
Loss Assets	**120**

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

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

(₹'000)

	S Ltd.		P Ltd.
	B/S (₹)	**Fair Value (₹)**	**B/S (₹)**
Equity Share Capital (₹10)	**8,000**		**12000**
Other Equity	**6,000**		**4000**
Borrowings	**2,000**	**2,050**	**3000**
Trade Payables	**2,500**	**2,400**	**2000**
Property, Plant and Equipment	**9,000**	**10000**	**12000**
Investment Property	**5,000**	**7000**	**1000**
Investments	**1,000**		**3500**
Current Assets	**3,500**	**3200**	**4500**
Contingent Liabilities	**800**	**750**	

Market price of equity shares of P Ltd. and S Ltd. are ₹ 16 and ₹ 15 respectively on the day. P Ltd. and S Ltd. are amalgamated into SP Ltd. control of which retained with the same parties as before. SP Ltd. issues 1050000 shares and 1250000 shares to take over the businesses of S Ltd. and P Ltd. Respectively On the basis of the above data, you are required to make the necessary accounting for the following case. Pass journal entries and draft balance sheet in the books of the SP Ltd.

[7+7=14]

Answer:
4. (a)

Particulars	**Loan (₹ in Lakhs)**	**Provision (%)**	**Provision (₹ in Lakhs)**
Standard Assets	40,000	0.4	160
Sub-Standard Assets	4,000	10%	400
Secured Portions of Doubtful Debts:			
- Up to one year	1,000	20%	200
- 1 year to 2 years	600	30%	180
- more than three years	200	50%	100
Unsecured Portions of Doubtful	160	100%	160
Assets			
Loss Assets	120	100%	120

Total			1320

4. (b)

It is a business combination under common control and pooling of interest method of accounting is followed in the books of the transferee. In the books of S Ltd.

Journal

(₹'000)

Date	Particulars		Dr.	Cr.
	Property, Plant and Equipment	Dr	21,000	
	Investment Property	Dr.	6,000	
	Investments	Dr.	4,500	
	Current Assets	Dr.	8,000	
	Goodwill (10,500 + 12,500 – 8,000 -12,000)	Dr.	3,000	
	To, Borrowings			5,000
	To, Trade Payables			4,500
	To, Other Equity (6,000 + 4,000)			10,000
	To, Equity Share Capital			23,000

Summarized Balance sheet as at 01.04.2021 (after amalgamation) (₹ '000)

Particulars	(₹)	(₹)
Property, Plant and Equipment	12,000 + 9,000	21,000
Goodwill		3,000
Investment Property	1,000 + 5,000	6,000
Investments	3,500 + 1,000	4,500
Current Assets	4,500 + 3,500	8,000
Total Assets		42,500
Equity Share Capital	12,500 + 10,500	23,000
Other Equity	4,000 + 6,000	10,000
Borrowings	3,000 + 2,000	5,000
Trade Payables	2,000 + 2,500	4,500
Total of equity and liabilities		42,500
Note: Contingent Liabilities	800	

5. On March 31,2021, P Ltd acquired Q Ltd. By issue of 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, 2021 (before acquisition):

[Amount in ₹]

	(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. Also show the necessary accounting in the books of the Acquiree. [14]

Answer:

5.

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)
Workings:

	(₹)	(₹)
Net Assets:		
Carrying amount of Acquirer P Ltd.	80,00,000	
Fair Value of Acquiree Q Ltd.	45,00,000	
		125,00,000
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		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 To, Net Assets A/c	Dr.	42,00,000	 42,00,000
Equity Shares in K Ltd. A/c To, Realisation A/c	Dr.	48,00,000	 48,00,000
Realisation A/c To, Equity Shareholders' A/c	Dr.	6,00,000	 6,00,000
Equity Share Capital A/c Other Equity A/c To, Equity Shareholders' A/c	Dr. Dr.	25,00,000 17,00,000	 42,00,000
Equity Shareholders' A/c To, equity Shares in K Ltd.	Dr.	48,00,000	 48,00,000

Dr. Realisation Account Cr.

Particulars	(₹)	Particulars	(₹)
Net Assets A/c Equity Shareholders' A/c	42,00,000 6,00,000	Equity Shares in P A/c	48,00,000
	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 Other Equity A/c Realisation A/c	25,00,000 17,00,000 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:
P Ltd acquired 100% shares of Q Ltd.
P Ltd acquired 80% shares of Q Ltd.
[for guidance you may also follow the solutions in illustration 1(b) and 1(c)]

6. The financial data of the companies' P and S at 31.03.2023 and at 31.03.2024 are stated below. **(₹ in Lakhs)**

Particulars	On 31.03.2023		On31-3-2024	
	S (Individual B/S) (₹)	Fair Value of S (₹)	P (Separate B/S) (₹)	S (Individual B/S) (₹)
PPE	480	700	750	500

Investment in S (60% shares acquired on 01.04.2020 by issue of Equity)			**480**	
CA	**350**	**300**	**540**	**400**
			1,770	**900**
Equity	**300**		**1,070**	**360**
Non-current Liability	**300**	**310**	**360**	**330**
Current Liability	**230**	**200**	**340**	**210**
			1,770	**900**

Prepare Consolidated Balance Sheet. **[14]**

Answer:

6. **(₹ in Lakhs)**

WN 1: Purchase consideration = 480

WN 2: Fair value of net identified assets at the date of acquisition:

	Fair Value of S (₹)	Revaluation profits (loss)	
		Non-Current (₹)	Current (₹)
PPE	700	220	
CA	300		(50)
Noncurrent Liability	310	(10)	
Current Liability	200		30
Net assets	490		(20)

WN 3: Post-acquisition TCI of S:

Particulars	(₹ in Lakhs)
Equity on 31.03.2024	360
Less Equity on 31.03.2023	300
TCI Post-Acquisition (assumed no fresh issue of shares)	60
Add: Reversal of Revaluation loss on Current items#	20
Adjusted Post-acquisition TCI	80
Share of Parent (60% × ₹80)	48
Share of NCI (40% × ₹80)	32

\# Revaluation profit (loss) on current items at acquisition date is reverted against post acquisition profits (loss) of subsidiary

WN 4: NCI at proportionate net assets at acquisition date = 40% × 490 = 196

Particulars	(₹ in Lakhs)
Add: Share of NCI in post-acquisition TCI	32
NCI at reporting date	228

WN 5: Goodwill = Consideration + NCI at acquisition – Net Assets = 480 + 196 – 490 = 186
WN 6: Consolidated Equity:

Particulars	(₹ in Lakhs)
Equity of P	1,070
Share of P in Post-acquisition TCI of S	48
Consolidated Equity	1,118

Consolidated Balance Sheet of P and S on 31.03.2024 (₹ in Lakhs)

	Book Value	Adjustment on non-current items (FV – BV)	Consolidated
PPE	750 + 500	+220	1,470
Goodwill		WN 5	186
CA	540 + 400	[revaluation loss 50]$	940
Total Assets			2,596
Equity		WN 6	1,118
NCI		WN 4	228
Noncurrent Liability	360 + 330	+10	700
Current Liability	340 + 210	[revaluation gain 30]$	550
Total of Equity and Liability			2,596

$ Net revaluation loss on current items ₹(50-30) Lakhs = ₹20 Lakhs is not adjusted in consolidated value, rather it is reverted to Retained earnings and TCI of S is increased.

7. (a) The following are the balances in the account statements of X Ltd. for the year ended 31st March, 2024. **(₹ '000)**

Particulars	**(₹)**
Turnover	**4,600**
Plant and machinery net	**2,160**
Loss on sale of machinery	**150**
Depreciation on plant and machinery	**400**
Dividends to ordinary shareholders	**292**
Debtors	**390**
Creditors	**254**
Total stock of all materials, WIP and finished goods:	
Opening stock	**320**
Closing stock	**400**
Raw materials purchased	**1,250**
Cash at bank	**196**

Printing and stationery	**44**
Auditor' s remuneration	**56**
Retained profits(opening balance)	**1998**
Retained profits for the year	**576**
Rent, rates and taxes	**330**
Other expenses	**170**
Ordinary share capital issued	**3,000**
Interest on/borrowings	**80**
Income-tax for the year	**552**
Wages and salaries	**654**
Employees state insurance	**70**
P.F. contribution	**56**

Prepare a Value Added Statement for the company for the year 2023-24.

(b) Analyze the ESG criteria of corporate reporting. **[7+7=14]**

Answer:

7. (a)

Value Added Statement
For the year ended on 31.03.2022

Particulars	**(₹)**	**(₹)**
Generation of Value Added		
Turnover		4,600
Add: Increase in Stock of raw materials, WIP and FG		80
		4,680
Less. Cost of bought-in materials and services		
Raw materials purchased	1,250	
Printing and Stationery	44	
Auditor's remuneration	56	
Rent, rates and taxes	330	
Other expenses	170	1,850
Total Value Added		2,830
Distribution of Value Added		
To Employees		
Wages and salaries	654	
Employees state insurance	70	
P.F. contribution	56	
		780
To Government		
Income-tax for the year		552

To Providers of Capital		
Interest on borrowings	80	
Dividends	292	
		372
Re-invested in Business		
Depreciation on plant and machinery	400	
Retained profit for the year	576	
		976
Loss on sale of machinery		150
Total Disposal of Added Value		2,830

7. (b) ESG reporting requires identification and reporting information about the three criteria in a meaningful way. While, environmental criteria consider how a company performs as a steward of nature, social criteria examine how it manages relationships with employees, suppliers, customers, and the communities. Finally, governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights. Accordingly, the following criteria are largely used in this context.

(A) Environmental test criterion includes:

a. Conservation of the natural world
b. Climate change and carbon emissions
c. Air and water pollution
e. Biodiversity
f. Deforestation
g. Energy efficiency
h. Waste management
i. Water scarcity

(B) Social test criterion includes

a. Consideration of people & relationships
b. Customer satisfaction
c. Data protection and privacy
d. Gender and diversity
e. Employee engagement
f. Community relations
g. Human rights
h. Labor standards

(C) Governance test criteria includes consideration of:

a. Standards for running a company
b. Board composition
c. Audit committee structure
d. Bribery and corruption
e. Executive compensation

f. Lobbying
g. Political contributions
h. Whistle blower schemes

8. (a) Explain the role of Public Accounts Committee. [5]

(b) Describe the responsibilities of Government Accounting Standard Advisory Board (GASAB). [5]

(c) Company P Ltd. (a listed company) acquires 20% shares (entitling 20% voting power and significant influence) in company Q Ltd. on 1.4.2022 at a cost of ₹ 46,000, paid by cash. During the financial year 2022-2023, Q made profits of ₹ 20,000 and other comprehensive income of ₹ 10,000. Show the relevant accounting treatment at the end of the year in (i) consolidated and (ii) separate financial statements of P. [4]

Answer:
8. (a)

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. Scrutinizing 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 corporation's 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.

8. (b) GASAB, inter alia, has the following responsibilities:

(i) To formulate and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.

(ii) To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.

(iii) To keep the standards current and reflect change in the Governmental environment.

(iv) To provide guidance on implementation of standards.

(v) To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.

(vi) To improve the common understanding of the nature and purpose of information contained in the financial reports.

8. (c) There will be two sets of accounting at the end the year, one for Consolidated Accounts and the other For Separate Financial Statements.

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

At the year-end in consolidated accounts of P Ltd., adjustments are made to the Investment and income accounts as per equity method:

Working Note:
Change in investee's net assets = ₹20,000 + ₹10,000 = ₹30,000;
Share of P = 20% of ₹30,000 = ₹6,000.
Investor's Profit or loss includes 20% of ₹20,000 = ₹4,000
and other comprehensive income includes 20% of ₹10,000 = ₹2,000.

(ii) At the year-end for the Separate Financial Statements of P Investment is valued at cost at ₹ 46,000 or at a value as per Ind AS 109.