FINAL EXAMINATION SET - 1

MODEL ANSWERS TERM – DECEMBER 2025

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) XYZ ltd. takes a Machinery on lease for a term of 6 years at a lease rent of ₹5,00,000 p.a. payable at end of each year with guaranteed and unguaranteed residual value of ₹2,00,000. The gross investment will be

a. ₹30,00,000
b. ₹32,00,000
c. ₹3,00,000
d. ₹2,00,000

(ii) 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. Compute Recoverable amount.

a. ₹23,000
b. ₹28,000
c. ₹45,000
d. ₹2,000

(iii) A business estimates for production Overhead of ₹20,00,000 per annum.
Normal Level of Production is 2,00,000 units per annum.
Due to some difficulties the business was only able to make 1,50,000 units in the year 2024. Other cost per unit were ₹124.
Calculate the per unit cost.

a. ₹124
b. ₹137.33
c. ₹134
d. None of these

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

a. Mineral rights and mineral reserves such as oil, natural gas etc.
b. PPE classified as held for sale as per Ind AS 105
c. Biological assets (other than bearer plants) related to agricultural activity (Ind AS 41)
d. All of these

(v) Actual Profit is ₹4,55,000
Capital Employed is ₹31,10,000
Normal dividend expected on equity shares is 8% while fair return on closing capital employed is10%. Calculate Super Profit.

a. ₹1,44,000

b. **₹3,11,000**
c. **₹4,32,000**
d. **₹4,55,000**

(vi) What is the standard provision requirement for 'standard assets' in NBFCs (as per latest norms)?
a. **0.25%**
b. **0.40%**
c. **1.00%**
d. **2.00%**

(vii) A Ltd. takes over B Ltd. for ₹25,20,000. Fair Value (FV) of B Ltd.'s net assets at the time of acquisition is ₹23,60,000. Calculate Goodwill.
b. **₹ 25,20,000**
c. **₹ 1,60,000**
d. **₹ 23,60,000**
e. **None of these**

(viii) On 1 January 2025 M Ltd. acquires 80 per cent of the equity interests of P Ltd. by issue of equity shares of paid-up value of ₹200 Lakhs (market value ₹480 Lakhs). The identifiable assets are measured at ₹760 Lakhs and the liabilities assumed are measured at ₹120 Lakhs. Compute Non-controlling Interest if measured at proportionate net asset value.
a. **₹64 Lakhs**
b. **₹760 Lakhs**
c. **₹128 Lakhs**
d. **₹480 Lakhs**

(ix) If a parent loses control of a subsidiary, it shall follow which these?
a. **Derecognise the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;**
b. **Derecognise the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them)**
c. **Recognise the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control.**
d. **All of these.**

(x) In case of exemption from consolidation or use of equity method, the entity shall disclose which of the following?
a. **that the financial statements are separate financial statements**
b. **that the exemption is used and**
c. **a list with details of investments in subsidiaries, joint ventures and associates**
d. **All of these**

(xi) SS Ltd. has invested in 50% voting power of a joint venture MM Ltd. MM Ltd. has also issued 10% cumulative preference shares, classified as equity, to other investors worth ₹15,00,000. During the year, MM Ltd. had profit of ₹ 6,00,000. MN Ltd. did declare any dividend on the preference shares for current year, calculate SS Ltd.'s share in the net profit of MM Ltd. for the year.

a. ₹2,50,000
b. ₹2,25,000
c. ₹6,00,000
d. ₹4,50,000

(xii) Company P Ltd. (a listed company) acquires 20% shares (entitling 20% voting power and significant influence) in company Q Ltd. on 1.4.2024 at a cost of ₹46,000, paid by cash. During the financial year 2024-2025, Q made profits of ₹20,000 and other comprehensive income of ₹10,000. Compute the amount of change in investee's net assets.

a. ₹20,000
b. ₹10,000
c. ₹30,000
d. ₹46,000

(xiii) 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**

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

SECTION – B

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

[5 x 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) GST applies on supply of plant of 18% (Intra state) and on freight at 18% (intra state)

(ix) Loss amounted to ₹40,000 for low capacity utilization of the plant after installation.

(x) ₹10,000 was paid as cost of launching the product to be produced from the plant.

Compute the value on which the asset is recognised and pass necessary journal entries. [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 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]

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

Note: (1) Loss ₹ 40,000 and (x) cost of launching product ₹ 10,000 are charged to Profit and Loss A/c.

(2) GST accounting has not been shown.

(b)

Asset	Recoverable Amount	Impairment Loss	Revised Carrying Amount
A	300	—	280
B	400	60	400
C	270	—	220
D	170	10	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 for D

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

Next other assets are reduced impairment loss CGU pro-rata.

Impairment Loss is charged against revaluation surplus.

3. a) At the beginning of year 1, an entity grants to a senior executive 10,000 share options, conditional upon the executive remaining in the entity's employment until the end of year 3. However, the share options cannot be exercised unless the share price has increased from ₹50 at the beginning of year 1 to above ₹65. If the share price is above ₹65 the share options can be exercised at any time till the end of year 10. The entity applies a binomial option pricing model, which takes into account the possibility that the share price will exceed ₹65 (and hence the share options become exercisable) and the possibility that the share price will not exceed ₹65 (and hence the options will be forfeited). It estimates the fair value of the share options with this market condition to be ₹24 per option. Compute the Remuneration expenses to be recognised in each year. [7]

(b) X Ltd. has EPS ₹12 and no. of shares 1000. Its CF ₹15,000 and Sales ₹80,000. Find 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 entity expects the executive to complete the three-year service period, and the executive does so, the entity recognises the following amounts in years 1, 2 and 3:

Year	Calculation	Cumulative Remuneration Expanses (₹)	Remuneration expanse for the Year (₹)
1	10,000 options × ₹ 24 × 1/3	80,000	80,000
2	10,000 options × ₹ 24 × 2/3	1,60,000	80,000
3	10,000 options × ₹ 24 × 3/3	2,40,000	80,000

(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 31st March, a NBFC has its advances classified as follows:

Particulars	₹ in Lakhs
Standard Assets	**10,000**
Sub Standard Assets	**1,000**
Secured Positions of Doubtful Debts:	
- Up to 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 amount of provision which must be made against the advances. [7]

(b) The following is the Draft Balance Sheet as at 31st March, 2024 of Hopefull Ltd.

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital:		**Fixed Assets (including goodwill of ₹1,00,000)**	**11,80,000**
8,500 Equity Shares of ₹100 each fully paid up	**8,50,000**	**Investments**	**40,000**
4,000 Cumulative Preference Shares of ₹ 100 each fully paid up	**4,00,000**	**Stock in Trade**	**2,75,000**
Securities Premium	**20,000**	**Trade Debtors**	**1,50,000**
General Reserve	**60,000**	**Bank Balances**	**65,000**
Trade Creditors	**3,80,000**		
	17,10,000		**17,10,000**

Contingent liability: Preference Dividends in arrears ₹ 60,000.

The Board of Directors of the company decided upon the following scheme of reconstructions, which was duly approved by all concerned and put into effect from 1st April, 2024.

(i) The Preference Shares are to be converted into 12% unsecured debentures of ₹ 100 each with regard to 70% of the dues (inducing arrears of dividends) and for the balance Equity Shares of ₹50 paid up would be issued. The authorized Capital of the company permitted the issue of additional shares.

(ii) Equity Shares would be reduced to share of ₹ 50 each paid up.

(iii) Since goodwill has no value, the same is to be written of the fully.

(iv) The market value of investments are to be reflected at ₹ 60,000.

(v) Obsolete items in Stock of ₹ 75,000 are to be written off. Bad Debts to the. extent of 5% of the tot debtors would be provided for. Fixed assets to be written down by ₹ 1,80,000.

The company carried on trading, for six months upto 30th September 2024, and made a net profit of ₹1,00,000 after writing off depreciation at 25% p.a. on the revised value of fixed assets. The half yearly working resulted in an increase of Sundry Debtors by ₹80,000, stock by ₹ 70,000 and Cash by ₹ 50,000.

You are required to show the Journal Entries in the Books of Hopeful Ltd. [7]

Answer:

(a)

Particulars	**Loan (₹ Lakhs)**	**Provision (%)**	**Provision (₹ Lakhs)**
Standard Assets	10.000	0.40	40
Sub-Standard Assets	1,000	10%	100
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	90	100%	90
Loss Assets	30	100%	30
Total			**323**

(b)

Books of Hopeful Ltd.
Journal

Particulars		**Dr. (₹)**	**Cr. (₹)**
Cumulative Preference Share Capital A/c	Dr.	4,00,000	
Capital Reduction A/c	Dr.	60,000	
To, Cumulative Preference Shareholders A/c			4,60,000
(Being Cumulative preference shares and Preference Shareholders A/c)			

Cumulative Preference Shareholders A/c Dr. To, 12% Unsecured Debentures A/c To, Equity Share Capital A/c (Being the issue of 12% Unsecured Debentures and 2,760 Equity Shares of ₹ 100 each issued as ₹ 50 paid up)	4,60,000	 3,22,000 1,38,000
Equity Share Capital A/c Dr. To, Capital Reduction A/c (Being the entry for reducing every share of ₹ 100 each as ₹ 50 fully paid up, 8,500 Equity shares)	4,25,000	 4,25,000
Investments A/c Dr. Capital Reduction A/c (Balancing figure) Dr. To, Goodwill A/c To, Stock A/c To, Fixed Assets A/c To, Provision for Doubtful Debts A/c (Being the change in value of assets)	20,000 3,42,500	 1,00,000 75,000 1,80,000 7,500
Capital Reduction A/c Dr. To, Capital Reserve A/c (Being transfer of Capital Reduction A/c balance to Capital Reserve)	22,500	 22,500

Balance Sheet of Hopeful Ltd. as at 30.09.2024

Particulars	Note No.	(₹ in Lakh)
1. Assets		
Non Current Assets		
PPE	**3**	7,87,500
Other Non Current Assets		60,000
2. Current Assets		6,07,500
Total		**14,55,000**
II. Equity and Liabilities		
1. Equity		
(a) Equity Share Capital	**1**	5,63,000
(b) Other Equity	**2**	2,02,500
2. Non Current Liabilities		
12% Unsecured Debenture		3,22,000
Current Liabilities		3,67,500
Total		**14,55,000**

Notes	Particulars	(₹)	(₹)
Note -1	**Equity Share Capital As on 30th September 2024**		
	Authorized, issued subscribed and paid up capital 11,260 Eq. Shares of ₹ 50 each		**5,63,000**
Note -2	**Other Equity As on 30th September 2024**		
	Securities Premium	20,000	
	Capital Reserve	22,500	
	General Reserve	60,000	
	Profit and Loss A/c	1,00,000	**2,02,500**
Notes	**Particulars**	**(₹)**	**(₹)**
Note - 3	**PPE As on 30th September 2024**		
	PPE	9,00,000	
	Less: Depreciation	1,12,500	**7,87,500**
Note - 4	**Current Assets As on 30th September 2024**		
	Stock in trade (2,75,000-75,000 + 70,000)	2,70,000	
	Trade Receivables	2,300,00	
	Less: Provision for doubtful debt	7,500	
	Cash and Bank Balance		**1,15,000**
Total			**6,07,500**

5. The summarized Balance Sheet of SMC Limited as at 31st December, 2024, is provided below:

Particulars	₹ Lakhs
Assets	
Property, plant & equipment (at cost less depreciation)	**125**
Debenture Redemption Reserve Investments	**24**
Cash and cash equivalents	**80**
Other Current Assets	**210**
Total	**439**
Liabilities	
Share Capital: 5,00,000 equity shares of ₹ 10 each fully paid	**50**
Other equity:	**95**
Profit And loss A/c	**19**
Debenture Redemption Reserve	**20**
12.5% Convertible Debentures, 80,000 Debentures of ₹ 100 each	**80**
Other loans	**60**
Current Liabilities and Provisions	**115**
Total	**439**

The debentures are due for redemption on 1st January 2025 at a 10% premium, with an option for debenture holders to convert 20% of their holdings into equity shares at ₹12 per share. The remaining 80% of the debenture amount, along with the 10% premium, will be paid in cash, and debenture holders must exercise the conversion option, failing which the entire amount will be redeemed in cash.

Assuming that:

(a) Except for 90 debenture holders holding a total of 20,000 debentures, the rest exercised the option for maximum conversion.

(b) The investments were realized at par on sale.

(c) All the transactions are put through, without any lag, on 1st January, 2025.

Prepare the balance sheet of the company as of 1st January, 2025, after giving effect to the redemption. Show your calculations for the number of equity shares to be allotted and the necessary cash payment.

[14]

Answer:

SMC Limited

Balance Sheet as on 1st Jan, 2025

	Particulars	Note No	₹ Lakhs
I.	**Assets**		
	(1) Non-Current Assets		
	(a) Property, Plant & Equipment		
	(i) Tangible assets		125.00
	(2) Current Assets		
	(a) Cash and cash equivalent (Refer W/N (iii))		29.20
	(b) Other current assets		210.00
	Total		364.20
II.	**Equity and Liabilities:**		
	(1) Equity		
	(a) Share Capital	1	61.00
	(b) Other equity	2	128.20
	(2) Non-Current Liabilities		
	(a) Long-term borrowing – Unsecured Loans		60.00
	(3) Current Liabilities		
	(a) Short-term provisions		115.00
Total			364.20

Notes to Accounts

1.	**Share Capital** 6,10,000 Equity Shares **(5,00,000 +1,10,000) of ₹ 10 each (Refer WN (i))**		61.00
2.	**Reserves and Surplus**		
	General Reserve	95.00	
	Profit & Loss	19.00	
	Add: Debenture Redemption Reserve transfer	20.00	
		134.00	
	Less: Premium on redemption of debentures **(80,000 debentures × ₹10 per debenture)**	(8.00)	126.00
	Securities Premium (1,10,000 Shares x 2) Refer WN (i)		2.20
			128.20

Working Notes:	
Calculation of number of shares to be allotted	
Total number of debentures	80,000
Less: Number of debentures for which debenture holders did not opt for conversion	-20,000
	60,000
20% of 60,000	12,000
Redemption value of 12,000 debentures (12,000 x 110)	13,20,000
Number of Equity Shares to be allotted: (13,20,000/12 = 1,10,000 shares of 10 each)	1,10,000
Share Price per share for conversion	12
Calculation of cash to be paid:	₹
Total number of debentures	80,000
Less: number of debentures to be converted into equity shares	-12,000
Balance	68,000
Redemption value of 68,000 debentures (68,000 × ₹ 110)	74,80,000
Cash and Bank Balance:	₹
Balance before redemption	80,00,000
Add: Proceeds of investments sold	24,00,000
	1,04,00,000
Less: Cash paid to debenture holders	-74,80,000
	29,20,000

6. **For many years, H Ltd. (H) has held 80% of the ordinary shares of S Ltd. (S) and 30% of the ordinary shares of A Ltd. (A). The following information is needed to prepare the consolidated statement of profit or loss for the year ending 31st March, 2024.**

Statements of profit or loss for the year ended 31st March, 2024

Particulars	H	S	A
	₹	₹	₹
Revenue	5,10,000	1,90,000	1,20,000
Total Revenue	5,10,000	1,90,000	1,20,000
Expenses:			
Cost of materials consumed	(98,000)	(62,500)	(55,000)
Employee benefits expense	(1,70,000)	(25,000)	(12,000)
Depreciation and amortization expense	(12,000)	(7,500)	(5,000)
Other expenses	(1,30,000)	(35,000)	(8,000)
Total expenses	(4,10,000)	(1,30,000)	(80,000)
Profit before tax	1,00,000	60,000	40,000
Tax	-33,000	-24,000	-12,000
Profit for the period	67,000	36,000	28,000

Note: There were no items of other comprehensive income in the year.
At the acquisition date, the fair value of S's plant and machinery, which had a remaining useful life of 10 years, exceeded its book value by ₹15,000.
During the year, S sold goods to H for ₹20,000 at a margin of 25%. By the end of the year, H had sold 60% of these goods.
The group's accounting policy is to measure non-controlling interests using the proportionate share of net assets method. The goodwill impairment loss for the current year was ₹1,200 which should be charged to other expenses.
As on 31/03/2024, the investment in A had been impaired by ₹2,500, of which there is no loss in the current year.
On 1 January 2024, H entered into a contract to provide a customer with support services for the next 12 months. H received the full payment of ₹45,000 in advance, and this amount was recognized as revenue.
Prepare the consolidated statement of profit or loss for the year ended 31st March, 2024. [14]

Answer:

Consolidated Balance sheet of the group as at 31-03-2021 (₹ in Lakhs)

	₹
Revenue (₹5,10,000 + ₹1,90,000 – ₹20,000 (W3) – ₹33,750 (W4))	6,46,250
Total Income	6,46,250
Cost of materials consumed (₹98,000 + ₹62,500 – ₹20,000 (W3) + ₹2,000 (W3))	(1,42,500)
Employees' benefits expense (₹1,70,000 + ₹25,000) Depreciation and amortization expense (₹12,000 + ₹7,500 + ₹1,500 (WN2))	(1,95,000) (21,000)
Other expenses (₹1,30,000 + ₹35,000 + ₹1,200 Goodwill Impairment)	(1,66,200)
Total Expenses	5,24,700
Profit from operations	1,21,550
Share of profit of associate (30% × ₹28,000 Less Impairment ₹0 during the year)	8,400
Profit before tax	1,29,950
Tax (₹33,000 + ₹24,000)	(57,000)
Profit for the period	72,950
Attributable to:	
Equity holders of the parent (bal. fig)	66,450
Non-controlling interest (W5)	6,500
Profit for the period	72,950

Workings:

(W1) Group structure

H has held 80% of the ordinary shares of S and 30% of the ordinary shares of A.

(W2) Additional depreciation: ₹15,000/10 years = ₹1,500.

The adjusting entry is:

Dr Depreciation ₹ 1,500

Cr PPE ₹ 1,500

(W3) Intra-group trading

The ₹20,000 trading between S and H must be eliminated:

Dr Revenue ₹20,000

Cr Cost of material consumed ₹20,000

The profit on the sale was ₹5,000 (25% × ₹20,000). Of this, ₹2,000 (₹5,000 × 40%) remains within the inventories of the group. The Provision for Unrealized Profit adjustment is therefore:

Dr Cost of material consumed ₹ 2,000

Cr Inventories ₹2,000

(W4) Revenue

The performance obligation is satisfied over time. Based on the passage of time, the contract is 25% (3/12) complete so only 25% of the revenue should be recognized by the reporting date.

Therefore ₹33,750 (₹45,000 × 25%) should be removed from revenue and held as a liability on the SFP.

Dr Revenue ₹33,750

Cr Contract liability ₹33,750

(W5) Profit attributable to NCI

Particulars	₹	₹
S's profit for the year	36,000	
PURP (W3)	(2,000)	
Additional depreciation (W2)	(1,500)	32,500
Profit attributable to NCI (32,500 × 20%)		6,500

Note: If the parent had sold goods to the subsidiary then the Provision for Unrealised Profit adjustment would not be included when calculating the profit attributable to the NCI.

Goodwill has been calculated using the share of net assets method. Therefore, none of the impairment loss is attributable to the NCI.

7. (a) The Income Statement and Balance Sheet of BQ Ltd. is given below:

INCOME STATEMENT

Particulars	₹ in Lakhs	₹ in Lakhs
Sales	12,500	
Total Income		12,500
Less:		
Manufacturing cost	3,000	
Administration cost	1,600	
Selling and Distribution cost	700	
Depreciation	400	5,700
EBIT		6,800
Less: Interest		300
EBT		6,500
Less: Tax (30%)		1,950
PAT		4,550
EPS		45.5
P/E ratio		3

BALANCE SHEET

LIABILITIES	₹ in Lakhs	ASSETS	₹ in Lakhs
Equity Capital (₹10 share)	1,000	Buildings	1,800
Reserve Surplus	700	Machinery	1,000
Term loan	1,300	Stock	300
Payables	600	Debtors	500
Provisions	260	Bank	260
TOTAL	3,860	TOTAL	3,860

The cost of equity and cost of debt is 14% and 8% respectively. The company pays 30% corporate tax. From the information given you are required to calculate the EVA. [7]

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

Answer:

EVA = NO PAT – (WACC x CE)
= 4760 – (10.36% x 3000)
= 449.2

Calculation of NOPAT	**₹ in Lakhs**
Sales	12,500
(-) Operating Expanses	5,300
(-) Depreciation	400
EBIT	6,800
(-) Tax @ 30%	2,040
NO PAT	4,760

Calculation of WACC

Sources	**₹ in Lakhs**	**Proportion**	**Cost**	**WACC**
Equity Cap.	1,000	33.33	14%	4.67%
Retained	700	23.33	14%	3.27%
Term Loan	1,300	43.33	5.6%	2.43%
	3,000	100		10.36%

Cost of Debt (KD) = I (1- Tax)
= 8 (1-0.30)
= 5.6

MVA = Markewt Capitalisation – Book Value of Net Worth
= 13650- 1700
=11950 Lakhs

Market Capitalisation = MPS x No. of Shares
= 136.5 x 100
= 13650 Lakhs

MPS = P/E x EPS
= 3 x 45.5
= 136.5

(b) 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

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 environmental matters.

8. (a) Discuss the role of Comptroller and Auditor General to compile accounts of Union and States. [5]

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

(c) Investor A holds 40 per cent of the voting rights of an investee and twelve other investors each hold 5 per cent of the voting rights of the investee. Does A have any power over the investee? Analyse. [4]

Answer:

(a) Comptroller and Auditor General to compile accounts of Union and States: The role of the C&AG includes:

Compilation of accounts: Compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and

Keeping accounts: Keeping such accounts in relation to any of the matters specified in the above clause as may be necessary.

However, the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for compiling:

(i) the said accounts of the Union (either at once or gradually by the issue of several orders); or

(ii) the accounts of any particular services or departments of the Union;

(iii) relieve him from the responsibility for keeping the accounts of any particular class or character.

Moreover, the Governor of a State with the previous approval of the President and after consultation with Comptroller and Auditor General, by order, relieve him from the responsibility for compiling:

(i) the said accounts of the State (either at once or gradually by the issue of several orders); or

(ii) the accounts of any particular services or departments of the State.

(b) 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.

(c) In this case, investor A concludes that the absolute size of the investor's holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power. Additional evidences are needed to be considered for concluding whether A has power over the investee. If it is not clear, that the investor has power, the investor does not control the investee.