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) 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) ₹3,00,000
B) ₹4,00,000
C) ₹24,00,000
D) ₹27,00,000

(ii) Cummins Ltd acquired a machine for ₹65 Lakhs on 1st July, 2022. It has a life of 5 years with a salvage value of ₹7 Lakhs. As on 31st March, 2025, if present value of future cash flows is ₹28 Lakhs and net selling price is ₹25 Lakhs, impairment loss will be
A) ₹5 Lakhs
B) ₹5.10 Lakhs
C) ₹7 Lakhs
D) ₹2 Lakhs

(iii) If total external Revenue reported by Operating Segments constitutes _______ of the Entity's Revenue, additional Operating Segments should be identified as Reportable Segments
A) Less than 75%
B) 75% or less
C) Less than 90%
D) 90% or less

(iv) Ind AS 113 establishes a fair value hierarchy that categorises into three levels of the inputs to valuation techniques for measuring fair value. The hierarchies are ________________.
A) inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
B) inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
C) inputs are unobservable inputs for the asset or liability.
D) All of the above

(v) Capital Employed is ₹255 Lakhs; Annual average profits are ₹57 Lakhs; Normal rate of return is 12%. The value of goodwill on the basis of Capitalization of super profits will be
A) ₹220 Lakhs
B) ₹475 Lakhs
C) ₹6.84 Lakhs
D) ₹26.40 Lakhs

(vi) All NBFCs-ND which have an asset size of ₹500 crore and above and all NBFCs-D shall maintain minimum Tier 1 Capital of _____.
A) 12%
B) 15%
C) 10%
D) 1%

(vii) On 01.04.2022 Gold Ltd. acquired 75% share of Coal Ltd. at Rs.10,80,000, when the fair value of its net assets was Rs.10,00,000. During 01.4.2024 to 31.3.2025 Coal Ltd. made TCI Rs. 2,00,000. On 31.3.2025 Gold Ltd. purchased 15% holding from outsiders at Rs.2,20,000. Compute NCI at Proportionate net asset value.
A) ₹1,80,000
B) ₹1,92,000
C) ₹2,46,000
D) ₹2,20,000

(viii) A Ltd. Acquires 80% of B Ltd. For ₹10,00,000 paid by equity at par. Fair Value (FV) of B's net assets at time of acquisition amounts ₹9,00,000. The value of goodwill based on NCI valued at proportionate fair value of identified net asset will be:
A) ₹3,00,000
B) ₹2,80,000
C) ₹4,50,000
D) ₹5,00,000

(ix) At what value is non-controlling interest recorded in the books of the Acquiree at the time of a business combination transaction under Ind AS 103?
A) It is recognised at fair value only
B) It is recognised at proportionate fair value of identified net assets only
C) It is not recognised at all
D) It is recognised either at fair value or at proportionate fair value of identified net assets

(x) Ind AS 103 states that the acquirer obtaining control over acquiree, recognises and measures in its consolidated financial statements at the acquisition date _________________
A) the identifiable assets acquired, the liabilities assumed at Fair Value
B) any non-controlling interest in the acquiree at Fair Value or at Proportionate Value
C) the goodwill acquired in the business combination or a gain on bargain purchase
D) All of these

(xi) ____________________requires that when consolidated financial statements are prepared the investor company shall also prepare individual/standalone financial statements, which are named as separate financial statements.
A) Ind AS 27
B) Ind AS 28
C) Ind AS 110
D) Ind AS 112

(xii) 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 these**

(xiii) External benefits of sustainability reporting can include
- **A) Mitigating – or reversing – negative environmental, social and governance impacts**
- **B) Improving reputation and brand loyalty**
- **C) Enhanced perception on organisation's value**
- **D) All of the above**

(xiv) A company required to furnish cost audit report and other documents to the Central Government under Section 148(6) of the Companies Act, 2013 and rules made thereunder, shall file such report and other documents using the XBRL taxonomy given in Annexure-III to the said Rule for the financial years on or after April 1, 2014 in e-Form ______ specified under the Companies (Cost Records and Audit) Rules, 2014.
- **A) CRA -1**
- **B) CRA-2**
- **C) CRA-3**
- **D) CRA-4**

(xv) The Financial Statements of the Union Government shall disclose the following details under 'Loans and Advances made by the Union Government' in the Annual Finance Accounts of the Union Government________________.
- **A) the summary of Loans and Advances showing loanee group-wise details**
- **B) the summary of Loans and Advances showing Sector-wise details**
- **C) the summary of repayments in arrears from Governments and other loanee entities**
- **D) All of the above Article 266(3)**

Q. No.	i	ii	iii	iv	v	vi	vii	viii	ix	x	xi	xii	xiii	xiv	xv
Ans	D	B	A	D	A	C	A	B	D	D	A	D	D	D	D

SECTION – B

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

[5 × 14 = 70]

2. (a) A Ltd. Purchased an aircraft at a price of ₹ 6,300 crores that requires major inspection and overhauling every 4 years. The estimated life of the aircraft is 15 years. The aircraft was purchased in 2015 and major inspection and overhauling made in 2019 at a cost of ₹ 100 crores. In 2020 A Ltd. Further incurred repair and maintenance in the engine to raise it capacity by 10% amounting to ₹ 70 crores. One worn out component in the wing was replaced in 2020 at a cost of ₹ 80 crores. The carrying amount of the old

component was ₹ 30 crores. Scrap realized ₹ 12 crores. Calculate the amount to be recognized as expense and as asset in 2019 and in 2020 and also show the carrying amount. The aircraft residual value is estimated at ₹ 300 crores. **[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 a ₹ 28,000. Calculate -

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

Answer:

(a) **(₹ in Crore)**

	Expense	Asset – Recognised	Asset – Carrying amount
In 2018 Depreciation ₹ (6,300 - 300)/15 Carrying amount	400		4,700 (6300 – 4×400)
In 2019 Depreciation = ₹ 400 + (₹100/4) Major Inspection overhauling Carrying amount [₹4,700 + ₹100 – ₹425]	425	100	4,375
In 2020			
Depreciation	425		
Repair & Maintenance (Capacity increase) Replacement		70 80	
Old component derecognized Loss on disposal of old component ₹ (30 – 12)	18	(30)	
Carrying amount (₹4,375 + ₹70 +₹80 –₹30 – ₹437)			4058

Notes :

1. Depreciation At straight line for 15 years useful life.
2. Major inspection and overhauling capitalized and depreciated at straight line for 4 years.

3. Repair & maintenance and replacement of old component depreciated at straight line for residual life i.e. 15–5=10 years.
4. Full depreciation is changed in the year it is recognized

(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 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. Calculate revenue recognition in 2022-23 and in 2023-24. [7]

(b) 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 value of goodwill on the basis of annuity of super profit. [7]

Answer:

(a)

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

Goods ₹ 4000 less 10% ordinary discount	₹ 3,600
Discount Vouchers	₹ 480
Total	₹ 4080

[Value of vouchers = Discount in excess of ordinary rate of 10%× estimated Purchase amount × probability of purchase = (50 – 10)% × 2000 × 60% = 480]

Transaction price is ₹ 3600 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 × (₹3600/ ₹4080)	= ₹3,176
Allocation to Discount Voucher	₹3,600 × (480/4080)	= ₹ 424

Thus in 2022-23 Revenue is recognised for ₹ 3176 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

(b) Super Profit = Average Future Maintainable Profit – Normal Profit

= Average Future Maintainable Profit – (Average Capital Employed X Normal rate of return)

= ₹ 7,00,000 – (₹ 55,00,000 × 10%)

= ₹ 1,50,000

Value of goodwill = Super profit × P.V of Annuity of ₹ 1for 4 years @ 10%

= ₹ 1,50,000 × 3.1699 = ₹ 4,75,485

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

Particulars	₹ in Lakhs	Particulars	₹ in 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 March 31, 2025, A Ltd and B Ltd. were amalgamated into C Ltd., control of the businesses lying with the same parties as before. C Ltd. issued 80,000 equity shares to A Ltd. and 75,000 equity shares to B Ltd. at the nominal value of ₹10 per share. The book value of A Ltd.'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 A Ltd. was assessed at ₹ 16,00,000. The book value of B Ltd.'s net assets was ₹ 10,00,000, Equity share capital ₹ 4,00,000 and Other Equity ₹ 6,00,000 on March 31. The fair value of net assets of B Ltd. was assessed at ₹ 15,00,000.

Show journal entries complying Ind AS. [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: Percentage of provision for Standard Asset is 0.25 as per Non-Banking Financial Company - Non Systemically Important Non-Deposit taking Company

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

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

Workings :

Consideration to A Ltd.	80,000 × ₹10	₹ 8,00,000
Consideration to B Ltd.	75,000 ×₹10	₹ 7,50,000
Total Consideration		₹ 15,50,000
Other Equity of A Ltd. and B Ltd.	₹7,00,000 + ₹6,00,000	₹ 13,00,000
Total Net assets	₹12,00,000 + ₹10,00,000	₹ 22,00,000
Goodwill	₹15,50,000 + ₹9,00,000	₹ 6,50,000

Journal in books of C Ltd. **Dr.** **Cr.**

Particulars		**(₹)**	**(₹)**
Net Assets of A Ltd.A/c	Dr.	12,00,000	
Net Assets of B Ltd.A/c	Dr.	10,00,000	
Goodwill A/c	Dr.	6,50,000	
To, Consideration A/c (₹8,00,000 + ₹7,50,000)			15,50,000
To, Other Equity A/c (₹7,00,000 + ₹6,00,000)			13,00,000

Consideration A/c	Dr.	15,50,000	
To, Equity Share Capital A/c			15,50,000

5. On 01.04.2021 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**	**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 the basis 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 both the companies and re-draft the balance sheet of Planet Ltd. after the business combination. [14]

Answer:

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

	(₹)	**(₹)**
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.
01.04.2021	Property, Plant and Equipment	Dr.	10,000	
	Investment Property	Dr.	4,000	
	Investments	Dr.	4,000	
	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	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 of equity and liabilities		43,000

Journal (₹'000)

Date	Particulars		(₹)	(₹)
	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 To,			1,000
	Current Assets A/c			3,500
	Equity Shares in Planet Ltd.	Dr.	16,800	
	Borrowings	Dr.	2,000	
	Trade Payables	Dr..	2,500	
	To, Realisation A/c			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

6. D Co. Ltd acquired 60% shares of G Co. Ltd. on 1st October 2023. The Retained Earnings balance of G on 01.04.2023 was ₹ 5,000. G declared dividend for 2023-2024 ₹ 6,000 (accounted in books of G but not accounted in books of D).

The abstracts from balance sheets of D and G as at 31.03.2024 are: (Amount in ₹)

Particulars	D	G
PPE	**60,000**	**30,000**
Investments: Shares in G	**24,000**	
Current Assets	**20,000**	**16,000**
Total Assets	**1,04,000**	**46,000**
Equity Shares	**50,000**	**25,000**
Other Equity (Retained Earnings)	**25,000**	**11,000**
Current Liabilities	**29,000**	**10,000**
Total of Equity and Liabilities	**1,04,000**	**46,000**

Required: Prepare Separate and Consolidated Balance sheet as at 31.03.2024. [14]

Answer :

WN 1: Share of parent and NCI in subsidiary: Share of D = 60% NCI = 40%

WN 2: Pre-acquisition profits of G:

(Amount in ₹)

Particulars	(₹)	Pre (₹)	Post (₹)
Retained Earnings on 01.04.2023			5,000
Retained Earnings on 31.03.2024	11,000		
Add: dividend declared	6,000		
Earnings before dividend	17,000		
Less: Opening balance	5,000		
Profits during the year	12,000	6,000	6,000

		11,000	6,000

Acquisition being made in the mid of the year profits during the year is divided equally between Pre and Post. Share of NCI in post-acquisition profits = ₹6,000×40% = ₹2,400

WN 3 : FV of net assets identified as at 01.10.2024 :

Particulars	**(₹)**
Equity Shares	25,000
Pre-acquisition Profits	11,000
Book Value of Net Assets as at 01.10.2024	26,000
It is assumed that Fair value is same as Book value.	
Thus, fair value of Net Assets identified = ₹36,000	
WN 4: Goodwill:	
Purchase consideration (investment)	24,000
NCI (FV) at acquisition (40/60) × ₹24,000	16,000
Total	40,000
Less: Net Assets identified (WN 3)	36,000
Goodwill	4,000
WN 5: NCI at acquisition	16,000
Add: share of Post-acquisition profit 40% × ₹6,000	2,400 (WN 2)
Less: Dividends payable to NCI 40% × ₹6,000	2,400 (to be shown as current liability)
NCI at reporting date	16,000
WN 6: Consolidated other equity:	
Other equity of D	25,000
Share of post-acquisition profit of G (60% × ₹6,000)	3,600

Consolidated Balance Sheet as at 31.03.2024

Assets	**Separate**	**Consolidated**	
Non-current Assets			
PPE	60,000	60,000 + 30,000	90,000
Investment (24000-1800)	22,200		
Goodwill (WN 4)			4,000
Current Assets (20000+3600)	23600	20,000 + 16,000	36,000
Total	**1,05,800**		**1,30,000**
Equity and Liabilities			
Equity			

Equity Share Capital	50,000		50,000
Consolidated Other Equity (WN 6)	26,800		28,600
NCI (WN 5)			16,000
Current Liabilities (WN 7)	29,000	29000 + 6400	35,400
Total	1,05,800		1,30,000

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

Particulars	(₹ in'000)
Turnover	**4,600**
Plant and machinery	**2,160**
Net 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. **[7]**

(b) Explain XBRL and enumerate the benefits of XBRL? **[7]**

Answer:

(a) **Value Added Statement**

For the year ended on 31.08.2024

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		
Retained profit for the year	400	
	576	976
Loss on sale of machinery		150
Total Disposal of Added Value		2,830

(b) XBRL, or eXtensible Business Reporting Language, is an open, internet-based standard for digitally reporting business and financial information. It uses XML to tag data, making it understandable to both humans and machines, which automates and improves the accuracy, efficiency, and accessibility of financial reports. Benefits include cost reduction, improved data accuracy and reliability, enhanced transparency, and greater global comparability of data.

Benefits of XBRL

- **Cost reduction:** XBRL automates manual processes like data re-entry, reducing the costs associated with preparing and processing financial information.
- **Improved accuracy and reliability:** Automation and the ability to programmatically validate data reduce the risk of errors that occur in manual data handling.
- **Increased efficiency:** XBRL streamlines the preparation, analysis, and communication of business information, making it faster and more efficient.
- **Enhanced transparency:** By tagging every data point, XBRL makes financial disclosures more transparent and allows for easier access and comparison of data across different companies and regions.
- **Global comparability:** It provides a standardized format for data, which allows for easier and more reliable global analysis, benchmarking, and consolidation from various source systems.
- **Automation of analysis:** Software can process and analyze XBRL data, allowing users to focus on analysis rather than data compilation and re-entry.
- **Supports automated validation:** XBRL allows for the creation of business rules to constrain and validate what can be reported, leading to more consistent and higher-quality data.

8. (a) Discuss the objectives of Government Accounting. [5]

(b) Explain the features of Government Accounting. [5]

(c) Company P Ltd. (a listed company) acquires 20% shares (entitling 20% voting power and significant influence) in company Q Ltd. on 1.4.2023 at a cost of ₹ 46,000, paid by cash. During the financial year 2023-2024, Q made profits of ₹ 20,000 and other comprehensive income of ₹ 10,000.

I. Whether for the investment in shares of Q, P requires preparation of consolidated financial statements and separate financial statements?

II. Pass the journal entries in books of P at the time of acquisition.

III. **Show the relevant accounting treatment at the end of the year in (i) consolidated and (ii) separate financial statements of P. [4]**

Answer:

(a) The objectives of government accounting are the financial administration of the activities of the government to promote maximisation of welfare in the form of various services. The specific objectives can be stated as under:

- To record financial transactions of revenues and expenditure relating to the government organizations.
- To provide reliable financial data and information about the operation of public fund.

- To record the expenditures as per the appropriate Act, Rules, and legal provisions as set by the government.
- To avoid the excess expenditures beyond the limit of the budget approved by the government.
- To help in the preparation of various financial statements and reports.
- To facilitate the auditing by the concerned government department.
- To prevent misappropriation of government properties by maintaining the systematic records of cash and store items.
- To facilitate for estimating the annual budget by providing historical financial data of government and expenditures.

(b) Government Accounting is a unique application area which has certain characteristics of its own. Some of the main features of Government Accounting are discussed as under:

- Specific system of accounting: It is a specific accounting system which is followed by government in its departments, offices and institutions.
- Reporting of utilisation of public funds: The government and its institutions are public institution whose main objective is to provide services to the society and also to maintain law and order in the country. So, the accounting system used by such institutions has to reveal how public funds and properties have been used for that purpose. It is to be noted that government accounting is not done for revealing any profit and loss.
- Government Regulations: Government accounting is maintained according to government rules and regulations. The financial policies, rules and regulations as determined from time to time provide the system of government accounting.
- Double Entry System: Government accounting is based on the principles and assumptions of double entry system of book keeping system. Accordingly, every financial transactionentered into by a government/ government office/ institution are recorded showing their double effects. It implies that for each government financial transaction one aspect of the transaction is debited and the other aspect is credited.
- Budget Heads: All the expenses of government offices are classified into different budget heads and expenditures are made only on approved budget heads.
- Budgetary Regulation: Government expenditures are governed by budgetary regulations. In other words, no government office can make expenditure more than the amount allocated in the budget. Thus, in effect, government accounting gets regulated by the budget.
- Mode of Transaction: All government transactions are supposed to be performed through banks.
- Fund-based Accounting: Apeculiar characteristic of governmental accounting is the employment of separate funds. The government is engaged in an ever-growing number of operations and activities which are quite unrelated to each other. The particular sources of revenue or income often are dedicated to use for a particular phase of the government's operations. The accounts must segregate these specially dedicated resources and isolate them from all other transactions in a separate "fund."
- Auditing: The audit the books of accounts maintained by government departments, offices or institutions are to be audited by a recognised department of the government so as to ensure proper governance and

also to prevent misuse and misappropriation of public funds

(c) (i) P Ltd. requires preparation of consolidated financial statements because it has investment in Associate Q Ltd. Ind AS 28 requires that accounting for investment in associate and in joint venture should be made under equity method in the consolidated financial statement. Q is an Associate because P has significant influence in Q by virtue of its 20% voting power through holding of 20% shares in Q

Ind AS 28 also requires P the investor company to prepare separate financial statement as per Ind AS 27

(ii) **Journal**

Particulars		Dr. (₹)	Cr. (₹)
Investment A/c	Dr.	46,000	
To, Cash A/c			46,000

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

(a) 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.

(b) 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.