Paper 17- Corporate Financial Reporting

Paper 17- Corporate Financial Reporting

Full Marks : 100 **Time allowed: 3 hours**

Section – A

Answer the following questions.

1. **Choose the most appropriate answer from the four alternatives given: (1 Mark for right choice & 1 Mark for justification): [2x10=20]**

(i) C Ltd. offers shares to its employees as bonus for meeting a target. It is a —

A. share based payment transaction
B. equity settled transaction
C. cash settled transaction
D. Both A and B

Answer:

D — Both A and B

It is equity settled share based payment transaction as C issues its own shares against receiving of services from the employees.

(ii) On January 2, 2017 Abir Ltd. bought a trademark from Rang Ltd. for ₹ 7,50,000. Abir Ltd. retained an independent consultant, who estimated the trademark's remaining life to be 20 years. Its unamortised cost on Rang Ltd. accounting records was ₹ 5,70,000. Abir Ltd. decided to amortize the trademark over the maximum period allowed. In Abir's December 31, 2017 balance sheet, what amount should be reported as accumulated amortization?

A. ₹ 50,000
B. ₹ 1,90,000
C. ₹ 18,000
D. ₹ 75,000

Answer:

D — ₹75,000.

As per AS-26 , intangible assets should be measured initially at cost therefore, Abir Ltd. should amortize the trademark at its cost of ₹ 7,50,000. The unamortised cost on the seller's books (₹5,70,000) is irrelevant to the buyer. Although the trademark has a remaining useful life of 20 years, intangible assets are generally amortized over a maximum period of 10 years per AS-26 . Therefore, the 2017 amortization expense and accumulated amortization is 75,000 (₹ 7,50,000 ÷ 10 years).

(iii) Aman Ltd. acquired 3,000 equity shares of Ayan Ltd. on April, 01,2015 for a price of ₹ 4,50,000. Ayan Ltd. made a net profit of ₹ 1,20,000 during the year 2015-16. Ayan Ltd. issued bonus shares of one share for every five shares held out of the post acquisition profits earned during the year 2015-16. The Share Capital of Ayan Ltd. is ₹ 3,75,000 consisting of shares of ₹ 100 each. If the share of Aman Ltd. in the pre-acquisition profit of Ayan Ltd. is ₹ 84,000, the amount of Goodwill/Capital Reserve to be shown in the Consolidated Balance Sheet as on March 31, 2015 is —

A. ₹ 6,000 (Goodwill)

B. ₹ 6,000 (Capital Reserve)
C. ₹ 66,000 (Goodwill)
D. ₹ 75,000 (Goodwill)

Answer:

A — ₹ 6,000 (Goodwill) .

Cost of investments	₹ 4,50,000
Less: Share of capital profit	₹ 84,000
	3,66,000
Face value of shares (including bonus shares of 400)	₹3,60,000
Cost of control-Goodwill	₹ 6,000

(iv) Tulip Ltd. holds 25% share in Lotus Ltd. at a cost of ₹ 7.50 lakhs as on 31.3.2016 out of Lotus's Share Capital and Reserve of ₹ 30 lakhs each. For the year ended 31.3.2017, Lotus Ltd. made a profit of ₹ 2,40,000 and 30% of it was distributed as dividend.

In the Consolidated Financial Statement, the carrying amount of investment as at 31.3.2017 will be —

A. ₹ 15.00 lakhs
B. ₹ 15.60 lakhs
C. ₹ 15.42 lakhs
D. ₹ 14.82 lakhs

Answer:

C — ₹ 15.42 lakhs

Particulars	₹ in lakhs
Share in Lotus Ltd.	7.50
Share of Reserve (25% of ₹ 30 Lakh)	7.50
Share of Profit (25% of ₹ 2.40 Lakh)	0.60
	15.60
Less: Dividend (2.40 Lakh x 30% x 25%)	0.18
Carrying amount of investments in Consolidated financial statements.	15.42

(v) From the following information determine the amount of unrealized profit to be eliminated. Thank You Ltd. holds 80% Equity shares of Wel Come Ltd.

— Thank You Ltd. sold goods costing ₹80,00,000 to Wel Come Ltd. at a profit of 25% on Cost Price. Entire stock were lying unsold as on the date of Balance Sheet.

A. ₹20,00,000
B. ₹80,00,000
C. ₹64,00,000
D. None of the above

Answer: — A. ₹20,00,000

Transaction	Sale by Om Ltd. to Shanti Ltd. [Holding $\longrightarrow$ Subsidiary]
Nature of Transfer	**Downstream Transaction**
Profit on Transfer	Cost ₹80,00,000 × Profit on Cost i.e. 25% = ₹20,00,000

% of Stock included in Closing Stock	100%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 20,00,000 × 100% = ₹20,00,000

(vi) FICKLE LTD. has five business segments with operating profits and losses as shown below:

Segment	Operating Profit / (loss) ₹ in Lakhs
P	**3**
Q	**(3)**
R	**20**
X	**(9)**
Y	**(20)**

Reportable segments as per AS-17 are

A. P,Q,R,X,Y
B. P,Q,R,Y
C. P, Q, R only
D. R, X, Y only

Answer: — D. R,X,Y only.

As per of AS-17 "Segment Reporting" a Business Segment or Geographical Segment should be identified as a reportable segment if : Its segment result, whether profit or loss is 10% or more of

i) the combined result of all segments in profit;
ii) the combined result of all segments in loss, whichever is greater, i.e. absolute amount.

Absolute profits = (3+20) Lakh = 23 Lakh Absolute Losses = (3+9+20) Lakh = 32 Lakh Greater of these two absolute amounts are losses of ₹32 lakhs 10% of ₹ 32 = ₹ 3.20 Lakh Reportable Segments are R, X, Y.

(vii) How would you value the inventory per Kg. of finished goods consisted of :

Particulars	
Material Cost	**₹100 per Kg.**
Direct Labour Cost	**₹20 per Kg.**
Direct variable production overhead	**₹10 per Kg.**

Fixed production charges for the year on normal capacity of 1 lakhs kgs. Is ₹10 lakhs 2500 Kgs of finished goods are on stock at the year end.
Value of inventory per Kg. of finished goods —

A. ₹2,80,000
B. ₹3,50,000
C. ₹3,25,000
D. None of the above

Answer: — A. ₹3,50,000

Computation of Cost per Kg. of finished goods :

Particulars	₹	₹
Material Cost		100
Direct labour Cost	20	
Direct variable production overhead	10	
Fixed production overhead (₹10,00,000/1,00,000)	10	40
		140

Thus, the value of 2500 kgs of finished goods on stock at the year-end will be ₹3,50,000 (2,500 kgs × ₹140)

(viii) The following data apply to a company's defined benefit pension plan for the year:

	Amount (₹)
Fair market value of plan assets (beginning of year)	**2,00,000**
Fair market value of plan assets	**3,85,000**
Employer Contribution	**70,000**
Benefit Paid	**50,000**

Calculate the actual return on plan assets.

A. ₹3,85,000
B. ₹1,65,000
C. ₹2,00,000
D. None of the above

Answer:—B: ₹1,65,000.

The actual return is computed as follows:

Particulars	**Amount (₹)**	**Amount (₹)**
Fair market value of plan assets (end of year)		3,85,000
Fair market value of plan assets (beginning of year)		2,00,000
Change in plan assets		1,85,000
Adjusted for		
Employer contributions	70,000	
Less: Benefit Paid	50,000	20,000
Actual return on plan assets		1,65,000

(ix) BB Ltd. obtained a Loan from a bank for ₹ 480 lakhs on 30.04.2015. It was utilized for : Construction of a shed ₹ 200 lakhs, Purchase of a machinery ₹ 160 lakhs, Working Capital ₹ 80 lakhs, Advance for purchase of truck ₹ 40 lakhs, Construction of shed was completed in March 2016. The machinery was installed on the same date. Delivery truck was not received. Total interest charged by the bank for the year ending 31.03.2016 was ₹ 72 lakhs. As per AS 16, Interest to be debited to Profit & Loss account will be :

A. ₹ 42 lakhs;
B. ₹ 40.50 lakhs;
C. ₹ 30 lakhs;
D. None of the above.

Answer: A — ₹42 lakhs.

Qualifying Asset as per AS-16 = ₹ 200 lakhs (construction of a shed).
Borrowing cost to be capitalized = 72 × 200/480 = ₹30.00 lakhs

Interest to be debited to Profit or Loss account = ₹ (72 – 30) lakhs
= ₹ 42 lakhs.

(x) On 1st April, 2015 Good Morning Ltd. offered 100 shares to each of its 500 employees at ₹50 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan (ESPP) shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant dated is ₹60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹56 per share.
On 30th April, 2015, 400 employees accepted the offer and paid ₹30 per share purchased. Normal value of each share is ₹10.
Compute the expenses to be recognized in 2014-2015.

A. ₹6.00
B. ₹2,40,000
C. ₹56
D. ₹50

Answer: — B. ₹2,40,000

Fair value of an ESPP = ₹56-₹50= ₹6.00
Number of shares issued = 400 employees X 100 shares / employee = 40,000 shares
Fair value of ESPP which will be recognized as expenses in the year 2014-2015
= 40,000 shares X ₹ 6 = ₹2,40,000
Vesting period = 1 month
Expenses recognized in 2014-2015 = ₹ 2,40,000

Section – B
Answer any five questions out of seven questions.

[16x5=80]

2. (a) (i) State how you will deal with the following matter in the accounts of Uttara Ltd. For the year ended 31 st March, 2018 with reference to Ind AS-8, "The Company finds that the stock sheets of 31.03.2017 did not include two pages containing details of inventory worth ₹17.8 lakhs." [4]

Answer:

As per Ind AS 8, an item of expenses or income arises in current period as a result of omission or commission in the preparation of financial statements of one or more prior period is a prior period error.

In this case, stock sheet of 31.03.2017 (prior year) did not include two pages containing details of inventory worth ₹17.8 lakhs which is the omission and this omission was detected in current period *ie*. 31.3.2018.

Therefore, this prior period error should be corrected retrospectively by restating the closing inventory of 2017 consequently the profit of 2017 is to be restated.

(ii) An entity has Opening Bank Balance in Foreign Currency aggregating to US$ 300 (equivalent to ₹21,000). The Entity also reported a Profit before Tax which included ₹300 on account of Exchange Gain on the Bank Balance in Foreign Currency. What would be the closing Cash and Cash Equivalents as per the Balance Sheet (assuming no other transaction)? [Ind AS 7] [5]

Answer:

Particulars	₹	₹
A. Cash Flows from Operating Activities		
Net Profit before taxation	300	

	Adjustments for: Unrealised Exchange Gain	(300)	NIL
B.	Cash Flows from Investing Activities		NIL
C.	Cash Flows from Financing Activities		NIL
D.	Net increase/(Decrease) in Cash & Cash Equivalents (A+B+C)		NIL
E.	Cash & Cash Equivalents at the beginning of the period		21,000
F.	Cash & Cash Equivalents at the end of the period (D+E)		21,000

Particulars	₹
Cash and Cash Equivalents as per Statement of Cash Flows	21,000
Add: Unrealised Gain on Cash and Cash Equivalents	300
Cash and Cash Equivalents as per the Balance Sheet	21,300

(b) Discuss disclosure requirement as per AS 11. **[7]**

Answer:

As per AS 11 An enterprise should disclose:

(a) the amount of exchange differences included in the net profit or loss for the period; and
(b) net exchange differences accumulated in foreign currency translation reserve as a separate component of shareholders' funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

When the reporting currency is different from the currency of the country in which the enterprise is domiciled, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should also be disclosed.

When there is a change in the classification of a significant foreign operation, an enterprise should disclose:
(a) the nature of the change in classification;
(b) the reason for the change;
(c) the impact of the change in classification on shareholders' funds; and
(d) the impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.

The effect on foreign currency monetary items or on the financial statements of a foreign operation of a change in exchange rates occurring after the balance sheet date is disclosed in accordance with AS 4, Contingencies and Events Occurring After the Balance Sheet Date.
Disclosure is also encouraged of an enterprise's foreign currency risk management policy

3.(a)

Cost of asset	**₹112 akhs**
Useful life period	**10 years**
Salvage value	**Nil**
Current carrying value	**₹54.60 lakhs**
Useful life remaining	**3 years**
Recoverable amount	**₹24 lakhs**
Upward revaluation done in last year	**₹28 lakhs**

From the information

(i) Find out impairment loss

(ii) Treatment of impairment loss

(iii) Current year depreciation **[7]**

Answer:

According AS 28 "Impairment of Assets", an impairment loss on a revalued asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

Impairment Loss and its treatment	₹
Current carrying amount (including revaluation amount of ₹28 lakhs)	54,60,000
Less: Current recoverable amount	24,00,000
Impairment Loss	30,60,000
Impairment loss charged to revaluation reserve	28,00,000
Impairment loss charged to profit and loss account	2,60,000

As per AS 28, "after the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life."

In the given case, the carrying amount of the asset will be reduced to ₹24,00,000 after impairment. This amount is required to be depreciated over remaining useful life of 3 years (including current year). Therefore, the depreciation for the current year will be ₹8,00,000.

(b) Pipli University has received the following Grants during a yeas —

(i) From Ministry of Human Resources to be used for AIDS research — ₹45,00,000, which includes ₹3,00,000 to cover Indirect Expenses incurred in administering the Grant.
(ii) From a Reputed Trust to be used to set up a Centre to conduct seminars on AIDS related matters from time to time — ₹35,00,000.

During the year, the University spent ₹32,25,000 of the Government Grant and incurred ₹3,00,000 as Overhead Expenses. ₹28,00,000 were spent from the grant received from the Trust. Show the necessary Journal Entries. **[9]**

Answer:

	Particulars		Dr. (₹)	Cr. (₹)
1	Bank A/c	Dr.	45,00,000	
	To, Government Grants A/c			45,00,000
	(Being Govt. Grant for AIDS Research received including ₹3 Lakhs for indirect expenses thereof)			
2	Bank A/c	Dr.	35,00,000	
	To, Grants from Trusts A/c			35,00,000
	(Being Grant received to set up a Centre to conduct seminars on AIDS related matters			
3	AIDS Related Expenses A/c	Dr.	35,25,000	
	Seminar/ Centre Related Expenses A/c	Dr.	28,00,000	

	To, Bank A/c		63,25,000
	(Being AIDS /Grant related expenditure incurred including OH Expenses)		
4	Government Grant A/c Dr.	35,25,000	
	Grants from Trusts A/c Dr.	28,00,000	
	To, Profit & Loss A/c		63,25,000
	(Being Grants transferred to P&L Account to the extent of expenditure incurred thereto)		

Note: In the P&L A/c , the credit of ₹63,25,000 may be shown generally as other Income or specifically as " Grant Income". Alternatively, the expenses could be netted off against the Grants transferred to P&L A/c.

4. The following is the Balance Sheet of Winners Ltd as on 30th June-

Equity and Liabilities	₹
(1) Shareholders' Funds:	
(a) Share Capital – 20,000 Shares of ₹ 10 each	**2,00,000**
(b) Reserves & Surplus – General Reserve	**20,000**
(2) Non-Current Liabilities:	
Long Term Borrowings (i) 10% Debentures	**1,00,000**
(ii) Loan from bank	**40,000**
(3) Current Liabilities:	
Trade Payables – Sundry Creditors	**80,000**
Total	**4,40,000**
Assets	
(1) Non-Current Assets:	
(a) Fixed Assets: (i) Tangible Assets	
- Land & Building	**1,00,000**
- Plant & Machinery	**1,45,000**
(ii) Intangible Assets – Goodwill	**25,000**
(b) Other Non-Current Assets	
- Preliminary expenses	**16,000**
(2) Current Assets:	
(a) Inventories	**55,000**
(b) Trade Receivables	**65,000**
(c) Cash & Cash Equivalents	**34,000**
Total	**4,40,000**

The balance of Winners Ltd is taken over by Superb Ltd as on that date on the following terms:

(i) All Assets except Cash and Bank are taken over at Book Value less 10% subject to (b) below.
(ii) Goodwill is to be valued at 4 years' Purchase of the excess of average (five years) Profits over 8% of the combined account of Share Capital and General Reserve.
(iii) Trade Creditors are to be taken over subject to a discount of 5%.
(iv) Loan from Bank is to be repaid by Winners Ltd.
(v) The Purchase Consideration is to be discharged in Cash to the extent of ₹ 1,50,000 and the balance is fully paid Equity Shares of ₹ 10 each valued at ₹ 12.50 per share.

The average of the five years profit is ₹ 30,100. The expenses of Liquidation amount to ₹ 2,000.

Show the:

A. **Realisation Account, Bank Account, Sundry Shareholders Account and Shares in Winner Ltd and**
B. **Journal Entries in the books of Superb Ltd.** **[16]**

Answer:

1. Basic Information

Selling Co: Winners Ltd	Date of B/S: 30th June	Nature of Amalgamation:
Buying Co: Superb Ltd	Date of Amalgm: 30th June	Purchase (since the Assets are not taken over at Book Value & Purchase consideration discharged is by other than shares)

2. Purchase Consideration

	Particulars		₹
1.	Calculation of Goodwill	Average of 5 years Profit (given)	30,100
	Less:	Normal Profit 8% of Capital + Reserves i.e., ₹ 2,20,000	17,600
		Super Profit	12,500
		Goodwill at 4 years purchase 12,500 × 4	50,000
2.	Calculation of purchase consideration		
	Assets taken over -	Land & Building	1,00,000
		Plant & Machinery	1,45,000
		Stock	55,000
		Debtors	65,000
		Total Assets Taken Over	3,65,000
	Less:	Allowance at 10% of Assets Value	36,500
		Balance Assets Value	3,28,500
	Add:	Goodwill as calculated above	50,000
		Total value of Assets taken over	3,78,500
	Less:	Sundry Creditors less 5% discount =(80,000–5% thereon)	76,000
		Net Purchase Consideration	3,02,500
3.	Discharge of Purchase Consideration: (a) Payable in cash		1,50,000
	(b) Given in Shares – 12,200 Shares of ₹ 10 each valued at ₹ 12.50 per share		1,52,500

3. In the Books of Winners Ltd.
(a) Realisation Account

Particulars	₹	**Particulars**	₹
To Sundry Assets transferred: Goodwill	25,000	By Sundry Creditors	80,000
Land & Building	1,00,000	By Superb Ltd. – Purc. Consideration	3,02,500
Plant & Machinery	1,45,000	By Sundry Shareholders A/c (Loss)	9,500
Stock	55,000		
Debtors	65,000		
To Bank (Expenses)	2,000		
Total	3,92,000	Total	3,92,000

(b) Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	34,000	By Realisation A/c – Expenses	2,000
To Superb Ltd. – amount paid	1,50,000	By 10% Debentures	1,00,000
		By Loan from Bank	40,000
		By Sundry Shareholders	42,000
Total	1,84,000	Total	1,84,000

(c) Sundry Shareholders Account

Particulars	₹	Particulars	₹
To Preliminary Expenses	16,000	By Share Capital	2,00,000
To Loss-on Realisation	9,500	By General Reserve	20,000
To Bank	42,000		
To Shares in Superb Ltd.	1,52,500		
Total	2,20,000	Total	2,20,000

(d) Shares in Superb Ltd. Account

Particulars	₹	Particulars	₹
To Superb Ltd.	1,52,500	By Sundry Shareholders (transfer)	1,52,500

5.(a) The draft consolidated data of A Ltd., and its 100% subsidiary B Ltd. and also information of C Ltd. relating for the year ended 31st March, 2017 is given below:

DRAFT BALANCE SHEET **(₹ in thousand)**

	CBS of A Ltd. and its 100% Subsidiary B Ltd.	C Ltd.
Issued ordinary share capital	2,000	1,000
Reserves	3,450	2,000
Debentures	2,000	1,500
Current liabilities	4,550	2,500
Total	12,000	7,000
Fixed assets (net)	6,500	4,000
Investment in C Ltd. at cost	2,000	-
Current assets	3,500	3,000
Total	12,000	7,000

PROFIT AND LOSS ACCOUNT (DRAFT)

	A Ltd and its 100% Subsidiary B Ltd.	C Ltd.
Sales	2,000	1,000
Expenses	(900)	(500)
Trading profit before tax	1,100	500
Dividend from C Ltd.	100	—
Taxation	(600)	(200)
Profit after tax	600	300
Opening Balance	3,150	1,100
Dividends paid	(300)	(200)
Retained Profit	3,450	1,200

A Ltd. acquired 50% of the ordinary share capital of C Ltd. on 1st April, 2016 for ₹2,000 thousands when its reserves were ₹1,900 thousands.

You are required to prepare the 'Group' Profit and Loss account (draft) and Balance Sheet (draft) on three bases as follows:

A. When C Ltd. is treated as a subsidiary
B. When C Ltd. is treated as an investment

[6+4=10]

Answer:

When C Ltd. is treated as a subsidiary or an Investment company

	Particulars	Subsidiary	Investment
a.	Accounting Standard Applicable	21	13
b.	Method	Full Consolidation	Cost method
c.	Date of Acquisition	1st April 2016	1st April 2014
d.	Shareholding	A Ltd -50% Minority Int. - 50%	Not applicable
e.	Analysis of reserves	1) Opening balance 1,900 thousands pre-acquisition 2) Current year retained profit 100 thousands post-acquisition	Not applicable
f.	Apportionment of Profits 1) Pre-acquisition 2) Post-acquisition	1) A Ltd. - 950 thousand 2) Minority – 950 thousands 1)A Ltd.- 50 thousands 2) Minority - 50 thousands	Not applicable
g.	Outsider's interest	Minority Interest 1) Share capital - 500 thousands 2) Pre-acquisition - 950 thousands 3) Post acquisition - 50 thousands Total 1,500 thousands	
h.	Goodwill/Capital Reserve	1) Cost of Investment - 2,000 thousands 2) Share of Net Assets on the date of Investment - Share Capital 500 thousands - Capital Profits 950 thousands 1450 thousands 3) Goodwill (2,000-1,450) 550 thousands	Not applicable
I.	Inter Company Transactions 1) Inter Company Owings 2) Unrealised Profits	Eliminate in full Eliminate in full	Not applicable
J.	Reserves for CBS	*	Not applicable
k.	Carrying amount of Investment in CBS	Nil	2000 thousand

* Reserves for CBS

Draft Consolidate Profit and Loss Account
as at 31.03.2017

₹ in thousands

Particulars	Subsidiary	Investment
Sales	3,000	2,000
Expenses	(1,400)	(900)
Dividend	-	100
PBT	1,600	1,200
Tax	(800)	(600)

PAT	800	600
Share of profits from Associate	-	-
Opening Balance B/d	3,150	3,150
Dividend Paid	(300)	(300)
Share of Minority Interest	(150)	-
Balance carried forward to Balance Sheet	3,500	3,450

Draft Consolidated Balance Sheet
As at 31.03.2017 ₹ in thousands

	If Subsidiary	If Investment
Equity and Liabilities		
Share Capital	2,000	2,000
Reserves	3,500	3,450
Debentures	3,500	2,000
Current Liabilities	7,050	4,550
Minority Interest	1,500	-
Total	17,550	12,000
Assets		
Non-current assets		
Fixed Assets		
Tangible Assets	10,500	6,500
Intangible Assets	550	-
Investments	-	2,000
Current Assets	6,500	3,500
Total	17,550	12,000

(b) Mili Ltd purchased 100% share of its subsidiary Lily Ltd for ₹25,00,000 on 31st March 2015 when fair value of the Lily Ltd net asset was ₹20,00,000. It disposes of a 90% interest for ₹ 42,75,000 leaving the Mili Ltd with a 10% investment. At the date of disposal, the carrying value of net asset of Lily Ltd excluding goodwill is ₹40,00,000. The fair value of the remaining interest is ₹ 4,75,000 (assumed for simplicity to be pro rate to the fair value of the 90% sold). Calculate gain or loss on sale in Mili Ltd's separate financial statements as on 31st March 2018. [6]

Answer:

The parent Mili Ltd income statement in its **separate financial statement for 2018** would show a gain on the sale of the investment of ₹ 20,25,000 calculated as follows:

	₹
Sale proceeds	42,75,000
Less: Cost on investment in Lily Ltd (25,00,000 × 90%)	(22,50,000)
Gain on sale in the Mili Ltd. financial statement	20,25,000

6. (a) Fresh Ltd. announced a Stock Appreciation Right (SAR) on 01.04.2014 for each of its employees. The scheme gives the employees the right to claim cash payment equivalent to an excess of market price of company shares on exercise date over the exercise price of ₹125 per share in respect of 100 shares, subject to a condition of continuous employment of 3 years. The SAR is exercisable after 31.03.2017 but before 30.06.2017.

The fair value of SAR was ₹21 in 2014-15, ₹23 2015-16 and ₹24 in 2016-17. In 2014-15 the company estimated that 2% of its employees shall leave the company annually. This was revised to 3% in 2015-16. Actually 15 employees left the company in 2014-15, 10 left in 2015-16 and 8 left in 2016-17. The SAR therefore actually vested in 492 employees on 30.06.2017; when SAR was exercised the intrinsic value was ₹25 per share.
Show the provision for SAR account by fair value method. Is this provision a liability or equity? [8]

Answer:

Provision for SARs Account in the books of Fresh Ltd.

Dr.
Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
Year 2014-15	To Balance c/d	3,45,891	2014-15	By Employees' Compensation A/c	3,45,891
		3,45,891			3,45,891
2015-16	To Balance c/d	7,35,785	2015-16	By Balance b/d	3,45,891
				By Employees' Compensation A/c	3,89,894
		7,35,785			7,35,785
2016-17	To Balance c/d	11,80,800	2016-17	By Balance b/d	7,35,785
				By Employees' Compensation A/c	4,45,015
		11,80,800			11,80,800
	To Bank A/c	12,30,000		By Balance b/d	11,80,800
				By Employees' Compensation A/c	49,200
		12,30,000			12,30,000

Note: The Provision for Stock Appreciation Right (SARs) is a liability. Therefore SARs are settled through cash payment equivalent to an excess of market price of company's shares over the exercise price on exercise date.

Working Notes:

Year 2014-15

Number of employees to whom SARs were announced (492+15+10+8) = 525 employees
Number of SARs expected to vest = (525 × 0.98 × 0.98 × 0.98) × 100 = 49,413 SARs expected to lies years 2014-15 and 2015-16. It can also be worked out by rounding off the number of employees.
Fair value of SARs = 49,413 SARs × 21 = 10,37,673
Vesting period = 3 years
Value of SARs recognized as expense in year 2014-15 = 10,37,673/3 years = 3,45,891.

Year 2015-16

Number of SARs expected to vest
= [(525-15)×0.97×0.97]×100= 47,986 SARs
Fair value of SARs = 47,986 SARs × ₹23 = ₹11,03,678
Vesting period = 3 years
Number of years expired = 2 years
Cumulative value of SARs to be recognized as expense
= ₹11,03,678/3 × 2 = ₹7,35,785

Value of SARs recognized as expense in year 2015-16
= ₹7,35,785 - ₹3,45,891 = ₹3,89,894

Year 2016-17

Fair value of SARs = ₹24
SARs actually vested = 492 employees × 100 = 49,200 SARs
Fair value = 49,200 SARs × ₹24 = ₹11,80,800
Cumulative value of SARs to be recognized = ₹11,80,800
Value of SARs to be recognized as an expense in = ₹11,80,800 - ₹7,35,785
= ₹4,45,015

Year 2017-18

Cash payment of SARs = 49,200 SARs × ₹25 = ₹12,30,000
Value of SARs to be recognized as an expense in 2017-18
= ₹12,30,000 - ₹11,80,800 = ₹49,200

(b) On 31st March, 2017 the balance sheet of IQ Ltd. was as follows:

Equity and Liabilities	₹
(1) Shareholders' Funds:	
Share Capital Authorise and Issued 5,000 Equity Shares of ₹100 each fully paid	5,00,000
Reserves & Surplus – Profit and Loss A/c	1,03,000
(2) Current Liabilities:	
Trade Payables – Sundry Creditors	77,000
Other Current Liabilities (Bank Overdraft)	20,000
Short-term provisions	45,000
Total	7,45,000
Assets	
(2) Non-Current Assets:	
Fixed Assets: Tangible Assets	
- Land & Building	2,20,000
- Plant & Machinery	95,000
(2) Current Assets:	
Inventories	2,75,000
Trade Receivables	1,55,000
Total	7,45,000

The net profits of the company, after deducting all working charges and providing for depreciation and taxation, were as under:

Year ended 31st March	₹
2013	85,000
2014	96,000
2015	90,000
2016	1,00,000
2017	95,000

On 31st March,2017 , Land and Buildings were valued at ₹2,50,000 and Plant and Machinery ₹1,50,000.

In view of the nature of business, it is considered that 10% is a reasonable return on tangible

capital.

Compute the value of the company's shares after taking into account the received values of fixed assets and the valuation of goodwill based on five year's purchase of the super profit based on the average profit of the last five years. [8]

Answer:

Valuation of shares

Particulars	₹
Net tangible assets	6,88,000
Add: Goodwill	84,500
Net assets available to equity shareholders	7,72,500
Number of shares outstanding	5,000
Value per share	154.50

Net tangible assets or Net trading assets as on 31.03.2014

Particulars	₹	₹
A. Assets		
(i) Land and Buildings	2,50,000	
(ii) Plant and Machinery	1,50,000	
(iii) Stock	2,75,000	
(iv) Sundry Debtors	1,55,000	8,30,000
B. Less: Liabilities		
(i) Bank Overdraft	20,000	
(ii) Creditors	77,000	
(iii) Provision for taxation	45,000	(1,42,000)
C. Net Tangible Assets	**6,88,000**	

Future Maintainable Profit:

$$\text{Average profits of 5 years} = \frac{85,000 + 96,000 + 90,000 + 1,00,000 + 95,000}{5}$$

$$= \frac{4,66,000}{5} = ₹93,200$$

Valuation of Goodwill (Super Profit Method)

	Particulars	₹
A.	Capital Employed	6,88,000
B.	NRR	10%
C.	Normal profit	68,800
D.	Future maintainable profit	93,200
E.	Super profits (D – C)	24,400
F.	Number of years of purchase	5 years
G.	Goodwill (E – F)	1,22,000

7. (a) List the general principles of Government Accounting. [8]

Answer:

The general principles of government accounting are highlighted hereunder:

1. Classification of expenditures: The Government Expenditures are classified under

Sectors, major heads, minor heads, sub-heads and detailed heads of account. The method of budgeting and accounting under the service heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates.

2. Based on budget: government accounting is based on the annual budget of the government. In its budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the later. Similarly, in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts,
   Government determines:
   (a) whether it will be justified in curtailing or expanding its activities; and
   (b) whether it can and should increase or decrease taxation accordingly.

3. End products of government accounting: In the field of Government accounting, the end products are the monthly accounts and the annual accounts. The monthly accounts serve the needs of the day-to-day administration, while the annual accounts present a fair and correct view of the financial stewardship of the Government during the year.

4. Period of Accounts: The annual accounts of the central, state and union territory government shall record transactions, which take place during financial year running from 1st April to 31st March.

5. Cash basis of accounting: With the exception of such book adjustments as may be authorized by these rules on the advice of the Comptroller and Auditor General of India (C&AG),the transactions in government accounts shall represents the actual cash receipt and disbursement during a financial year.

6. Form of Accounts: The accounts of Government are kept in three parts namely, Consolidated Fund, Contingency Fund and Public Account.

(b) Discuss the functions of Comptroller and Auditor General in the case of grants or loans given to other authorities or bodies. [8]

Answer:

Where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any Union territory having a Legislative Assembly to any authority or body, not being a foreign State or international organisation, the Comptroller and Auditor-General shall scrutinise the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which such grants or loans were given. For this purpose the C&AG shall have right of access, after giving reasonable previous notice, to the books and accounts of that authority or body.

However, the President, the Governor of a State or the Administrator of a Union territory having a Legislative Assembly, as the case may be, may, where he is of opinion that it is necessary so to do in the public interest, by order, relieve the Comptroller and Auditor-General, after consultation with him, from making any such scrutiny in respect of anybody or authority receiving such grant or loan.

Except where he is authorised so to do by the President, the Governor of a State or the Administrator of Union territory having a Legislative Assembly, as the case may be, the

Comptroller and Auditor-General shall not have, while exercising the powers conferred on him by sub-section (1), right of access to the books and accounts of any corporation to which any such grant or loan as is referred to in subsection (1) is given if the law by or under which such corporation has been established provides for the audit of the accounts of such corporation by an agency other than the Comptroller and Auditor-General:

Moreover, such authorisation shall be made except after consultation with the Comptroller and Auditor General and except after giving the concerned corporation a reasonable opportunity of making representations with regard to the proposal to give to the Comptroller and Auditor-General right of access to its books and accounts.

8. Write short notes on *any four* of the following: [4x4=16]
(a) Meaning of XBRL;
(b) Objective of Ind AS 103;
(c) Objectives and Scopes of IGAS 3 – Loans and Advances Made by Government;
(d) Concept of Triple Bottom Line Reporting (TBLR);
(e) Investment Property.

Answer:

(a) Meaning of XBRL

XBRL is a language for the electronic communication of business and financial data which is revolutionising the business reporting around the world. The term XBRL includes four terminologies – Extensible, Business, Reporting and Language. These terms are briefly discussed hereunder:

(c) Extensible: This term implies that the user can extend the application of a particular business data beyond its original intended purpose. The major advantage in it is that the extended use can be determined even by the users and not just the ones who merely prepare the business data. This is achieved by adding tags which are both human and machine readable – describing what the data is.

(d) Business: This platform is relevant to any type of business transaction. It is to be noted that XBRL focus is on describing the financial statements for all kinds of entities.

(e) Reporting: The intention behind promoting the use of XBRL is to have all companies report their financial statements in a consolidated manner using the specified formats.

(f) Language: XBRL is based on 'eXtensible Markup Language' (XML). It is one of a family of "XML" languages which is becoming a standard means of communicating information between businesses and on the internet. It prescribes the manner in which the data can be "marked-up" or "tagged" to make it more meaningful to human readers as well as to computers-based system.

(b) Objective of Ind AS 103:

To improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

To accomplish that, this Ind AS establishes principles and requirements for how the acquirer:

(i) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

(ii) recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and

(iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

(c) Objectives and Scopes of IGAS 3 – Loans and Advances Made by Government

Objective:

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

Scope:

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

(d) Concept of Triple Bottom Line Reporting

Triple bottom line reporting (TBLR) expands the traditional reporting framework to take into account social and environmental performance in addition to financial performance. The concept of Triple bottom line reporting states that reporting should incorporate the social, environmental and financial performance of an organization.

TBL reporting refers to the publication of economic, environmental and social information in an integrated manner that reflects activities and outcomes across these three dimensions of a company's performance. Triple Bottom Line Reporting requires that organisations should be reporting on three different 'bottom lines' that are quite distinct, but related from one another. They are discussed hereunder:

- The first bottom line happens to be the bottom line of the "income statement" (which is the traditional measure of operating result).
- The second bottom line is that of anorganisation's "people account" (a measure in some shape or form of how socially responsible an organisation has been throughout its operations); and
- The third bottom line is that of the organisation's "planet account" (which measures how environmentally responsible the company has been).

Thus, only a company that produces a TBL reports is taking account of the full cost involved in doing business.

(e) Investment Property:

Investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise. For example, if a company purchases land or building not for its business use but for earning the rent by letting the land or building, the land or building is not fixed asset but it is an investment or even if building is not let out but held with the intention to earn capital appreciation, then it is an investment.

An investment property is accounted for in accordance with cost model as prescribed in Accounting Standard (AS) 10, Property, Plant and Equipment. The cost of any shares in a cooperative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.