Paper 17- Corporate Financial Reporting

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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) D Ltd. incurred costs to modify its building and to rearrange its production line. As a result, an overall reduction in production costs is expected. However, the modifications did not increase the building's market value, and the rearrangement did not extend the production line's life.
Should the building modification costs and the production line rearrangement costs be capitalized?

	Building modification costs	Production line rearrangement costs
A.	Yes	No
B.	Yes	Yes
C.	No	No
D.	No	Yes

Answer:

B — Yes,Yes.

As per AS-10, Only expenditure that increases the benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value. In this case future benefits from the existing asset appear to have increased beyond its previously assessed standard of performance as there is overall reduction in production cost which is expected. Therefore both the building modification and production line rearrangement contributed to the improved efficiency in the production process. Therefore, both costs should be capitalized and answer **B** is correct.

(ii) On 1-1-2016 Vivan Ltd. has 3,600 equity shares outstanding. On 31-5-2016, it issued 1,200 equity shares for cash (without bonus claim). On 1-11-2016 it bought back 600 equity shares. Calculate the weighted average number of shares as on 31-12-2016?
A. 4,200 shares
B. 5,400 shares
C. 4,800 shares
D. None of the above

Answer:

A — 4,200 shares.

Computation of weighted average number of shares as per AS-20 is as follows:

$$(3600 \times \frac{5}{12}) + (4800 \times \frac{5}{12}) + (4200 \times \frac{2}{12}) = 4,200 \text{ shares.}$$

(iii) Vamsi Ltd. presents interim financial report quarterly, earns ₹1,200 lakhs pre-tax profit in the first quarter ending 30.06.2016 but except to incur losses of ₹400 lakhs in each of the three remaining quarters. Which will result zero income during the financial year effective income-tax rate is expected to be 35%. Quarterly income – tax will be:

A. ₹105, ₹105, ₹105, ₹105

B. ₹420,0,0,0

C. ₹420, (₹140), (₹140), (₹140)

D. None of the above

Answer:

C. — ₹420, (₹140), (₹140), (₹140)

I Qtr	Tax expense to be reported	1,200×35% =₹420 Lakhs
II Qtr	Tax expense to be reported	400×35% =₹(-)140 Lakhs
III Qtr	Tax expense to be reported	400×35% =₹(-)140 Lakhs
IV Qtr	Tax expense to be reported	400×35% =₹(-)140 Lakhs

(iv) Best Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2017 at ₹ 1,000 lakh. As at that date value in use is ₹ 800 lakh. If the net selling price is ₹ 750 lakh, Impairment Loss of the asset as per AS-28 will be
A. ₹ 200 lakh
B. ₹ 1,000 lakh
C. ₹ 50 lakh
D. None of the above

Answer:

A — ₹200 lakh

Recoverable amount is higher of Value in use ₹800 lakh and net selling price ₹750 lakh.
Recoverable amount = ₹800 lakh.

Impairment loss is (₹1,000 - ₹800)Lakhs = ₹200 Lakhs

(v) The fair value of Plan assets of Upkar Ltd. at beginning and end of the year 2015-2016 were ₹ 6,00,000 and ₹ 8,55,000 respectively. The employer's contribution to the plan during the year was ₹ 2,10,000. If benefit payments to retirees were ₹ 1,50,000 what would be the actual return on plan assets?
A. ₹ 1,50,000 lakhs
B. ₹ 2,55,000 lakhs
C. ₹ 1,95,000 lakhs
D. Insufficient Information

Answer:

C — ₹ 1,95,000.

Actual Return = Fair value of assets (end of year) - Fair Value of assets (beginning of year) - Employer's contribution + benefit payments = (8,55,000 – 6,00,000 – 2,10,000 + 1,50,000) = ₹ 1,95,000.

(vi)

Super Profit (Computed) :	**₹ 9,00,000**
Normal rate of return :	**12%**
Present value of annuity of ₹1 for 4 years @ 12% :	**3.0374**

Value of Goodwill is —

A. ₹2,96,306

B. ₹1,08,000

C. ₹27,33,660
D. None of the above

Answer:

C. — ₹27,33,660

Value of goodwill = Super profit × P.V of Annuity of ₹ 1for 4 years @ 12% = ₹ 9,00,000 × 3.0374 = ₹ 27,33,660.

(vii) Viplab Ltd. acquires 100% of B Ltd. for ₹9,60,000. Fair Value (FV) of B's net assets at time of acquisition amounts ₹ 8,00,000. Calculate Goodwill as per Ind AS 103.
A. ₹9,60,000
B. ₹1,60,000
C. ₹17,60,000
D. ₹8,00,000

Answer:

C. — ₹1,60,000

Purchase consideration ₹ 9,60,000
FV of Net Assets ₹8,00,000

Goodwill = Consideration – Net Assets = ₹ (9,60,000– 8,00,000) = ₹1,60,000

(viii) X Ltd. holds 69% of Y Ltd., Y Ltd. holds 51% of W Ltd., Z Ltd. holds 49% of W. Ltd. As per AS 18, Related Parties are :

A. X Ltd., Y Ltd. & W Ltd;
B. X Ltd. & Z Ltd;
C. Y Ltd. & Z Ltd;
D. X Ltd. & Y Ltd. only.

Answer:

A — X Ltd., Y Ltd. & W Ltd.

X Ltd., YLtd. & W Ltd. are related to each other. Z Ltd. & W Ltd. are related to each other by virtue of Associate relationship. However, neither X Ltd. nor Y Ltd. is related to Z Ltd. and vice versa.

(ix) At the time of absorption of Akash Ltd. by Vikash Ltd., trade receivable of both companies shown in their Balance Sheets were ₹ 70 Lakhs and ₹ 36 Lakhs. On that date trade payable of Vikash Ltd. includes payable to Akash Ltd. ₹ 9 Lakhs. After absorption, the amount of trade receivables will be shown in the Vikash Ltd.'s Balance Sheet as
A. ₹ 70 Lakhs
B. ₹ 34 Lakhs
C. ₹ 97 Lakhs
D. None of the above

Answer:

C — ₹ 97 Lakhs

₹ 70 Lakhs + ₹ 36 Lakhs – ₹ 9 Lakhs = ₹ 97 Lakhs.

(x) While closing its books of accounts on 31st March 2017, a NBFC has ₹20,000 as Standard Assets. Calculate the amount of provision required on advances as on 31st March, 2017 as per the Non-Banking Financial Co.- Systemically Important Non-deposit taking Co. and Deposit taking Co. (reserve bank) Direction,2016.

A. ₹5,000
B. ₹7,000
C. ₹2,000
D. ₹70

Answer:

D — ₹70

Particulars	Loan (₹)	Provision (%)	Provision (₹)
Standard Assets	20,000	0.35	70

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

[16x5=80]

2. (a) (i) D Ltd. grants 10 share appreciation rights to Q, an employee, entitling him to receive cash payment for the increase in quoted price of D's shares from the exercise price of ₹ 500 per share after 3 years. How the transaction should be recognized if it is assumed for a) for his past service, b) for his service in future 3 years? [3]

Answer:

The transaction should be recognized as cash settled share based payment transaction.

a) For past service, the entity shall recognise immediately the services received and a liability to pay for them at fair value of the rights on the grant date.
b) For future service transaction will be recognized in the financial statements at fair value of the rights on the grant date proportionate to the period expired to total vesting period.

(ii) ZooZoo Ltd. Produces four joint products A,B, C and D from a joint process. It incurred ₹8,56,800. Allocate the Joint Costs with the following information:

Particulars	A	B	C	D
Quantity Produced (in'000s)	**10,000 kgs**	**12,000 kgs**	**14,000 kgs**	**16,000 kgs**
Sales Price per kg	**₹13**	**₹17**	**₹19**	**₹22**
Stock Quantity at the end of year	**1,625 kgs**	**400 kgs**	**Nil**	**1,550 kgs**

Also determine the value of Closing Stock in respect of the above products. [6]

Answer:

As per Ind AS – 2, costs of Joint Products should be apportioned on a rational and consistent basis. The Sales Value at Split Off Point may be used for apportionment in the given case.

Particulars	A	B	C	D
1. Production Quantity	10,000 kg	12,000 kg	14,000 kg	16,000 kg
2. Sale price per kg	₹13	₹17	₹19	₹22
3. Total Sale Vale (1×2)	₹1,30,000	₹2,04,000	₹2,66,000	₹3,52,000
4. Joint Costs apportioned (based on Sale Value) (bases on 3)	₹1,17,000	₹1,83,600	₹2,39,400	₹3,16,800

5. Average Joint Costs per kg (4÷1)	₹11.70	₹15.30	₹17.10	₹19.80
6. Closing Stock Quantity (given)	1,625 kg	400 kg	Nil	1,550 kg
7. Value of Closing Stock (5×6)	₹1,90,125	₹6,120	Nil	₹30,690

Note: It is presumed that the NRV of the products as at the Balance Sheet date, are higher than the respective costs.

(b) An amount of ₹9,90,000 was incurred on a contract work upto 31.03.2015. Certificates have been received to date to the value of ₹12,00,000 against which ₹10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹22,500. It is estimated that by spending an additional amount of ₹60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS – 7. [7]

Answer:

As per AS – 7 when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to stage of completion of the contract activity at the reporting date.

Thus, estimated profit amounting ₹1,88,580 should be recognised as revenue in the Statement of Profit and Loss.

Particulars	₹
Expenditure incurred upto 31.03.2015	9,90,000
Estimated additional expenses (including provision for contingency)	60,000
A. Estimated Cost	10,50,000
B. Contract Price	12,50,000
C. Total estimated profit [(A-B)]	2,00,000
D. Percentage of Completion (9,90,000/10,50,000)×100	94.29%
Computation of estimate of the profit to be taken to Profit and loss Account: = Total estimated profit × (Expenses incurred till 31.03.2015/ Total estimated cost) = 2,00,000 × (9,90,000/10,50,000) = ₹1,88,580.	

3. (a) Prasad Ltd. had the following borrowing during a year in respect of capital expansion.

Plant	Cost of Asset	Remarks
Plant A	**100 Lakhs**	**No specific Borrowings**
Plant B	**125 Lakhs**	**Bank loan of ₹ 65 Lakhs at 10%**
Plant C	**175 Lakhs**	**9% Debenture of ₹ 125 Lakhs were issued**

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (i) ₹ 100 lakhs at 10% from Corporation Bank and (ii) ₹ 110 lakhs at 11.5% from State Bank of India, to meet its capital expansion requirements. Determine the borrowing costs to be capitalized in each of the above plants, as per AS-16. [10]

Answer :

A. Computation of Actual Borrowing Costs incurred during the year:

Source	Loan Amount ₹ in Lakhs	Interest Rate	Interest Amount ₹ in Lakhs
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State Bank of India	110.00	11.5%	12.65
Total	400.00		40.40
Specific Borrowing included in above	190.00		17.75

B. Weighted Average Capitalization Rate for General Borrowings:

$$= \frac{\text{Total Interest - Interest on Specific Borrowing}}{\text{Total Borrowing - Specific Borrowing}} = \frac{(40.40-17.75)}{(400-190)} = 22.65 \div 210 = 10.79\%$$

C. Capitalization of Borrowing Costs under AS-16 will be as under:

Plant	Borrowing	Loan Amount ₹ in lakhs	Interest rate	Interest amount ₹ in lakhs	Cost of Asset	
					₹ in Lakhs	₹ in Lakhs
A	General	100	10.79%	10.79		110.79
B	Specific	65	10.00%	6.50	71.50	
	General	60	10.79%	6.47	66.47	137.97
C	Specific	125	9.00%	11.25	136.25	
	General	50	10.79%	5.39	55.39	191.64
	Total	400		40.40		440.40

(b) S Ltd. acquired a patent at a cost of ₹60 lacs for a period of 5 years and the product-life cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹10 lacs per annum. After two years it was found that the product life-cycle may continue for another 4 years from then. the net cash flows from the product during these 4 years were expected to be ₹45,00,000; ₹54,00,000; ₹58,50,000 and ₹63,00,000. Find out the amortization cost of the patent for each of the year. [6]

Answer:

As per AS-26, "Intangible Assets", the amortization method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise, if that pattern cannot be determined reliably, the straight line method should be used.

In the instant case, the pattern of economic benefit in the form of net cash flows is determined reliably after two years. In the initial two years, the pattern of economic benefits could not have been reliably estimated therefore amortization was done at straight-line method, i.e. ₹10 lacs per annum. However, after two years pattern of economic benefits for the next five years in the form of net cash flows is reliably estimated as under and therefore amortization will also be done as per the pattern of cash inflows:

Cash inflows (₹)	Amount of amortization in the next 4 years (₹)
49,50,000	[40,00,000 x 49,50,000/2,25,00,000] = 8,80,000
54,00,000	[40,00,000 x 54,00,000/2,25,00,000] = 9,60,000

58,50,000	[40,00,000 x 58,50,000/2,25,00,000] = 10,40,000
63,00,000	[40,00,000 x 63,00,000/2,25,00,000] = 11,20,000
2,25,00,000	**Balance of WDV = 40,00,000**

4. (a) The Balance Sheet (drafted) of X Ltd. before reconstruction is:

Liabilities	₹	Assets	₹
12,000 7% Preference shares of ₹ 50 each	6,00,000	Building at cost Less: Depreciation	4,00,000
7,500 Equity shares of ₹ 100 each	7,50,000	Plant at cost Less: Depreciation	2,68,000
		Trade Marks and Goodwill at Cost	3,18,000
(Note : Preference dividend is in arrear for five years)		Stock	4,00,000
		Debtors	3,28,000
Loan	5,73,000	Profit and Loss A/c	4,51,000
Sundry creditors	2,07,000		
Other liabilities	35,000		
Total	**21,65,000**	**Total**	**21,65,000**

Note: Loan is assumed to be of less than 12 months, hence treated as short term borrowings (ignoring interest)

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both classes of shareholders. A summary of the scheme is as follows:

a. **The Equity Shareholders have agreed that their ₹ 100 shares should be reduced to ₹ 5 by cancellation of ₹ 95 per share. They have also agreed to subscribe in each for the six new Equity Shares of ₹ 5 each for two Equity Share held.**

b. **The Preference Shareholders have agreed to cancel the arrears of dividends and to accept for each ₹50 share, 4 new 5% Preference Shares of ₹10 each, plus 3 new Equity Shares of ₹ 5 each, all credited as fully paid.**

c. **Lenders to the Company of ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹10 each and 6,000 new equity share of ₹ 5 each.**

d. **The Directors have agreed to subscribe in cash for 20,000, new Equity Shares of ₹ 5 each in addition to any shares to be subscribed by them under (a) above.**

e. **Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the Company.**

f. **The equity Share capital cancelled is to be applied:**
   i. **to write off the preliminary expenses;**
   ii. **to write off the debit balance in the Profit and Loss A/c ; and**
   iii. **to write off ₹ 35,000 from the value of Plant.**

Any balance remaining is to be used to write down the value of Trade Marks and Goodwill.

Show by journal entries and prepare the reconstruction account. [12]

Answer:

Particulars	Debit	Credit
1. Reduction of Equity capital		
Equity Share capital A/c (Face Value ₹ 100)	Dr. 7,50,000	
To Equity Share capital (Face value ₹ 5) A/c		37,500
To Reconstruction A/c		7,12,500
2. Right issue : (7,500 × 3 = 22,500 Shares)		
(a) Bank A/c	Dr.1,12,500	
To Equity Share Application A/c		1,12,500
(b) Equity Share Application A/c	Dr.1,12,500	
To Equity Share Capital A/c		1,12,500
3. Cancellation of arrears of preference dividend		
NO ENTRY (as it was not provided in the Books of Accounts)		
Note :		
(a) On cancellation, it ceases to be a contingent liability and hence no further disclosure		
(b) Preference shareholders have to forego voting rights presently enjoyed at par with equity share holders		
4. Conversion of preference shares		
7% Preference Share Capital A/c	Dr.6,00,000	
Reconstruction A/c (balancing figure)	Dr. 60,000	
To 5% Preference Share Capital (12,000×4×10)		4,80,000
To Equity Share Capital (12,000 × 3 × 5)		1,80,000
5. Conversion of Loan		
Loan A/c	Dr.1,50,000	
To 5% Preference Share Capital A/c		1,20,000
To Equity Share Capital A/c		30,000
6. Subscription by directors:		
(a) Bank A/c	Dr.1,00,000	
To Equity Share Application A/c		1,00,000
(b) Equity Share Application A/c	Dr.1,00,000	
To Equity Share Capital A/c		1,00,000
7. Repayment of loan		
Loan A/c	Dr. 2,00,000	
To Bank		2,00,000
8. Utilisation of reconstruction surplus		
Reconstruction A/c	Dr.6,52,500	
To Profit and Loss A/c		4,51,000
To Plant A/c		35,000
To Trademark and Goodwill A/c		1,66,500

Reconstruction Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Preference shareholders	60,000	By Equity Share capital (FV ₹ 50)	7,12,500
To Profit and Loss A/c	4,51,000		
To Plant A/c	35,000		
To Trademark and Goodwill	1,66,500		

	7,12,500	7,12,500

(b) On 1 January 20X5 Momo Ltd. acquires 80 per cent of the equity interests of Popo Ltd in exchange of cash of ₹750. The identifiable assets are measured at ₹1,050 and the liabilities assumed are measured at ₹150. The fair value of the 20 per cent non controlling interest in Popo is ₹129. Compute the gain on purchase of 80% interest. [4]

Answer:

Amount of the identifiable net assets acquired (₹1,050 – ₹150)		₹900
Less: Consideration	₹750	
Less: Fair value of non-controlling interest	₹129	₹879
Gain on bargain purchase of 80 per cent interest		₹21

5. R Ltd. owns 80% of S and 40% of T and 40% of Q. T is jointly controlled entity and Q is an associate. Balance Sheet of four companies as on 31.03.2017 are:

Assets	R Ltd. ₹	S Ltd. ₹	T Ltd. ₹	Q Ltd. ₹
Investment in S	1,200	-	-	-
Investment in T	1,800	-	-	-
Investment in Q	1,800	-	-	-
Fixed Assets	1,500	1,200	2,100	1,500
Current Assets	3,300	4,950	4,875	5,475
Total	7,800	6,150	6,975	6,975
Liabilities				
Share capital ₹1 Equity Share	1,500	600	1,200	1,200
Retained Earnings	6,000	5,100	5,400	5,400
Creditors	300	450	375	375
Total	7,800	6,150	6,975	6,975

R Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were ₹ 780 lakhs. R Ltd. acquired its shares in 'T' at the beginning of the year when 'T" retained earnings were ₹ 600 lakhs. R Ltd. acquired its shares in 'Q' on 01.04.2013 when 'Q' retained earnings were ₹ 600 Lakhs.

The balance of goodwill relating to 'S' had been written off three years ago. The value of goodwill in 'T' remains unchanged.

Prepare the Consolidated Balance Sheet of R Ltd. as on 31.03.2014 as per AS 21, 23 and 27.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III. [16]

Answer:

Name of the Company: R Ltd.
Consolidated Balance Sheet as at 31st March,2017

Ref No.		Particulars	Note No.	As at 31st March, 2017	As at 31st March, 2016
				₹	₹
	A	EQUITY AND LIABILITIES			
	1	Shareholders' funds			

Ref No.		Particulars	Note No.	As at 31st March, 2017	As at 31st March, 2016
				₹	₹
		(a) Share capital	1	1,500	-
		(b) Reserves and surplus	2	13,200	-
	2	**Minority Interest**		1,140	-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	900	-
		TOTAL (1+2+3+4)		16,740	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	3,540	-
		(ii) Intangible assets	5	180	-
		(b) Non-current investments	6	2,820	
	2	**Current assets**			
		(f) Other current assets	7	10,200	-
		TOTAL (1+2)		16,740	-

Annexure

Note 1. Share Capital	**As at 31st March, 2017**	**As at 31st March, 2016**
Share Capital in Equity Shares	1,500	
Total	1,500	

Note 2. Reserves and Surplus	**As at 31st March, 2017**	**As at 31st March, 2016**
Retained Earnings (W.N 2)	13,200	
Total	13,200	

Note 3. Trade Payables	**As at 31st March, 2017**	**As at 31st March, 2016**
Creditors [300+450+40% of 375]	900	
Total	900	

Note 4. Tangible assets	**As at 31st March, 2017**	**As at 31st March, 2016**
Fixed Assets [1,500 +1,200 + 840(2,100×40%)]	3,540	

Total	3,540	

Note 5. Intangible assets	As at 31st March, 2017	As at 31st March, 2016
Goodwill (W.N 1)	180	
Total	180	

Note 6. Noncurrent investments	As at 31st March, 2017	As at 31st March, 2016
Investment in Associates (W.N 4)	2,820	
Total	2,820	

Note 7. Other current assets	As at 31st March, 2017	As at 31st March, 2016
Current Assets [3,300+4,950+ 1,950 (4,875 × 40%)]	10,200	
Total	10,200	

Working Notes :

1.Computation of Goodwill

S Ltd.(subsidiary)

	₹ in lakhs
Cost of Investment	1,200
Less :	
Paid up value of shares acquired	480
Share in pre-acquisition profits of S Ltd. (780 × 80%)	624
	1,104
Goodwill	96

T (Jointly Controlled Entity)

	₹ in lakhs
Cost of Investment	900
Less:	
Paid up value of shares acquired (40% of 1,200)	480
Share in pre-acquisition profits (40% of 600)	240
	720
Goodwill	180

Note: Jointly controlled entity 'T' to be consolidated on proportionate basis i.e. 40% as per AS 27

Associate Q (AS 23)

	₹ in lakhs
Cost of investment	900
Less:	
Paid up value of shares acquired (1,200 × 40%)	480
Share in pre-acquisition profits (600 × 40%)	240
	720
Goodwill	180

Goodwill shown in the Consolidated Balance Sheet

	₹ in lakhs
Goodwill of 'T'	180
Goodwill of 'S'	96
Less: Goodwill written off of 'S'	96
Goodwill	180

2. Consolidated Retained Earnings

	₹ in lakhs
R Ltd.	6,000
Share in post acquisition profits of S - 80% (5,100 – 780)	3,456
Share in post acquisition profits of T - 40% (5,400 – 600)	1,920
Share in post acquisition profits of Q - 40% (5,400 – 600)	1,920
Less: Goodwill written off	(96)
	13,200

3. Minority Interest 'S'

	₹ in lakhs
Share Capital (20% of 600)	120
Share in Retained Earnings (20% of 5,100)	1,020
	1,140

4. Investment in Associates

	₹ in lakhs
Cost of Investments (including goodwill ₹ 180 lakhs)	900
Share of post acquisition profits	1,920
Carrying amount of Investment (including goodwill ₹ 180 lakhs)	2,820

6. **(a) Pink Ltd. grants 50 stock options to each of its 1,000 employees on 01.04.2015 for ₹20, depending upon the employees at the time of vesting options. The market price of the share is ₹ 50. These options will vest at the end of year 1, if the earning of Pink Ltd. is 16% or it will vest at the end of the year 2, if the average earning of two years is 13%, or lastly it will vest at the end of the third year, if the average earning of 3 years will be 10%. 2,500 unvested options lapsed on 31.03.2016. 2,000 unvested options lapsed on 31.03.2017 and finally 1,750 unvested options lapsed on 31.03.2018.**
Following is earning of Diamond Ltd.:

Year ended on	Earning
31.03.2016	14%
31.03.2017	10%
31.03.2018	7%

850 employees exercised their vested options within a year and remaining options were un-exercised at the end of the contractual life. Pass journal entries with proper narrations for the above transactions. [9]

Answer:

Journal

Date	Particulars		₹	₹
31.03.2016	Employees compensation expenses A/c	Dr.	7,12,500	
	To ESOS outstanding A/c			7,12,500
	(Being compensation expense recognized in respect of the ESOP i.e. 50 options each granted to 1,000 employees at a discount of ₹ 30 each, amortized on straight line basis over the vesting years)			
31.03.2016	Profit and Loss A/c	Dr.	7,12,500	
	To Employee compensation expenses A/c			7,12,500
	(Being compensation expense charged to Profit and Loss A/c.)			

31.03.2017	Employees compensation expenses A/c	Dr.	1,97,500	
	To ESOS outstanding A/c			1,97,500
	(Being compensation expense recognized in respect of the ESOP)			
31.03.2017	Profit and Loss A/c	Dr.	1,97,500	
	To Employee compensation expenses A/c			1,97,500
	(Being compensation expense charged to Profit and Loss A/c.)			
31.03.2018	Employees compensation expenses A/c	Dr.	4,02,500	
	To ESOS outstanding A/c			4,02,500
	(Being compensation expense recognized in respect of the ESOP)			
31.03.2018	Bank A/c (850 x 50 x 20)	Dr.	8,50,000	
	ESOS outstanding A/c [(13,12,500/43,750) x 42,500]		12,75,000	
	To Equity Share Capital (42,500 × 10)			4,25,000
	To Securities Premium A/c (42,500 × 40)			17,00,000
	(Being 42,500 options exercised at an exercise price of ₹ 50 each)			
31.03.2018	Profit and Loss A/c	Dr.	4,02,500	
	To Employee compensation expenses A/c			4,02,500
	(Being compensation expense charged to Profit and Loss A/c)			
31.03.2018	ESOS outstanding A/c	Dr.	37,500	
	To General Reserve A/c			37,500
	(Being ESOS outstanding A/c on lapse of 1,250 options at the end of exercise of option period transferred to General Reserve A/c)			

Working Note:

Statement showing compensation expenses to be recognized

Particulars	Year 1 (31.03.2016)	Year 2 (31.03.2017)	Year3 (31.03.2018)
Expected vesting period(at the end of the year)	2nd Year	3rd Year	3rd Year
Number of options expected to vest	47,500 Options	45,500 Options	43,750 Options
Total Compensation expenses accrued @30 (i.e. 50 - 20)	14,25,000	13,65,000	13,12,500
Compensation Expenses of the year	7,12,500 [14,25,000 × 1/2]	9,10,000 [13,65,000 × 2/3]	13,12,500
Less: Compensation Expenses recognized previously	Nil	7,12,500	9,10,000
Compensation expenses to be recognized for the year	7,12,500	1,97,500	4,02,500

(b) Future maintainable profit before interest is ₹154 lakhs, normal rate of return on long term fund is 20% and on equity fund is 25%. Long term fund is of the company is ₹640 lakhs and equity fund is ₹420 lakhs. Interest on long term fund is 18% . Find out leverage effect of goodwill. **[7]**

Answer:

Valuation of Goodwill **(₹ in lakhs)**

Particulars	Shareholders fund approach	Long term funds approach
a. Future maintainable profits (WN#2)	114.40	154.00

b. Normal rate of return	25%	20%
c. Normal capital employed	457.60	770.00
d. Actual capital employed	420.00	640.00
e. Goodwill	37.60	130.00
f. Leverage effect of Goodwill	92.40	

WN # 1: Ascertainment of Long Term Fund (interest thereon)

(₹ in lakhs)

Particulars		Amount
a.	Total long term funds	640.00
b.	Less: Equity funds	(420.00)
c.	Long term fund (excluding Equity)	220.00
d.	Interest @ 18%	39.60

WN # 2: Future Maintainable Profit **(₹ in lakhs)**

Particulars		Shareholders fund approach	Long term funds approach
a.	Profit before interest	154.00	154.00
b.	Less: Interest	39.60	N.A.
c.	Future maintainable profits	114.40	154.00

7. (a) Discuss the structure of GASAB. **[8]**

Answer:

Structure of GASAB The Board has high level representation from the important accounting heads in Government, Ministry of Finance, Department of Post, Finance Secretaries of states, RBI and heads of premier accounting & research organizations. The board consists of the following members:

1. Deputy Comptroller and Auditor General (Government Accounts) as Chairperson
2. Financial Commissioner, Railways
3. Member (Finance) Telecom Commission, Department of Telecom
4. Secretary, Department of Post
5. Controller General of Defence Accounts
6. Controller General of Accounts
7. Additional / Joint Secretary (Budget), Ministry of Finance, Government of India
8. Deputy Governor, Reserve Bank of India, or his nominee

9-12. Principal Secretary (Finance) of four States, by rotation

13. Director General, National Council of Applied Economic Research(NCAER), New Delhi
14. President, Institute of Chartered Accountants of India (ICAI), or his nominee
15. President, Institute of Cost and Works Accountants of India, or his nominee
16. Principal Director in GASAB, as Member secretary.

(b) Accounts of the Government – discuss. **[8]**

Answer:

The Constitution of India provides for the manner in which the accounts of the

Government have to be kept. The accounts of Government are kept in three parts namely, Consolidated Fund, Contingency Fund and Public Account. They are discussed as under:

1. Consolidated Funds of India

   The Consolidated Funds is constituted under Article 266 (1) of the Constitution of India. All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament. This is the largest of all the three funds.

2. Public Accounts of India

   The Public Accounts of India is constituted under Article 266 (2) of the Constitution. The transactions to be recorded in it relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to 'Remittance' and 'Suspense' shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.

3. Contingency Funds of India

   The Contingency Fund of India Fund set by the Government of India under Article 267 of the Constitution of India. It records the transactions connected with Contingency.It is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs. The corpus of this fund is ₹ 500 crores. Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest account of Government of India.

8. Write short notes on *any four* of the following: [4x4=16]

(a) Myths regarding XBRL ;

(b) Complete set of Financial Statement as per Ind AS 1;

(c) Objectives of Government Accounting;

(d) Strategies and key challenges for implementation of Triple Bottom Line Reporting;

(e) Bearer plant.

Answer:

(a) Myths regarding XBRL:

Answer:

This section clarifies certain myths regarding XBRL. In other words, it is discussed what XBRL is not:

(a) **XBRL is not a set of Accounting Standards**: It needs to be clearly understood that XBRL does not represent a set of accounting standards, which remain the prerogative of the regulatory standards bodies. XBRL is merely a platform on which reporting standards content will reside and be represented.

(b) **XBRL is not a chart of accounts:** It is not a detailed universal chart of accounts. Formulation of a company's chart of accounts is an exercise conducted by its management with regard to its specific business intricacies. XBRL can facilitate the implementation of such structures through its ability to transport data between disparate software applications that might be used within an organization's operational structures.

(c) **XBRL is not a GAAP translator:** It does not provide a mechanism for facilitating a drilldown of existing GAAP information into lower levels of information that would be necessary for translating financial statements from one GAAP to another. The business-reporting document contains the same GAAP information, be it in an XBRL format or an MS word or PDF format.

(b) A Complete set of Financial Statement as per Ind AS 1 includes the following:

(i) A balance Sheet at the end if the period;
(ii) Statement of Profit and Loss Statement for the period;
(iii) Statement of changes in Equity (iv) Statement of Cash Flows;
(iv) Significant Accounting Policies and other explanatory notes as a separate statement;
(v) Comparative information with the previous periods;
(vi) A balance sheet at the beginning of the earliest comparative period if the company applies an accounting policy retrospectively or makes retrospective statement.

(c) Objectives of Government Accounting

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:

(i) To record financial transactions of revenues and expenditure relating to the government organizations.
(ii) To provide reliable financial data and information about the operation of public fund.
(iii) To record the expenditures as per the appropriate Act, Rules, and legal provisions as set by the government.
(iv) To avoid the excess expenditures beyond the limit of the budget approved by the government.
(v) To help in the preparation of various financial statements and reports.
(vi) To facilitate the auditing by the concerned government department.
(vii) To prevent misappropriation of government properties by maintaining the systematic records of cash and store items.
(viii) To facilitate for estimating the annual budget by providing historical financial data of government and expenditures.

(d) Strategy for implementation:

Critical issues for consideration in the development and implementation of TBL reporting include:

- clear definition of the role of TBL reporting in driving strategic business objectives;

- establishment of the resource and cost requirements;
- awareness of associated legal implications; and
- understanding the risks involved in publishing TBL information.

The key challenges for implementation of TBL reporting framework are:

- Awareness of relevant issues associated with TBL reporting;
- Understanding stakeholder requirements;
- Aligning TBL reporting with objectives and risks; and
- Determining and measuring performance indicators.

(e) **Bearer plant** is a plant that:

a) is used in the production or supply of agricultural produce;
b) is expected to bear produce for more than a period of twelve months; and
c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The following are not bearer plants:

a) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
b) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and
c) annual crops (for example, maize and wheat). When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.