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) Ind AS 18 is not applicable to which of the following?
- **(A) Extraction of mineral ores**
- **(B) Insurance contracts**
- **(C) Changes in fair values of financial instruments**
- **(D) All of the above**

Answer:

D — All of the above

Non Applicability of Ind AS 18:
- (a) Leases
- (b) Dividends from investments accounted under the equity method
- (c) Insurance contracts
- (d) Changes in fair values of financial instruments
- (e) Changes in the values of other current assets
- (f) Initial recognition and changes in value of biological assets Initial recognition of agricultural produce
- (g) Extraction of mineral ores.

(ii) As per Ind AS 1 a complete set of Financial Statement includes which of the following?
- **(A) A balance Sheet at the end if the period**
- **(B) Statement of Fund Flow**
- **(C) Comparative information with the previous periods**
- **(D) All of the above except (B)**

Answer:

D — All of the above except (B)

As per Ind AS 1 a complete set of Financial Statement includes the following:

1. A balance Sheet at the end if the period
2. Statement of Profit and Loss Statement for the period
3. Statement of changes in Equity
4. Statement of Cash Flows
5. Significant Accounting Policies and other explanatory notes as a separate statement
6. Comparative information with the previous periods
7. A balance sheet at the beginning of the earliest comparative period if the company applies an accounting policy retrospectively or makes retrospective statement.

(iii) A Ltd. acquired a 70% interest in B Ltd. on January 1, 2018. A Ltd. paid ₹1800 Lakhs in cash for their interest in B Ltd. The fair value of B Ltd.'s assets is ₹4000 Lakhs, and the fair value of its liabilities is ₹2000 Lakhs. NCI is equal to…

(A) ₹ 600 lakhs
(B) ₹ 1,400 lakhs
(C) ₹ 1,200 lakhs
(D) ₹ 857.14 lakhs

Answer:

A — ₹600

[(4000 – 2000) × 30%] Lakhs = ₹600 Lakhs

(iv) Which of the following is true as per Ind AS 111?
(A) In a joint arrangement the parties are bound by a contractual arrangement.
(B) In a joint arrangement the parties enjoy joint control of the arrangement.
(C) A joint arrangement is either a joint operation or a joint property.
(D) Both (A) and (B)

Answer:

D — Both (A) and (B)

A joint arrangement has the following characteristics:
(a) The parties are bound by a contractual arrangement.
(b) The contractual arrangement gives two or more of those parties joint control of the arrangement

(v) In traditional accounting, the term 'bottom line' means
(A) Operating Results
(B) Total Asset
(C) Total Liabilities
(D) Share Capital

Answer:

A — Operating Results

In traditional accounting and common parlance, "bottom line" refers to "operating result", which is usually recorded at the very last line (or, bottom) of the income statement.

(vi) Which of the following is not a variant of conglomerate merger:
(A) Product extension merger
(B) Market extension merger
(C) Cogeneric Merger
(D) Both A and B

Answer:

C — Cogeneric Merger

The conglomerate merger may be of three types:
(a) Product extension merger
(b) Market extension merger
(c) Pure conglomerate merger.

(vii) An investor controls an investee if and only if the investor has the following:
(A) power over the investee

(B) exposure, or rights, to variable returns from its involvement with the investee
(C) ability to use its power over the investee to affect the amount of the investor's returns
(D) All of the above

Answer:

D — All of the above

An investor controls an investee if and only if the investor has all the following:
(a) power over the investee;
(b) exposure, or rights, to variable returns from its involvement with the investee; and
(c) the ability to use its power over the investee to affect the amount of the investor's returns.

(viii) Which of the following is not a software package used in Government Accounts?
(A) GAINS
(B) TALLY
(C) CONTACT
(D) IMPROVE

Answer:

B — TALLY.

At the three levels, namely the Controller General of Accounts, Principal Accounts Offices and the field Pay and Accounts Offices software packages, namely GAINS (Government Accounting Information System), CONTACT (Controller's Accounts) and IMPROVE (Integrated Multimodule Processor for Voucher Entries), are being used to consolidate Government of India Accounts.

(ix) Which of the following statements is true?
(A) Property held for earning rental is owner occupied property
(B) Plant leased out on operating lease is investment property
(C) Property leased out on finance lease is investment property
(D) Land held for a currently undetermined future use is investment property

Answer:

D — Land held for a currently undetermined future use is investment property

Property held for earning rental is an Investment Property, hence the statement is False.

Plant leased out on operating lease is not an Investment Property as only Land and Buildings can be an Investment Property, hence the statement is False.

Property leased out on finance lease is not recognised as an Investment Property as per Ind AS 40, hence the statement is False.

(x) Statement - Preparation of CFS is not mandatory for companies having subsidiary in India.Choose correct option:
(A) Statement is correct as the Companies Act, 2013 does not require preparation of CFS.
(B) Statement is correct as AS 21 allows it if financial statement of subsidiary is attached with the stand-alone financial statements of the holding Company.
(C) Statement is incorrect as the Companies Act, 2013 requires preparation of CFS.
(D) Statement is incorrect as the Government of India by notification has imposed the requirement of preparation of CFS.

Answer:

C — Statement is incorrect as the Companies Act, 2013 requires preparation of CFS.

Companies Act, 2013, [Section 129(3)] requires preparation of CFS by company having subsidiary(ies). Other options are not correct as those are not based on relevant accounting standard or notification of the Government of India.

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

[16x5=80]

2. (a) Describe Long-term Investment as per AS 13. Discuss Investment Property. [6+2=8]

Answer:

Long-term Investment as per AS 13

- It is usually carried / valued at cost.

- If there is a decline in value of investment and, if such decline is not temporary, then carrying amount of investment is reduced by the amount of such decline. The resultant reduction in carrying amount is charged to the profit and loss account. This reduction amount is reversed when there is a rise in the value of investment but such rise in value should not be temporary.

- Indicators of the value of an investment:

(a) its market value,
(b) the investee's assets and results,
(c) the expected cash flows from the investment,
(d) the type and extent of the investor's stake in the investee,
(e) restrictions on distribution by the investee or on disposal by the investor.

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.

(b) H Ltd. sold machinery having WDV of ₹ 400 Lakhs to B Ltd. for ₹ 500 Lakhs and the same machinery was leased back by B Ltd. to H Ltd. The Lease back is operating lease. Comment if –
(a) Sale price of ₹ 500 lakhs is equal to fair value
(b) Fair value is ₹ 600 lakhs
(c) Fair value is ₹ 450 lakhs and sale price is ₹ 380 lakhs
(d) Fair value is ₹ 400 lakhs and sale price is ₹ 500 lakhs
(e) Fair value is ₹ 460 lakhs and sale price is ₹ 500 lakhs
(f) Fair value is ₹ 350 lakhs and sale price is ₹ 390 lakhs [8]

Answer:

(a) H Ltd. should immediately recognize the profit of ₹ 100 lakhs in its books.
(b) Profit ₹ 100 lakhs should be immediately recognized by H Ltd.
(c) Loss of ₹ 20 lakhs to be immediately recognized by H Ltd. in its books provided loss is not compensated by future lease payment.

(d) Profit of ₹ 100 lakhs is to be amortized over the lease period.
(e) Profit of ₹ 60 lakhs (460 - 400) to be immediately recognized in its books and balance profit of ₹ 40 lakhs (500 - 460) is to be amortized / deferred over lease period.
(f) Loss of ₹ 50 lakhs (400 - 350) to be immediately recognized by H Ltd. in its books and profit of ₹ 40 lakhs (390 - 350) should be amortized / deferred over lease period.

3. (a) When an entity shall recognise the revenue from a contract with a customer? What are the stages involved in revenue recognition and measurement in case of a contract with a customer? [2+4=6]

Answer:

An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price that is allocated to that performance obligation.

Following are the different stages in revenue recognition and measurement:

I. Identifying the contract.

II. Identifying performance obligation.

III. Satisfaction of performance obligation.

IV. Determination of and allocation of transaction price to performance obligation.

(b) The following are the Balance Sheets of Good Ltd. and Bad Ltd. as on 31.03.2018:

		Good Ltd. (₹ in crores)		Bad Ltd. (₹ in crores)
Equity and Liabilities:				
Equity Share Capital:				
Authorised		**25**		**5**
Issued and Subscribed Equity Shares of ₹ 10 each fully paid		**12**		**5**
Other Equity		**88**		**10**
Equity		**100**		**15**
Unsecured loan from Good Ltd.		**---**		**10**
		100		**25**
PPE at cost		**80**		**40**
Less: Depreciation		**60**		**34**
Written down value		**20**		**6**
Investments at Cost:				
30 lakhs equity shares of ₹10.each of Bad Ltd.		**3**		**---**
Long term loan to Bad Ltd.		**10**		
Current Asset:	**200**		**134**	**---**
(Less Current Liabilities)	**(-)133**	**67**	**(-)115**	**19**
		100		**25**

On that day Good Ltd. absorbed Bad Ltd. The Members of Bad Ltd. are to get one equity share of Good Ltd. issued at a premium of ₹ 2 per share for every five equity share held by

them in Bad Ltd. The necessary approvals are obtained;
You are asked to pass Journal entries in the books of the two companies to give effect to the above. [10]

Answer:

We need to assume that the swap ratio is based on Fair Value of shares. Again, it is assumed that Assets and liabilities acquired are all at Fair Value.

Books of Bad Ltd.

Journal

Particulars		**Dr. (₹ in Crore)**	**Cr. (₹ in Crore)**
Realization A/c	Dr.	174.00	
To PPE A/c			40.00
To Current Assets A/c			134.00
(Being the Assets taken over by Good Ltd. transferred to Realization A/c)			
Provision for Depreciations A/c	Dr.	34.00	
Current Liabilities A/c	Dr.	115.00	
Unsecured Loan from Good Ltd. A/c	Dr.	10.00	
To Realization A/c			159.00
(Being the transferred of liabilities and provision to Realization A/c)			
Good Ltd. A/c	Dr.	1.20	
To Realization A/c			1.20
(Being P.C Credited o Realization A/c)			
Equity Shareholders A/c	Dr.	13.80	
To Realization A/c			13.80
(Being loss on Realization transferred to Equity shareholders A/c)			
Equity Share Capital A/c	Dr.	5.00	
Other Equity A/c	Dr.	10.00	
To Equity Shareholders A/c			15.00
(Being the amount of share capital and reserve transferred to equity shareholders A/c)			
Equity Shareholders (Good Ltd.) A/c	Dr.	0.72	
To Good Ltd. A/c			0.72
(Being 3/5th of the considerations due from Good Ltd. adjusted against the amount due to Good Ltd.)			
Equity Shares of Good Ltd. A/c	Dr.	0.48	
To Good Ltd. A/c			0.48
(Being the receipts of 4 lacs Equity Shares of ₹10 each at ₹12 per Share for allotment of outside shareholders)			
Equity Shareholders A/c	Dr.	0.48	
To Equity Share of Good Ltd. A/c			0.48
(Being the distributions of equity shares received from Good Ltd. to Shareholders)			

Books of Good Ltd.
Journal

Particulars		**Dr. (₹ in Crore)**	**Cr. (₹ in Crore)**
Profit and Loss A/c	Dr.	2.28	
To Investment A/c (Bk Value - Fair Value = 3 - 0.72)			2.28
(Investment measured at Fair Value and difference with book value transferred to P & L)			
PPE A/c	Dr.	6.00	
Current Assets A/c	Dr.	134.00	
To Current Liabilities A/c			115.00
To Unsecured Loan (from Good Ltd.) A/c			10.00
To Consideration A/c [See Note]			0.48
To Investment in Bad Ltd. (at Fair Value)			0.72
To Gain on Bargain Purchase A/c			13.80
(Being. the assets and liabilities taken over and the difference transferred to Gain on Bargain Purchase)			
Consideration A/c	Dr.	0.48	
To Equity Share Capital A/c			0.40
To Security Premium A/c			0.08
(Being the allotment to outside Shareholders at a premium of ₹2 per Share)			
Unsecured Loan (From Good Ltd.) A/c	Dr.	10.00	
To Loan to Bad Ltd. A/c			10.00
(Being the cancellations of unsecured loan)			

Working Notes

	(₹ in Crores)
Purchase Considerations	1.20
(50 lacs/5) x ₹12 = 1.20	
Equity Shares of ₹12 each belonging to Good Ltd. 3/5 x 1.20	0.72
Payable to other equity shareholders	0.48
Number of equity shares of ₹ 10 each to be issued 48 lacs /12	4 lacs

4. (a) Discuss the objectives of Ind AS 112: Disclosure of interests in other entities. [6]

Answer:

Objectives

To disclose information that enables users of its financial statements to evaluate:

(a) the nature of, and risks associated with, its interests in other entities; and
(b) the effects of those interests on its financial position, financial performance and cash flows.

For the purpose of meeting the above stated objective, an entity shall disclose:

(a) the significant judgments and assumptions it has made in determining:

(i) the nature of its interest in another entity or arrangement;
(ii) the type of joint arrangement in which it has an interest;
(iii) that it meets the definition of an investment entity, if applicable; and

(b) information about its interests in:

(i) subsidiaries;
(ii) arrangements and associates; and
(iii) structured entities that are not controlled by the entity (unconsolidated structured entities).

(b) The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March, 2017 were as under:

	A Ltd. (₹)	B Ltd. (₹)
Fully paid up equity shares of ₹ 10 each	**20,00,000**	**12,00,000**
Share Premium Account	**4,00,000**	**—**
General Reserve	**5,20,000**	**5,00,000**
Profit and Loss Account	**3,60,000**	**3,20,000**
10% Debentures	**10,00,000**	**—**
Secured Loan	**6,00,000**	**6,00,000**
Sundry Creditors	**—**	**3,40,000**
	48,80,000	**29,60,000**
Land and Buildings	**18,00,000**	**9,00,000**
Plant and Machinery	**10,00,000**	**7,60,000**
Investments (10,000 shares in B Ltd.)	**1,60,000**	**—**
Stock	**10,40,000**	**7,00,000**
Debtors	**8,20,000**	**5,20,000**
Bank	**60,000**	**80,000**
	48,80,000	**29,60,000**

Z Ltd., an existing company took over both A Ltd. and B Ltd.

(a) The shares of A and B are to be valued as under:

A Ltd. — ₹ 18 per share

B Ltd. — ₹ 20 per share

(b) A contingent liability of A Ltd. of ₹ 1,20,000 is to be treated as real liability.

(c) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of Z Ltd. at par.

(d) The shares of Z Ltd. are issued at ₹10 each.

Required:

(i) Show the computation of the number of shares Z Ltd. will issue to the shareholders of A Ltd. and B Ltd.

(ii) Pass the journal entries in the books of Z Ltd. [10]

Answer:

(i) Calculation of number of shares to be issued

	A Ltd. (₹)	B Ltd. (₹)
Existing Shares	2,00,000	1,20,000
Less: Held by A Ltd.	-	10,000
	2,00,000	1,10,000
Agreed Value per Share (Considered as Fair Value)	18	20
Total Fair Value of equity shares issued	36,00,000	22,00,000
No of shares to be issued of ₹10 each	3,60,000	2,20,000
Total no. of shares to be Issued of ₹10		**5,80,000**

(ii)

Books of Z Ltd.

Journal

	Dr. (₹ '000)	**Cr. (₹ '000)**
Land & Building A/c	2700	
Plant & Machinery A/c	1760	
Stock A/c	1740	
Debtors A/c	1340	
Bank A/c	140	
Goodwill	780	
To, Loan A/c		1200
To, Creditors A/c		340
To, 10% Debenture [of Z Ltd]		1000
To, Other Current Liability (Contingent Liability recognized as other current liability)		120
To, Consideration*		5800
(Assets and liabilities acquired and consideration payable all at fair value, balance accounted as Goodwill)		
Consideration A/c	5800	
To, Equity Share Capital A/c		5800
(Consideration transferred to the owners of the Acquiree company by issue Equity shares of ₹ 10 at par)		

Note: Intercompany investment is not acquired by the Acquirer.

Working Note:

Goodwill	As on 1st April 2018 (₹)
Assets identified at Fair Value	76,80,000
Liabilities identified at Fair Value	16,60,000
Net Assets acquired (i)	60,20,000
Consideration Transferred (ii)	68,00,000
Goodwill (ii – i)	7,80,000

5. (a) (i) X Company commits a plan on 1st July, 2018 to sell its head office building to a buyer after it vacates the building. For vacating ordinarily one month time is required. Should the building be classified as asset held for sale on 1st July or one month later?

(ii) X Company commits a plan on 1st July, 2018 to sell its head office building to a buyer after it constructs a new building. Should the building be classified as asset held for sale on 1st July? [2+2=4]

Answer:

(i) It should be classified as held for sale on 1st July as it is available for immediate sale in its present condition since the time necessary to vacate the building is usual and customary for sales of such assets.

(ii) No. It is not classified as held for sale on July 1st as it is not available for sale immediately on 1st July and it remains not available for sale until the new construction is completed

(b) The following are the extract Balance Sheet of H & S Company as on 31-03-2016

(in ₹)

Liabilities	H	S	Assets	H	S
Share Capital @ ₹ 10 each	20,000	10,000	Fixed Assets (Tangible)	30,000	15,000
General Reserve	10,000	5,000	Current Assets	35,000	25,000
P/L A/c (1.4.15)	5,000	4,000	Shares in S Ltd. (8000)	10,000	
12% Debenture	20,000	10,000			
S. creditors	10,000	5,000			
Profit for the year	10,000	6,000			
	75,000	40,000		75,000	40,000

H Limited acquired shares in S Limited on 01-10-2015. S limited has a balance of ₹ 4,000 in General Reserve on 01-04-2015. On the account fire goods costing ₹ 2,000 of S Limited were destroyed in June, 2015. The loss has been charged to the Profit and Loss Account for the year. Required to prepare a consolidated Balance Sheet. [12]

Answer:

Working Notes:

1. Date of Acquisition: 01.10.2015
2. Holding Company Share: 800/1000 x100 = 80%
3. Non-Controlling Interest (NCI): 200/1000 x 10 =20%
4. Analysis of profit (of S)

Particulars	Pre-acquisition Profit (in ₹)	Post-Acquisition Profit (in ₹)
General Reserve of 01.04.15	4000.00	-
Profit & Loss of 01.04.15	4000.00	-

Profit for the year [9,000] #	4500.00	4500.00
	12500.00	4500.00
Less: Loss on fire in June	– 2000.00	-
Other Equity at acquisition	10500.00	4500.00
Holding Company's share (80%)		3600.00**
NCI share (20%)		900.00$

# Profit for the year	6,000
Adj: for loss on fire	2,000
Transfer to Reserve	1,000
	9,000

5. Fair value of net assets identified

Equity Share Capital of S		10,000
Other Equity at acquisition		10,500
Total Equity representing fair value of net assets	=	20,500

6. **Gain on Bargain Purchase**

Net asset identified		20,500
Less: NCI at acquisition [20% × 20,500]	4,100*	
Less: Consideration for acquiring control	10,000	14,100
Gain on Bargain Purchase		**6,400**

7. NCI at reporting date = NCI at acquisition + NCI share in Post-acquisition profit

= 4,100 (*) + 900 ($)

= 5,000

Name of the Company: H Ltd.
Consolidated Balance Sheet as at 31st March, 2016

Ref No.	Particulars	Note No.	As at 31st March, 2016 (₹)
	ASSETS		
1	**Non-current assets**		
	(a) PPE	11	45,000.00
2	**Current assets**		
	(a) Other current assets	12	60,000.00
	TOTAL (1+2)		105,000.00

A	**EQUITY AND LIABILITIES**		
3	**Equity**		
	(a) Equity Share capital		20,000.00
	(b) Other Equity	8	35,000.00
	(c) NCI	7	5,000.00
4	**Non-current liabilities**		
	(a) Long-term borrowings (10% debentures)	9	30,000.00
5	**Current liabilities**		
	(a) Trade payables	10	15,000.00
B	**TOTAL (3+4+5)**		105,000.00

Note: Relevant items of Assets/ Liabilities are reflected in Balance Sheet as per Div II of Schedule III. Hence sub-item not having any value for the given illustration is not shown/ represented in Balance Sheet.

Note 8. Other Equity		**Note 9. Long Term Borrowings**	
	As at 31st March, 2016 (₹)		**As at 31st March, 2016** (₹)
General Reserve	10,000.00	12% Debenture	
P/L A/c	-	H	20,000.00
H	15,000.00	S	10,000.00
Share from S	3,600.00**		30,000.00
Gain on Bargain Purchase	6,400.00		
	35,000.00		

Note 10. Trade Payable		**Note 11. PPE**	
	As at 31st March, 2016 (₹)		**As at 31st March, 2016** (₹)
H	10,000.00	H	30,000.00
S	5,000.00	S	15,000.00
	15,000.00		45,000.00

Note 12. Other Current Assets	
	As at 31st March, 2016 (₹)
H	35,000.00
S	25,000.00
	60,000.00

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

Year	2014	2015	2016	2017	2018
Profit (₹)	27,000	36,800	37,200	42,200	46,800

Determine the value of goodwill in each of the following independent cases:

Case (a): It was decided to value the Goodwill on the basis of 2 years' purchase of average profit of last five years.

Case (b): It was decided to value the Goodwill on the basis of 3 years' purchase of average profit of last five years after giving weights of 1, 2, 3, 6 and 8 to the profits chronologically.

Case (c): It was decided to value the Goodwill on the basis of 3½ years' purchase of weighted average profit of last five years giving maximum weightage to the recent results.

Case (d): It was decided to value the Goodwill on the basis of 2½ years' purchase of simple average profit of last five years. In this regard the following were observed:

(i) an abnormal loss of ₹1,800 was charged against the profit of 2016;
(ii) Profit of 2017 included a non-recurring receipt of ₹ 2,500.
(iii) closing stock of 2018 was over-valued by ₹ 2,400. [1+2+2+3=8]

Answer:

Case (a):

$$\text{Average profit} = \frac{27,000+36,800+37,200+42,200+46,800}{5} = \frac{1,90,000}{5} = 38,000$$

∴ Value of Goodwill = ₹ 38,000 × 2 years' purchase = ₹ 76,000.

Case (b):

Weighted average profit =

$$\frac{(27,000\times1)+(36,800\times2)+(37,200\times3)+(42,200\times6)+(46,800\times8)}{1+2+3+6+8} = ₹41,990$$

∴ Value of Goodwill = ₹ 41,990 × 3 years' purchase = ₹ 1,25,970

Case (c):

Weighted average profit =

$$\frac{(27,000\times1)+(36,800\times2)+(37,200\times3)+(42,200\times4)+(46,800\times5)}{1+2+3+4+5}=₹41,000$$

∴ Value of Goodwill = ₹ 41,000 × 3½ years' purchase = ₹ 1,43,500

Case (d):

Profit of 2016

= Profit (as given) + Abnormal loss sustained in 2016 (which cannot be expected to occur in future)

= ₹ 37,200 + ₹ 1,800 = ₹ 39,000

Profit of 2017

= Profit (as given) – Non-recurring receipt of 2017 (which cannot be expected to occur in future)

= ₹ 42,200 – ₹ 2,500 = ₹ 39,700

Profit of 2018

= Profit (as given) – Overvaluation of closing stock (rectification of profit)

= ₹ 46,800 – ₹ 2,400 = ₹ 44,400

$$\frac{27,000+36,800+39,000+39,700+44,400}{5}=\frac{1,86,900}{5}=37,380$$

∴ Value of Goodwill = ₹ 37,380 × 2½ years' purchase = ₹ 93,450

(b) Z Ltd. grants 100 share options to each of its 400 employees conditional on their continuing in service for 3 years. Fair value of share option on the grant date is ₹ 30. Z Ltd. estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the share options.
During year 1, 18 employees leave. The entity revises its estimate of total employee departures over the three-year period from 20 per cent to 16 per cent.
During year 2, a further 20 employees leave. The entity revises its estimate of total employee departures over the three-year period from 16 per cent to 13 per cent.
During year 3, a further 14 employees leave.
All the continuing employees exercised the option to subscribe in the equity shares of ₹10 each at ₹ 50 only, when market price stands at ₹ 80. The fair value of the option at the grant date is taken at ₹ 30 only.
Pass journal entries with working notes. [8]

Answer:

Calculation of Expenses recognized during the vesting period:

Year	Calculation	Cumulative remuneration expense (₹)	Remuneration expense recognized in each year (₹)
1	400*100*30*84%*1/3 (Note #)	336000	336000[1]

2	400*100*30*87%*2/3 (Note #)	696000	360000[2]
3	348*100*30*3/3 (Note #)	1044000[4]	348000[3]
	Total		1044000[4]

Note #: At the end of year 1, 16% is revised estimated departure, balance 84% is taken for calculation, at the end of year 2, 13% is revised estimated departure, balance 87% is taken for calculation and at the end of year 3, 52 is actual departure, and balance 348 is taken for calculation.

Journal entries (without narration) in the books of Z Ltd.:

During the vesting period:

Year 1: Employee Expenses	Dr.	3,36,000	
To, Share based payment reserve (Other Equity)			336000[1]
Year 2: Employee Expenses	Dr.	3,60,000	
To, Share based payment reserve (Other Equity)			3,60,000[2]
Year 3: Employee Expenses	Dr.	3,48,000	
To, Share based payment reserve (Other Equity)			3,48,000[3]

At the time option is exercised:

Bank [348 x 100 x 50]	Dr.	17,40,000	
Share based payment reserve (Other Equity)	Dr.	10,44,000[4]	
To Equity Share Capital [348 x 100 x 10]			3,48,000
To Other Equity (Security Premium) [348 x 100 x 70]			2436000

7. (a) Define financial liability Ind AS 32. Give examples. [9]

Answer:

A financial liability is any liability that is:

(a) contractual obligation :

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:

(i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Example of financial liability:

B Ltd. takes a ₹ 10 lakhs loan from C Ltd. B Ltd. will repay the loan in 1 year in shares of B Ltd. The number of shares is variable as it will be determined by dividing ₹ 10 lakhs by the share price at the end of 1 year.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A puttable instrument is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.

This standard provides rules for classification of a financial instrument into:

- Financial asset
- Financial liability
- Equity instrument

(b) List the features of Government Accounting. [7]

Answer:

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:

1. Specific system of accounting: It is a specific accounting system which is followed by government in its departments, offices and institutions.
2. 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.
3. 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.
4. Double Entry System: Government accounting is based on the principles and assumptions of double entry system of book keeping system. Accordingly, every financial transaction entered 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.
5. Budget Heads: All the expenses of government offices are classified into different budget heads and expenditures are made only on approved budget heads.
6. 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.
7. Mode of Transaction: All government transactions are supposed to be performed through banks.
8. Fund-based Accounting: A peculiar 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."
9. 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.

8. Write short notes on *any four* of the following: [4x4=16]
(a) CRS Activities;
(b) Benefits of GST;
(c) Responsibilities of GASAB;
(d) General principles of Government Accounting;
(e) Internal vs. External Reconstruction

Answer:

(a) CSR Activities:
Activities may be included by the company in their CSR Policy as per Schedule VII of the Companies Act, 2013:

I. Eradicating extreme hunger and poverty;
II. Promotion of education;
III. Promoting gender equality and empowering women;
IV. Reducing child mortality and improving maternal health;
V. Combating HIV, AIDS, malaria and other diseases;
VI. Ensuring environmental sustainability;
VII. Employment enhancing vocational skills;
VIII. Social business projects;
IX. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;
X. Such other matters as may be prescribed.

(b) Following are the benefits of GST:

- Overall Reduction in Prices
- Reduction in Cascading of Taxes
- Common National Market
- Benefits to Small Taxpayers
- Self-Regulating Tax System
- Non-Intrusive Electronic Tax System
- Decrease in Inflation
- Ease of Doing Business
- Simplified Tax Regime
- Reduction in Multiplicity of Taxes
- Consumption Based Tax

(c) GASAB, inter alia, has the following responsibilities:

1. To formulate and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
2. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
3. To keep the standards current and reflect change in the Governmental environment.
4. To provide guidance on implementation of standards.
5. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
6. To improve the common understanding of the nature and purpose of information contained in the financial reports.

(d) 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.

(e) Internal vs. External Reconstruction: Having decided who is to bear how much sacrifice of loss and having settled the broad details of the scheme, and important question remains to be decided. Will the reconstruction be internal or external? Internal reconstruction means that the scheme will be carried out by liquidating the existing company and incorporating immediately another company (with the name only slightly changed such as AB Ltd., to take over the business of the outgoing company.

There are advantages in both, but generally internal reconstruction is preferred. The advantages in its favour are:

(a) Creditors, specially bank over draft and debenture holders, may continue where as they may not if the company is formally liquidated which will involve payment of claims to outsiders, If they do not continue, the company may suffer from want of financial assistance. This is, however, only academic since no reconstruction scheme, even internal, will be really formulated without the consent of the bank, debenture holders. etc.
(b) The company will be able to set off its past losses against future profits for income-tax purposes. This will materially reduce the income-tax liability depending on the losses suffered during the preceding eight years. Losses can

be carried forward for eight years provided the business is carried on. The business will technically end when the company is liquidated. Hence, in case of external reconstruction, losses cannot be carried forward for income tax purposes.

The arguments in favour of external reconstruction are as under:

(a) External reconstruction may be the only way to bring about speedy reconstruction because sometimes a few people hold up the scheme by delaying tactics by means of legal objections.
(b) It may help in raising more finance by issuing to the existing shareholders partly paid shares in the new company. It should be remembered that in internal reconstruction fully paid up shares unless every share holder gives his assent in writing. This may prove cumbersome. However, if share holders are willing to accept partly paid shares in the new company, there is not much reason why they should refuse to buy new shares under a scheme of internal reconstruction.