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) FF Ltd. Has three segments namely M, N and O. The total assets of the company are ₹ 10.00 Crs. Segment M has ₹4.00 Crs. Segment N has ₹6.00 Crs. and Segment O has ₹10.00 Crs. Deferred tax assets included in the assets of each segments are M – ₹1.00 Crs. N- ₹ 0.80 Crs. O- ₹ 0.60 Crs. Which of the following is/are reportable segment/s?

A. M & N
B. N
C. M & O
D. M,N & O

Answer:

D — M,N & O

According to AS-17 "Segment Reporting, segment assets do not include income tax assets.
So, assets of

Segment M = 4.00 – 1.00	= ₹ 3.00 Crs.
Segment N = 6.00 – 0.80	= ₹ 5.20 Crs.
Segment O = 10.00 – 0.60	= ₹ 9.40 Crs.
Total Segment Assets	₹ 17.60 Crs.

Since each segment's assets is more than 10% of total segment assets (i.e. ₹ 17.60 Crs.) all segments are reportable segments.

(ii) Net profit for 2020-21: ₹ 18,00,000; Net profit for 2021-22: ₹60,00,000; Equity shares as on 31.12.21: ₹20,00,000. Bonus issued on 1.1.22 is 2 equity shares for each Equity Share outstanding at 31.12.22 i.e. ₹40,00,000. Compute the EPS for 2021-22 and the Adjusted EPS of 2020-21.

A. ₹3.00, ₹0.30
B. ₹1.00, ₹0.90
C. ₹1.00, ₹1.00
D. ₹1.00, ₹0.30

Answer:

D — ₹1.00, ₹0.30

EPS for 2021-22: (₹ 60,00,000)/(20,00,000+40,00,000) = ₹1.00

Adjusted EPS for 2020-21: (earliest period reported) [₹18,00,000/60,00,000] = ₹ 0.30.

(iii) A Ltd. acquires B Ltd. for ₹ 9,60,000. Fair Value (FV) of B's net assets at time of acquisition amounts ₹ 8,00,000. Calculate Goodwill.

A. ₹1,60,000

B. ₹80,000

C. ₹9,60,000

D. ₹8,00,000

Answer:

A — ₹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

(iv) An entity sold a machinery (Book Value `2,00,000) for `1,44,000. The loss of `56,000 debited to the Profit & Loss Account. `1,44,000 will be classified as Cash flow from ____________.

A. Investing Activity

B. Operating Activity

C. Financing Activity

D. None of the above

Answer:

A — Investing Activity

Operating Activities are the principal revenue generating activities. Investing Activities relate to the acquisition and disposal of long-term assets and other investments that are not Cash Equivalents. However, Cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as per Ind AS 16, are Cash Flows from Operating Activities. Cash receipts from rents and subsequent sales of such assets are also Cash Flows from Operating Activities.

The amount of ₹1,44,000 i.e. the sale proceeds should be shown as an Inflow under Investing Activities.

(v) Which of the following is not a feature of Government Accounting?

A. Reporting of utilisation of public funds
B. Double Entry System
C. Non- fund Based Accounting
D. Both A and B

Answer:

D — Following are the feature of Government Accounting

A. Reporting of utilisation of public funds
B. Double Entry System
C. Fund Based Accounting

(vi) A Ltd. acquires 100% of B Ltd. for ₹4,80,000. Fair Value (FV) of B's net assets at time of acquisition amounts ₹ 4,00,000. Goodwill is ____________

A. ₹4,00,000
B. ₹4,80,000
C. ₹80,000
D. None of the above

Answer:

C — ₹80,000

Purchase consideration ₹ 4,80,000
FV of Net Assets ₹ 4,00,000
Goodwill = Consideration – Net Assets = ₹ (4,80,000 – 4,00,000) = ₹ 80,000

(vii) Which of the following is/are not an objective of Government Accounting?

A. To record financial transactions of revenues and expenditure relating to the Government organizations
B. To record the expenditures as per the appropriate Act, Rules, and legal provisions as set by the Government.
C. To accommodate the excess expenditures beyond the limit of the budget approved by the Government
D. To help in the preparation of various financial statements and reports.

Answer:

C — To accommodate the excess expenditures beyond the limit of the budget approved by the Government

Objectives of Government Accounting are –

(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. etc.

(viii) In case of exemption from consolidation or use of equity method, an entity shall disclose ____________________

A. that the financial statements are separate financial statements
B. a list with details of investments in subsidiaries, joint ventures and associates.
C. Both A and B
D. None of the above

Answer:

C — Both A and B

An entity shall apply all applicable Ind ASs when providing disclosures in its separate financial statements. In case of exemption from consolidation or use of equity method, the entity shall disclose

(i) that the financial statements are separate financial statements
(ii) that the exemption is used and
(iii) a list with details of investments in subsidiaries, joint ventures and associates.

(ix) Ind AS 32 provides rules for classification of a financial instrument into ________________.

1. **Financial asset**
2. **Financial liability**
3. **Equity instrument**
4. **All of the above**

Answer:

D — All of the above

Ind AS 32 provides rules for classification of a financial instrument into:

- Financial asset
- Financial liability
- Equity instrument

(x) Which of the following activities may be included by the company in their CSR Policy as per Schedule VII of the Companies Act, 2013?

A. **Eradicating extreme hunger and poverty**
B. **Promotion of education**
C. **Employment enhancing vocational skills**
D. **All of the above**

Answer:

D — All of the above

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) Ensuring environmental sustainability;
(vi) Employment enhancing vocational skills; etc.

Section – B

Answer any five questions out of seven questions.

[16x5=80]

2. (a) Enumerate the users of Financial Statement and what information they require from a Financial Statement? [6]

(b) (i) List the disclosures to be made as per AS 18 – Related Party Disclosures? [6]

(ii) P Ltd. holds 75% of voting power of Q Ltd. and Q Ltd. owns 50% voting interest in R Ltd. Further, P Ltd. also holds 25% of the voting interest in R Ltd. Would P Ltd. deem to have control over R Ltd. or would it only be considered as exercising significant influence as per AS 18?

[4]

Answer:
(a)

Users of Financial Statement	Required information by the Users of Financial Statement
1. Investors	Information need of the group primarily relates to decision making of buy, hold or sale of the entity's share. Also dividend paying ability of the entity is a matter of interest.
2. Employees	Need to know about the stability and continued profitability of the employer which would ensure payment of remuneration, employee opportunities and retirement benefits.
3. Lenders	Interested in debt servicing ability.
4. Suppliers and other trade creditors	Interested in information about the entity's ability in the short run to pay their dues. Of course, they are interested in long run viability of the entity, if it is the major customer.
5. Customers	Seek information about the continuation of the entity in particular if the entity is the major supplier.
6. Government and their agencies	They have manifold interests like taxation, contribution of the entity in the employment generation and economic activities of the nation and also the infrastructural facilities to be provided to serve the need of the entity commensurate with its contribution to the society.
7. Public	Mostly interested in employment generation and societal contribution.

(b) (i) Disclosures to be made as per AS 18 – Related Party Disclosures:

I. In case of related party relationship by virtue of significant influence (not control) e.g. those of associates, key management personnel, relatives, there is no need. to disclose the related party relationship unless there have been actual transaction during the reporting period with such related parties.

II. in the event of transaction between related parties during the existence of a related party relationship (control or significant influence) the reporting enterprise should disclose:
   (i) the name of transacting related party
   (ii) description of the relationship between parties
   (iii) description of nature of transaction
   (iv) volume of transaction, either in amount or approximate proportions
   (v) any other element of the related party transactions necessary for understanding of financial statements (e.g. transfer of major asset taken at price different from normal commercial terms i.e. not at fair value)
   (vi) either in amount or proportion of outstanding items and provisions for doubtful debts pertaining to related parties on B/S date.
   (vii) amounts written off/back in the accounting period in respect of debts due from or to related parties.

(ii) P Ltd. would be considered to control R Ltd. As per AS 18, control includes ownership, directly or indirectly, of more than 50% of the voting power of another enterprise. P Ltd. is a majority shareholder of Q Ltd., hence, it has control over it.

Further, as P Ltd. and Q Ltd. together are majority shareholders (i.e. 50% + 25%) in R Ltd. P Ltd. has indirect control over it. Accordingly, P Ltd. has the ability to control R Ltd., indirectly through the share holding in Q Ltd. apart from its individual shareholding in R Ltd.

3. (a) (i) As per Ind AS 116 what a lessor needs to disclose? [4]
(ii) A loss of ₹8,00,000 on account of embezzlement of cash was suffered by the Company and it was debited to Salary Account, discuss in the context of Ind AS 1. [3]

(b) The summarized Balance Sheet of PP Ltd. and QQ Ltd. as at 31st March, 2022 were as under:

Particulars	PP Ltd. (₹)	QQ Ltd. (₹)
Fully paid up equity shares of ` 10 each	10,00,000	6,00,000
Share Premium Account	2,00,000	—
General Reserve	2,60,000	2,50,000
Profit and Loss Account	1,80,000	1,60,000
10% Debentures	5,00,000	—
Secured Loan	3,00,000	3,00,000
Sundry Creditors	—	1,70,000
	24,40,000	14,80,000
Land and Buildings	9,00,000	4,50,000
Plant and Machinery	5,00,000	3,80,000
Investments (5,000 shares in QQ Ltd.)	80,000	—
Stock	5,20,000	3,50,000
Debtors	4,10,000	2,60,000
Bank	30,000	40,000
	24,40,000	14,80,000

RR Ltd., an existing company took over both PP Ltd. and QQ Ltd.

(a) The shares of PP and QQ are to be valued as under:

PP Ltd. — ₹ 18 per share
QQ Ltd. — ₹ 20 per share

(b) A contingent liability of PP Ltd. of ₹ 60,000 is to be treated as real liability.

(c) The shareholders of PP Ltd. and QQ Ltd. are to be paid by issuing sufficient number of shares of RR Ltd. at par.

(d) The shares of RR Ltd. are issued at ₹10 each. [9]

Required:

(i) Show the computation of the number of shares RR Ltd. will issue to the shareholders of PP Ltd. and QQ Ltd.

(ii) Pass the journal entries in the books of RR Ltd.

Answer:

(a) (i) A lessor shall disclose the following amounts for the reporting period:

(I) for finance leases:
- selling profit or loss;
- finance income on the net investment in the lease; and
- income relating to variable lease payments not included in the measurement of the net investment in the lease.

(II) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.

(ii) Embezzlement of Cash during the course of business is a Business Loss. It is a business hazard which can occur once in a while. Loss due to embezzlement of Cash cannot be merged with any other head. Being a material item, it should to be disclosed under a distinct head in the P&L A/c and not under Salary A/c.

(b)

Calculation of number of shares to be issued

Particulars	PP Ltd. (₹)	QQ Ltd. (₹)
Existing Shares	1,00,000	60,000
Less: Held by PP Ltd.	-	5,000
	1,00,000	55,000
Agreed Value per Share (Considered as Fair Value)	18	20
Total Fair Value of equity shares issued	18,00,000	11,00,000
No of shares to be issued of ₹10 each	1,80,000	1,10,000
Total no. of shares to be Issued of ₹10		**2,90,000**

In the books of RR Ltd.

Journal

Particulars	**Dr. (₹ '000)**	**Cr. (₹ '000)**
Land & Building A/c	1350	
Plant & Machinery A/c	880	
Stock A/c	870	
Debtors A/c	670	
Bank A/c	70	
Goodwill A/c	390	
To, Loan A/c		600
To, Creditors A/c		170
To, Other Current Liability (Contingent Liability recognized as other current liability)		60
To, Consideration*		3400
(Assets and liabilities acquired and consideration payable all at fair value, balance accounted as Goodwill)		

* Consideration = (Equity) ₹2,900 + (Debenture) ₹500 = ₹3,400

Particulars	**Dr. (₹ '000)**	**Cr. (₹ '000)**
Consideration A/c	3,400	
To, 10% Debenture [of RR Ltd]		500
To, Equity Share Capital A/c		2,900
(Consideration transferred to the owners of the Acquire company by issue of 10% Debentures and Equity shares of ₹10 at par)		

Note: Inter-company investment is not acquired by the Acquirer.

Working Note:

Goodwill	As on 1st April 2022 (₹)
Assets acquired at Fair Value	38,40,000
Liabilities acquired at Fair Value	8,30,000
Net Assets acquired (i)	30,10,000
Consideration Transferred (ii)	34,00,000
Goodwill (ii – i)	3,90,000

4. (a) List the main objectives of Ind AS 110. [6]

(b) (i)X Ltd. agreed to takeover Y Ltd. as on 1 October, 2022. No Balance Sheet of Y Ltd. was prepared on that date.Summarised Balance Sheets of X Ltd. and Y Ltd. as at 31st March, 2022 were as follows:

Liabilities	X Ltd (₹)	Y Ltd (₹)	Assets	X Ltd (₹)	Y Ltd (₹)
Equity of ₹10 each fully paid	20,00,000	15,00,000	Fixed assets	15,50,000	12,60,000
Reserves and Surplus:			Current Assets:		
Reserve	3,60,000	3,17,500	Stock	5,35,500	3,81,500
Profit & Loss A/c	3,30,000	1,60,000	Debtors	3,49,500	2,31,000
Creditors	85,000	75,000	Bank	3,40,000	1,80,000
Total	28,05,000	20,75,000	Total	28,05,000	20,75,000

Additional information available:

I. **For the six months period from 1st April 2022, X Ltd. and Y Ltd. made profits of ₹ 5,10,000 and ₹ 3,37,500 respectively, after writing off depreciation @ 10% per annum on their fixed assets.**

II. **Both the companies paid on 1 August 2022, equity dividends of 10%.**

III. **Goodwill of Y Ltd. was valued at ₹1,68,900 on the date of takeover. Stock of Y Ltd., subject to an abnormal item of ₹8,500 to be fully written off, would be appreciated by 20% for purpose of takeover.**

IV. **X Ltd. would issue to Y Ltd.'s shareholders fully paid equity shares of ₹10 each, on the basis of the comparativeintrinsic values of the shares on the date of takeover.**

You are required to:

- **Calculate consideration to be transferred by X Ltd.**
- **Calculate Number of shares to be issued by X Ltd. to Y Ltd.**
- **Ascertain closing bank balance which will appear in the Balance Sheet of X Ltd. (After absorption of Y Ltd.). [4+2+2=8]**

(ii) V has acquired 100% of the equity of K on March 31, 2021. The purchase consideration comprises of an immediate payment of ₹10 lakhs and two further payments of ₹1.21 lakhs if the Return on Equity exceeds 20% in each of the subsequent two financial years. A discount rate of 10% is used. Compute the value of total consideration at the acquisition date. [2]

Answer:

(a) The main objectives of Ind AS110 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. For this purpose this Ind AS:

(i) requires an entity (the parent) that controls one or more other entities (subsidiaries) to **present consolidated financial statements**;

(ii) **defines the principle of control**, and establishes control as the basis for consolidation;

(iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee;

(iv) **sets out the accounting requirements for the preparation ofconsolidated financial statements**; and

(v) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

(b) (i)

Computation of cash and bank balance of the Companies as on 1st October

Particulars	X Ltd. (₹)	Y Ltd.(₹)
Balance as on 1st April	3,40,000	1,80,000
Add: Net Profit during the 6 months	5,10,000	3,37,500
Add: Depreciation for 6 months (15,50,000 x 10% x 6/12) & (12,60,000 x 10% x6/12)	77,500	63,000
Total of above	9,27,500	5,80,500
Less: Dividend paid	2,00,000	1,50,000
Balance as on 30th September	7,27,500	4,30,500

Computation of Net Assets of X Ltd and V Ltd. as on 1st October

Particulars	X Ltd. (₹)	Y Ltd. (₹)
Goodwill (at agreed value)	—	1,68,900
Fixed Assets (Book Value- Depreciation @10% for 6 months)	14,72,500	11,97,000
Debtors	3,49,500	2,31,000
Stock (including appreciation @ 20%)	5,35,500	4,47,600
Cash and Bank balances as computed above	7,27,500	4,30,500
Total Assets	30,85,000	24,75,000
Less: Creditors	85,000	75,000
Value of Net Assets on 1st October (considered as Fair Value)	30,00,000	24,00,000
No: of equity shares	2,00,000	1,50,000
Intrinsic value per share (considered as Fair Value)	₹15	₹16

So, consideration to be transferred by X Ltd. will be ₹24,00,000.

Calculation of Number of shares to be issued by X Ltd. to Y Ltd —
Number of shares to be issued by X Ltd. to Y Ltd. = ₹24,00,000/₹15 per shares = 1,60,000 shares.

(ii)

Particulars	₹
Immediate cash payment	10.00
Fair value of contingent consideration ($1.21/1.1 + 1.21/1.1^2$)	2.10
Total purchase consideration	12.10

5. (a) P acquires 60% shares in Q on 1.10.2021. Q makes profits ₹10,000 in the year 2021-22 and declared dividend ₹6,000. NCI is valued at ₹12,000. **(₹ Lakhs)**

	P	Q
PPE	**50,000**	**30,000**
Investment in shares of Q	**21,000**	

Current Assets	**20,000**	**14,000**
	91,000	**44,000**
Equity Shares	**60,000**	**25,000**
Other Equity	**16,000**	**4,000**
Current Liabilities		
Trade Payables	**15,000**	**9,000**
Dividend Payable		**6,000**
	91,000	**44,000**

Draft the Consolidated and Separate Balance Sheet in books of P. [8]

(b) (i) What are the criteria for application of Equity Method as per Ind AS 28? [3]

(ii) Discuss about the Financial Statements of parties to a joint arrangement classified as Joint operations. [5]

Answer:

(a)

Working Notes:

1. Goodwill = B+C - A = ₹12,000 + ₹21,000 – ₹30,000 = ₹3,000

   Where:
   A. Net Assets identified on acquisition in the mid of the year, represented by Value of Equity of Q = ₹25,000 + Pre acquisition profits (50% of yearly profit) = ₹25,000+₹5,000 = ₹30,000.
   B. NCI = ₹12,000
   C. Consideration = Investment in shares of Q = 21,000.

2. NCI at the reporting date = NCI at acquisition + Share of NCI in post acquisition profits of Q – Dividend payable to NCI = ₹12,000 + [40% × ₹5,000 (i.e. 50% of yearly profit] - 40% × ₹6,000 (dividend payable to be shown separately) = ₹12,000 + ₹2,000 - ₹2,400 = ₹11,600.

3. Consolidated Other Equity = P's Other Equity + Share from Post acquisition profits of Q = ₹16,000 + (60% × ₹5,000) = ₹19,000

In books of P
Consolidated and Separate Balance Sheet

(₹ Lakhs)

	In P's Book	
	Separate	Consolidated
Goodwill (1)		3,000
PPE	50,000	80,000
Investment in shares of Q (₹21,000 – ₹1,800 Pre-acquisition Dividend)	19,200	
Current Assets (20,000+1,800 Div Receivable)	21,800	34,000#
	91,000	1,17,000
Equity Shares	60,000	60,000
Other Equity (3)	16,000	19,000
NCI (2)		11,600
Current Liabilities		
Trade Payables	15,000	24,000
Dividend Payable (to NCI)		2,400
	91,000	1,17,000

₹(20,000+14,000 = ₹34,000); In Consolidated balance sheet Inter-company dividend is set off and does not appear.

(b) (i) Criteria for application of Equity Method as per Ind AS 28:

An entity with joint control of, or significant influence over, an investee shall account for its investment in anassociate or a joint venture using the equity method.

An entity shall discontinue the use of the equity method from the date when its investee is no more an associate or a joint venture.

An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance Ind AS 27.

(iii) Financial statements of parties to a joint arrangement classified as Joint operations:

A. A joint operator shall recognise in relation to its interest in a joint operation:
   (a) its assets, including its share of any assets held jointly;
   (b) its liabilities, including its share of any liabilities incurred jointly;
   (c) its revenue from the sale of its share of the output arising from the joint operation;
   (d) its share of the revenue from the sale of the output by the joint operation; and
   (e) its expenses, including its share of any expenses incurred jointly.

B. A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement, if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation.

6. (a) X Ltd. has EPS ₹15 and no. of shares 1,200. Its CF ₹15,600 and Sales ₹90,000. Find value per share of X Ltd. using simple average of market values based on three base values (PAT, CF and Sales) of similar other companies as provided below:

Companies	PAT (₹)	CF (₹)	Sales (₹)	MC (₹)
A	24,000	30,000	1,50,000	1,80,000
B	18,000	20,000	1,80,000	2,16,000
C	30,000	36,000	1,60,000	1,80,000
D	20,000	25,000	1,50,000	1,80,000

[8]

(b) (i) What disclosures an entity is required to make to highlight the information that enables users of the Financial Statements to understand the nature and extent of share-based payment arrangements that existed during the period. [5]

(ii) Mr. Z is granted share options conditional upon completing 2 years' service. How is the transaction recognised? [3]

Answer:

(a) PAT of X Ltd. = EPS* No. of shares = ₹15*1200 = ₹18,000

For the 4 companies in the peer group Relatives are computed as MC/ Base Value

For PAT as base value M_1 is the multiple.

For CF as base value M_2 is the multiple.

For Sales as base value M_3 is the multiple.

Comparator is the average value of the multiples for the 4 companies.

Value of equity of X for each base = Base Value of X*Comparator

					Multiples		
Companies	**PAT (₹)**	**CF (₹)**	**Sales (₹)**	**MC (₹)**	**M_1=MC/PAT**	**M_1=MC/CF**	**M_1=MC/Sales**
A	24,000	30,000	1,50,000	1,80,000	7.5	6	1.2
B	18,000	20,000	1,80,000	2,16,000	12	10.8	1.2
C	30,000	36,000	1,60,000	1,80,000	6	5	1.125
D	20,000	25,000	1,50,000	1,80,000	9	7.2	1.2
Comparator					8.625	7.25	1.18125
Baser Value of X					18,000	15,600	90,000
Value of equity of X					1,55,250	1,13,100	1,06,312.5
No. of equity shares					1,200	1,200	1,200
Value per share based on Base Value					129.375	94.25	88.59375
Average value per share					104.072917		

Calculated market value of Equity of X = Comparator x Base Value of X.

(b) (i) The entity is required to disclose information that enables users of the Financial Statements to understand the nature and extent of share-based payment arrangements that existed during the period. An entity shall disclose at least the following:

I. A description of each type of share based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement,

II. The number and weighted average exercise prices of share options for each of the following groups of options:
- outstanding at the beginning of the period
- granted during the period
- forfeited during the period
- exercised during the period
- expired during the period
- outstanding at the end of the period
- exercisable at the end of the period

III. For share options exercised during the period, the weighted average share price at the date of exercise. For share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life.

IV. An entity shall disclose information that enables users of the financial statements to understand how the FV of the goods or services received or the FV of the equity instruments granted, during the period was determined.

(ii) The transaction will be recognized as equity-settled share based payment transaction. The services from the employee will be assumed to be rendered in future during the vesting period. In each financial statements falling in the vesting period the fair value of the share options as on the grant date will be recognized in proportion of the period expired to the total vesting period.

7. (a) (i) Discuss the meaning of XBRL . [5]
(ii) Discuss the initial and subsequent measurement of financial asset ? [4]
(b) Write a note on Consolidated Fund of India, Contingency Fund and Public Account of India. [7]

Answer:

(a) (i) 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:

I. 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.
II. 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.
III. 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.
IV. 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.

(ii) Initial measurement of financial asset:
Except for trade receivables, at initial recognition, an entity shall measure a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets:
After initial recognition, an entity shall measure a financial asset at:
(a) amortised cost;
(b) fair value through other comprehensive income; or
(c) fair value through profit or loss.

(b) Consolidated Fund of India

Subject to assignment of certain taxes to the States,
- all revenues received by the Government of India,
- all loans raised by the Government and
- all moneys received by that Government in repayment of loans

Shall form one consolidated fund to be called "the Consolidated Fund of India"
- No moneys shall be appropriated out of the Consolidated Fund of India except in accordance with law.
- No money can be issued out of Consolidated Fund of India unless the expenditure is authorised by an Appropriation Act.

Contingency Fund (Article 267) and Contingency Fund of India Act, 1950

- Parliament may by law establish a Contingency Fund in the nature of an imprest to be called "the Contingency Fund of India.
- Fund shall be placed at the disposal of the President to enable advances to be made for meeting unforeseen expenditure, pending authorization by Parliament

Public Account of India Article 266(2)

All other public moneys received by or on behalf of the Government of India shall be credited to the Public Account of India

Revenue Account (Article 112)

- The estimates of expenditure embodied in the annual financial statement shall show separately and shall distinguish expenditure on revenue account from other expenditure.
- Proceeds of taxation and other receipts classed as revenue and Expenditure met there from

Capital Heads

- Expenditure met usually from borrowed funds with the object of increasing concrete assets of a material and permanent character. Includes receipts of capital nature intended to be applied as a set off to capital expenditure.
- Receipts of capital nature which cannot be applied as a set off to capital expenditure.

8. Write short notes on *any four* of the following: [4x4=16]
(a) Factors affecting valuation of shares;
(b) State taxes that are subsumed under the GST;
(c) Review of accounts of a Government Company;
(d) Objectives of Government Accounting;
(e) Finance Lease as per AS-19.

Answer:

(a) Factors Affecting Valuation of Shares

The different factors that affect the valuation of shares are:
(i) Nature of the industry to which the company belongs
(ii) The companies past performance

(iii) Economic conditions of the country
(iv) Other political and economic factors (e.g., possibility of nationalization, excise duty on goods produced, etc.)
(v) Demand and supply of shares
(vi) Income yielding capacity of the company
(vii) The availability of sufficient assets over liabilities
(viii) Proportion of liabilities and capital
(ix) Rate of proposed dividend and past profit of the company
(x) Yield of other related shares of the Stock Exchange.

(b) Following are the State taxes that are subsumed under the GST

i. State VAT
ii. Central Sales Tax
iii. Luxury Tax
iv. Entry Tax (all forms)
v. Entertainment and Amusement Tax (except when levied by the local bodies)
vi. Taxes on advertisements
vii. Purchase Tax
viii. Taxes on lotteries, betting and gambling
ix. State Surcharges and Cesses so far as they relate to supply of goods and services

(c) Review of accounts of a Government Company

The accounts of Government Companies set up under the provisions of the Companies Act (including Government Insurance Companies and deemed Government Companies) are audited by the Comptroller and Auditor General of India (C&AG) under the provisions of Section 143 of the Companies Act, 2013. Under these provisions, the C&AG:

(i) shall appoint statutory auditor of a Government company,
(ii) may conduct supplementary or test audit of accounts of a Government Company,
(iii) may comment upon the report of the statutory auditor. In addition he issues directions to the statutory auditors regarding the manner in which the accounts of a Government Company are to be audited.

The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the Central Government on the advice of the CAG under the Companies Act, 2013 are subjected to supplementary or test audit by officers of the CAG and CAG gives his comments or supplements the report of the Statutory Auditors. The Companies Act, 2013 empowers the CAG to issue directions to the Statutory Auditors on the manner in which the Company's accounts shall be audited.

(d) Following are the 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.

(e) Finance Lease as per AS-19

Finance Lease is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the Lessee by the Lessor but not the legal ownership. In following situations, the lease transactions are called Finance Lease.

- The lessee will get the ownership of leased asset at the end of the lease term.
- The lessee has an option to buy the leased asset at the end of term at price, which is lower than its expected fair value at the date on which option will be exercised.
- The lease term covers the major part of the life of asset.
- At the beginning of lease term, present value of minimum lease rental covers substantially the initial fair value of the leased asset.
- The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.