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

	Amount (₹)
Fair market value of plan assets (beginning of year)	**8,00,000**
Fair market value of plan assets	**11,40,000**
Employer Contribution	**2,80,000**
Benefit Paid	**2,00,000**

Calculate the actual return on plan assets.

A. ₹11,40,000
B. ₹2,60,000
C. ₹8,00,000
D. ₹3,40,000

Answer:

B — ₹2,60,000.

The actual return is computed as follows:

Particulars	Amount (₹)	Amount (₹)
Fair market value of plan assets (end of year)		11,40,000
Fair market value of plan assets (beginning of year)		8,00,000
Change in plan assets		3,40,000
Adjusted for		
Employer contributions	2,80,000	
Less: Benefit Paid	2,00,000	80,000
Actual return on plan assets		2,60,000

(ii) Miss Dimpy purchased 1,000 shares in M Ltd. at ₹ 600 per share in 2015. There was a rights issue in 2017 at one share for every two held at price of ₹150 per share. If Miss Dimpy subscribed to the rights, what would be carrying cost of 1,500 shares as per AS-13.
A. ₹ 6,00,000
B. ₹ 6,75,000
C. ₹ 7,00,000
D. Data insufficient

Answer:

***B* — ₹ 6,75,000.**

Cost of original holding (Purchase) (1,000 x 600) = ₹6,00,000

Amount paid for Rights (500 x 150)	= ₹75,000
Total carrying cost of 1500 shares:	**₹6,75,000**

(iii) A parent company in a group of companies shall prepare consolidated financial statements as per Ind AS ______ , and further it shall prepare separate financial statements as per Ind AS ______.

A. 110,27;
B. 115,27;
C. 2,27;
D. None of the above.

Answer:

A — 110,27.

A parent company in a group of companies shall prepare consolidated financial statements as per Ind AS 110, and further it shall prepare separate financial statements as per Ind AS 27.

(iv) Which of the following is/are the objective/s of Ind AS 113?

(a)To define fair value;
(b)To set up a framework for measurement of fair value;
(c)Both (a) and (b)
(d)None of the above.

Answer:

C — Both (a) and (b)

Following are the objectives of Ind AS 113:

(a) To define fair value;
(b) To set up a framework for measurement of fair value;
(c) To specify requirements of disclosure of fair value measurement

(v) Application of acquisition method as per Ind AS 103 requires which of the following?

(a) identifying the acquirer;
(b) determining the acquisition date;
(c) recognising and measuring goodwill or a gain from a bargain purchase;
(d) All of the above

Answer:

D — All of the above

Applying the acquisition method requires the following:

(a) identifying the acquirer;
(b) determining the acquisition date;
(c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree; and
(d) recognising and measuring goodwill or a gain from a bargain purchase.

(vi) 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.

(vii) Amrit Ltd. has provided depreciation in accounts for ₹ 160 lakhs, but as per tax records it is ₹240 lakhs. Unamortized preliminary expenses, as per tax records is ₹80,000. There is adequate evidence of future profit sufficiently. Tax rate is 30%. How much deferred tax assets/liability should be recognized as per AS-22?
A. ₹ 24.00 lakhs
B. ₹ 23.76 lakhs
C. ₹ 11.88 lakhs
D. Nil

Answer:

B — ₹ 23.76 lakhs

The difference between taxable income and accounting income. Excess depreciation as per tax (240 - 160) = ₹ 80.00 lakhs Less, Expenses provided to taxable income ₹ 0.80 lakhs i.e. Timing difference = ₹ 79.20 lakhs
So, deferred tax liability = ₹ 79.20 lakhs x 30% = ₹ 23.76 lakhs

(viii) As per records of Pelf Fin Stock Ltd. Net Profit for the current year ₹ 199.20 lakhs, No. of Equity Shares outstanding 100 lakhs, No. of 12% Convertible Debentures of ₹ 100 each 2 lakhs, Each Debenture is convertible into 10 equity shares, Tax Rate 30%, As per AS 20, Diluted
Earnings Per Share is :
A. ₹ 1.66
B. ₹ 1.86
C. ₹ 1.80
D. None of these

Answer:

C — ₹ 1.80.

Adjusted Net Profit for the current year (199.2+24-7.2) = ₹ 216 lakhs
No. of equity shares resulting from conversion of debentures: 20,00,000 Shares
No. of equity shares used to compute diluted EPS:
(100,00,000 + 20,00,000) = 120,00,000 Shares
Diluted earnings per share: (216,00,000/120,00,000) = ₹ 1.80

(ix) During 2018, Avishkar Ltd. incurred costs to develop and produce a routine, low-risk computer software product, as follows:

Completion of detailed program design	**₹23,000**
Cost incurred for coding and testing to establish technological feasibility	**₹20,000**
Other coding costs after establishing technological feasibility	**₹39,000**
Other testing costs after establishing technological feasibility	**₹31,000**

What amount should be capitalized as software cost?

A. ₹43,000
B. ₹70,000
C. ₹23,000
D. ₹14,000

Answer:

B — ₹70,000.

Costs incurred after establishing technological feasibility should be capitalized i.e. (₹39,000+₹31,000)=₹70,000 is to capilised and costs incurred before establishing technological feasibility is to be expensed as and when it is incurred.

(x) AS per Ind AS 2 Inventories are _______________.

A. Assets held for sale in the ordinary course of business;
B. Assets in the process of production for such sale;
C. Assets in the form of materials or supplies to be consumed in the production process or in the rendering of services.
D. All of the above.

Answer:

D — All of the above.

AS per Ind AS 2 Inventories are assets:

(i) held for sale in the ordinary course of business;
(ii) in the process of production for such sale;
(iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

[16x5=80]

2. (a) (i) Happy Ltd. is committed to a plan to sell a factory to a buyer on 30th September with back log of uncompleted customer order with a condition that —

A. the factory will be transferred immediately along with the back log orders to the buyer.
B. the factory will be transferred after finishing the back log orders.
Should the factory be classified as available for sale on 30th in case of A and B? [3]

Answer:

In case of A. it is available for immediate sale at its present condition on 30th and hence on that date it should be classified as available for sale. In case of B. it is not available for immediate sale on 30th rather it is not available for sale until the back log customer orders are completed.

(ii) Discuss the scopes of Ind AS 18 Revenue. [5]

Answer:

Scopes Ind AS 18 is to be applied in accounting for revenue arising from:

(a) Sale of goods
(b) Rendering of services
(c) Use by others of entity assets yielding interest and, royalties.

Non Applicability:

(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.

(b) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS 3:

Particulars		**₹ in Lakhs**	**₹ in Lakhs**
Net Profit			**60,000**
Add:	**Sale of Investments**		**70,000**
	Depreciation on Assets		**11,000**
	Issue of Preference Shares		**9,000**
	Loan raised		**4,500**
	Decrease in Stock		**12,000**
			1,66,500
Less:	**Purchase of Fixed Assets**	**65,000**	
	Decrease in Creditors	**8,000**	
	Increase in Debtors	**6,000**	
	Exchange gain	**8,000**	
	Profit on sale of investments	**12,000**	
	Redemption of Debenture	**5,700**	
	Dividend paid	**1,400**	
	Interest paid	**945**	**1,07,045**
			59,455
Add:	**Opening cash and cash equivalent**		**12,345**

Closing cash and cash equivalent		**71,800**

[8]

Answer:

Cash Flow Statement

Particulars	**(₹ in Lakhs)**	**(₹ in Lakhs)**
Cash flows from operating activities		
Net profit		60,000
Less: Exchange gain		(8,000)
Less: Profit on sale of investments		(12,000)
		40,000
Add: Depreciation on assets		11,000
Change in current assets and current liabilities		51,000
(-) Increase in debtors	(6,000)	
(+) Decrease in stock	12,000	
(-) Decrease in creditors	(8,000)	(2,000)
Net cash from operating activities		49,000
Cash flows from investing activities		
Sale of investments	70,000	
Purchase of fixed assets	(65,000)	
Net cash from Investing activities		5,000
Cash flows from financing activities		
Issue of preference shares	9,000	
Loan raised	4,500	
Redemption of Debentures	(5,700)	
Interest paid	(945)	
Dividend paid	(1,400)	
Net cash from financing activities		5,455
Net increase in cash & cash equivalents		59,455
Add: Opening cash and cash equivalents		12,345
Closing cash and cash equivalents		71,800

3. (a) Following details are given for Sumangal Ltd. for the year ended 31st March, 2017:

(₹ in lakhs)

Sales:		
Food Products	**22,600**	
Plastic and Packing	**2,500**	
Health and Scientific	**1,380**	
Others	**648**	**27,128**
Expenses:		
Food Products	**13,340**	
Plastic and Packing	**1,700**	
Health and Scientific	**888**	
Others	**800**	**16,728**
Other Items:		
General corporate Expenses		**2,248**
Income from investments		**528**
Interest expenses		**260**
Identifiable assets:		
Food Products	**29,280**	
Plastic and Packing	**5,280**	
Health and Scientific	**4,200**	
Others	**2,660**	**41,420**
General Corporate Assets		**2,888**

Other Information:

- **Inter-segment sales are as below:**

(₹ in lakhs)

Food Products	**220**
Plastic and Packing	**288**
Health and Scientific	**84**
Others	**28**

- **Operating profit includes ₹132 lakhs on inter-segment sales.**
- **Information about inter-segment expenses are not available.**

You are required to prepare a statement showing financial information about Sumangal Ltd.'s operations in different industry segments. [8]

Answer:

Information about Sumangal Ltd.'s operations in different Industry segments is furnished in the following table:

	Food Products	**Plastic & Packaging**	**Health & Scientific**	**Others**	**Intersegment Elimination**	**Consolidated**
External Sales	22,380	2,212	1,296	620	—	26,508
Inter-segment	220	288	84	28	620	-
Total	22,600	2,500	1,380	648	620	26,508
Segment Expenses	13,340	1,700	888	800	488	16,240
Operating Profit	9,260	800	492	(152)	132	10,268
General Corporate Expenses						(2,248)
Income from Invest.						528

Interest						(260)
Income from continuing operations						8,288
Identifiable assets	29,280	5,280	4,200	2,660		41,420
Corporate assets	—	—	—	—	—	2,888
Total assets						44,308

(b) Fat Ltd. and Thin Ltd. have set up a joint venture, JV, in the ratio of 40% and 60% respectively. Both Fat Ltd. and Thin Ltd. are required to prepare consolidated financial statements. The balance sheets of both co-venturers and JV are given below:

	Fat Ltd. ₹	**Thin Ltd.** ₹	**JV** ₹
Share Capital	**5,00,000**	**3,00,000**	**1,00,000**
Reserves	**3,00,000**	**1,00,000**	**50,000**
Loans	**2,00,000**	**1,00,000**	**30,000**
	10,00,000	**5,00,000**	**1,80,000**
Fixed Assets	**8,00,000**	**3,50,000**	**1,20,000**
Investment in JV	**40,000**	**60,000**	**-**
Net Working Capital	**1,60,000**	**90,000**	**60,000**
	10,00,000	**5,00,000**	**1,80,000**

Show the reporting of JV in the consolidated financial statements of Fat Ltd. and Thin Ltd. [8]

Answer:

The interest of Fat Ltd. and Thin Ltd. in JV can be reported in the consolidated financial statements as per the proportionate consolidation method as follows:

Consolidated Balance Sheets (Amount in ₹)

	Fat Ltd. ₹		**Thin Ltd.** ₹
Share Capital	5,00,000		3,00,000
Reserves (₹ 3,00,000 + 20,000)	3,20,000	(₹ 1,00,000 + 30,000)	1,30,000
Loans (₹ 2,00,000 + 12,000)	2,12,000	(₹ 1,00,000+ 18,000)	1,18,000
	10,32,000		**5,48,000**
Fixed Assets (₹ 8,00,000 + 48,000)	8,48,000	(₹ 3,50,000 + 72,000)	4,22,000
Net working capital (₹ 1,60,000 + 24,000)	1,84,000	(₹ 90,000 + 36,000)	1,26,000
	10,32,000		**5,48,000**
JV has been consolidated on a line-by-line basis in the ratio of 40% and 60%.			

4. (a) The following was the balance sheet of Mukta Ltd. as on 31st December:

Equity and Liabilities	**₹**
1. Shareholders Fund:	
(a) Share capital 24,000 shares of ₹ 10 each	**2,40,000**
Less: calls unpaid (₹ 3 per share on 6,000 sh)	**(18,000)**
(b) Reserves & Surplus – P & A/c	
As per Last B/Sheet (Loss b/f) 44,000	
(Less) Profit for the year 2,400	**(41,600)**
2. Current Liabilities:	
(a) Trade Payables – Sundry Creditors	**30,850**
(b) short term provisions – provision for taxation	**8,000**
Total	**2,19,250**
Assets	
1. Non- current Assets:	
(a) fixed Assets:	
(i) Tangible Assets	
- Land & Buildings	**41,000**
- Machinery	**1,01,700**
(ii) Intangible Assets – goodwill	**23,000**
2. Current Assets:	
(a) Inventories	**20,550**
(b) Trade receivables – book debts	**30,000**
(c) Cash & cash equivalents	**3,000**
Total	**2,19,250**

Note: Authorized Capital is ₹4,00,000 being 40,000 equity shares of ₹ 10 each.

The directors have had a valuation made for the Machinery and find it overvalued by ₹ 20,000. It is proposed to write down this asset to its true value and to extinguish the deficiency in the Profit and Loss Account and to write off goodwill, by adoption of the following course –

(i) Forfeit the shares on which the calls outstanding.
(ii) Reduce the paid-up capital by ₹ 3 per share.
(iii) Reissue the forfeited shares at ₹ 5 per share.
(iv) Utilize the provision for taxes, if necessary.

The shares on which the calls were in arrears were duly forfeited and reissued on payment of ₹ 5 per share. Give the journal entries and the Balance Sheet of the company after carrying out the above scheme. [4+4=8]

Answer:

A. Journal Entries

	Particulars	**Debit**	**Credit**
i.	Equity Share Capital A/c Dr.	60,000	
	To Calls in Arrears A/c		18,000
	To Share Forfeiture A/c		42,000
	(Being 6,000 Shares forfeited for non-payment of calls)		
ii.	Equity Share Capital (₹10) A/c Dr.	1,80,000	
	To Equity Share Capital (₹7)		1,26,000
	To Reconstruction A/c		54,000
	(Being par value and paid up value of Equity Shares brought down to ₹7 per share under the reconstruction		

	scheme approved)		
iii.	Bank A/c Dr. Share Forfeiture A/c (balancing figure) Dr. To Equity Share Capital (Forfeited shares reissued at ₹5 per share as ₹7 paid up. Balance adjusted against Shares Forfeiture Account)	30,000 12,000	 42,000
iv.	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance in Share Forfeiture Account transferred to Capital Reserve)	30,000	 30,000
v.	Reconstruction A/c Dr. Capital Reserve A/c Dr. Provision for Taxation A/c (balancing figure) Dr. To Profit and Loss A/c To Machinery A/c To Goodwill A/c (Being balance in Reconstruction A/c and Capital Reserve A/c utilized to eliminate overvaluation of assets and write off balances in Profit and Loss A/c)	54,000 30,000 600	 41,600 20,000 23,000

B. Balance Sheet of Mukta Ltd. (and Reduced) as at 31st December

I	EQUITY AND LIABILITIES	Note	This Year	Prev. Year
(1)	**Shareholders' Funds:** Share Capital	1	1,68,000	
(2)	**Current Liabilities**			
	(a) Trade Payables - Creditors		30,850	
	(b) Short Term Provisions - Provision for Taxation (8,000 - 600)		7,400	
	Total		**2,06,250**	
II	**ASSETS**			
(1)	**Non-Current Assets** Fixed Assets (Tangible Assets)	2	1,22,700	
(2)	**Current Assets**			
	(a) Inventories		20,550	
	(b) Trade Receivables - Book Debts		30,000	
	(c) Cash & Cash Equivalents - (3,000 + 30,000)		33,000	
	Total		**2,06,250**	

Notes to the Balance Sheet:

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: 40,000 Equity Shares of ₹ 10 each	4,00,000	
Issued, Subscribed & **Paid up:** 24,000 Equity Shares of ₹ 7 each	1,68,000	

Note: Reconciliation of Shares (Quantity & Value) will be provided by the Company along with annual Financial Statements.

Note 2: Tangible Assets

Particulars	This Year	Prev. Year
(a) Land & Buildings	41,000	
(b) Machinery	81,700	
Total	**1,22,700**	

(b) (i) C Ltd acquires 60% share in D Ltd. for cash payment of ₹200,000. The fair value of non-controlling interest is ₹1,00,000. This amount was determined with reference of market price of D's ordinary shares before the acquisition date.
Calculate NCI and goodwill following:
i. Fair Value approach
ii. Proportionate shares of identified net asset in acquire approach when on the acquisition date, the aggregate value of D's identifiable net assets is:
(a) ₹2,40,000;
(b) ₹3,30,000. [6]

Answer:

	(ia) ₹	(ib) ₹	(iia) ₹	(iib) ₹
Consideration (1)	200000	200000	200000	200000
NCI (2)	100000	100000	96000[x]	132000[y]
Net assets (3)	240000	330000	240000	330000
Goodwill (1+2-3)	60000		56000	2000
Gain on Bargain Purchase (3-1-2)		30000		

[x] 40% × 240000 = 96000
[y] 40% × 330000 = 132000

[Under Ind AS 103, Goodwill is not amortised but tested for annual impairment in accordance with Ind AS 36.]

(ii) Discuss the types of Vertical Merger. [2]

Answer:

Types of vertical merger:

Vertical merger may take the form of forward or backward merger.

A vertical may result into a smooth and efficient flow of production and distribution of a particular product and reduction in handling and inventory costs. It may also pose a monopolistic trend in the industry.

Forward merger: When a company combines with the customer, it is known as forward merger.

Backward merger: When a company combines with the supplier of material, it is called a backward merger

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? [2]

Answer:

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) Discuss the non applicability of Ind AS 112. [6]

Answer:

Ind AS 112 does not apply to:

(a) Post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, Employee Benefits, applies.
(b) An entity's separate financial statements to which Ind AS 27, Separate Financial Statements, applies. However, if an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements, it shall apply the requirements of this standard when preparing those separate financial statements.
(c) An interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.
(d) An interest in another entity that is accounted for in accordance with Ind AS 109, Financial Instruments. However, an entity shall apply this Ind AS:
   (i) When that interest is an interest in an associate or a joint venture that, in accordance with Ind AS 28, Investments in Associates and Joint Ventures, is measured at fair value through profit or loss; or
   (ii) When that interest is an interest in an unconsolidated structured entity.

(b) Eagle Ltd. has acquired 51% in Sparrow Ltd. for ₹ 75.80 lakhs on April 1st, 2016. On date of the acquisition, Sparrow Ltd's Assets stood at ₹ 196 lakhs and Liabilities at ₹ 16 lakhs. The net assets position of Sparrow Ltd. as on 31st March, 2017 and 30th September, 2017 were ₹ 280 lakhs and ₹ 395 lakhs respectively, the increase resulting from profits earned during the period. On 01.10.2017, 25.5% holdings were sold for the ₹125 lakhs.

Required:

(i) State the nature of the relationship between the two companies on the relevant dates.

(ii) Calculate the profit arising on part sale of investment.

(iii) Calculate the Carrying value of the portion unsold.

Calculate the Goodwill/Capital reserve that arises on change in nature of the investment. [8]

Answer:

(a) (i) Nature of Relationship with Sparrow Ltd.

01.04.2016 – 30.09.2017	From 01.10.2017
Subsidiary	Associate

(ii) Calculation of Gain or Loss on the Disposal of the Part of Investment in Sparrow Ltd.

Particulars	(₹ In lakhs)
A. Sale Proceeds on Disposal of holding	125.00
B. Less: Carrying value of investment disposed off [185.45 lakhs × 25.5%/51%]	(92.725)
C. Profit on Sale of Investments [A- B]	32.275

(iii) Carrying Value of Unsold Portion of the Investment Retained in the Consolidated Financial Statements

Particulars	(₹ in lakhs)
A. Total Value of Investment in CFS of Eagle Ltd.	185.450
B. Less: Carrying Value of Investment disposed off	(92.725)

C. Carrying Value of the Investment retained in CFS (Including Capital Reserve) [A - B]	92.725

(iv) Goodwill/Capital Reserve Arising on the Carrying Value of Unsold Portion of the Investment

Particulars	(₹ in lakhs)
A. Carrying Value Investments Retained as at 1.10.2015	92.725
B. Less: Share in Value of Equity of S Ltd., as at 1.10.2015 (395 lakhs × 25.5%)	(100.725)
C. Capital Reserve arising on Retained Investment under Equity Method as per AS 23	8.000

Working Notes:

(i) Calculation of Goodwill/Capital Reserve on Acquisition [₹ In lakhs]

A. Share of Holding Co. in Net Assets on Acquisition date [51% (₹196 lacs - ₹16 lacs)]	91.80
B. Less: Cost of Investments	(75.80)
C. Capital Reserve on Acquisition [A - B]	16

(ii) Total Value of Investment in Consolidated Financial Statement of Eagle Ltd.

A. Share of Holding Co. in Net Assets of Subsidiary on date of disposal [395 lakhs × 51%]	201.45
B. Less: Capital Reserve on acquisition [WN(i)]	(16.00)
C. Total Value of Investment in CFS of Eagle Ltd.	185.45

6. (a) (i) 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 ₹ 25.

i. Is there any share based payment transaction as per Ind AS 102?
ii. Is the transaction equity settled or cash settled?
iii. At what value the transaction will be recognized?
iv. When will the transaction be recognized? [4]

Answer:

(i) Yes
(ii) Equity Settled
(iii) At fair value on the grant date
(iv) In future at the time of Financial reporting in every relevant year proportionately to services received.

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

Particulars	**₹ Lakhs**
Standard Assets	**10,000**
Sub- Standard Assets	**1,000**
Secured Positions of Doubtful Debts:	
- Up to one year	**160**
- one year to three years	**70**
- more than three years	**20**
Unsecured Portions of Doubtful debts	**90**
Loss Assets	**30**

Calculate the amount of provision which must be made against the advances. [4]

Answer:

Particulars	Loan (₹ Lakhs)	Provision (%)	Provision (₹Lakhs)
Standard Assets	10,000	0.40	40
Sub- Standard Assets	1,000	10	100
Secured Portions of Doubtful Debts:			
- Up to one year	160	20	32
- 1 year to 2 years	70	30	21
- more than three years	20	50	10
Unsecured Portions of Doubtful Assets	90	100	90
Loss Assets	30	100	30
		Total	323

(b) The following draft Balance Sheet as at 31.03.2017 pertains to Jupiter Ltd.

(₹Lakhs)

Equity & Liabilities	₹
(1) Shareholders' Funds:	
(a) Share Capital - Equity Share Capital	
(i) 180 Lakhs Shares of ₹10, fully paid up	**1,800**
(ii) 90 Lakhs Shares of ₹10, ₹8 paid up	**720**
(iii) 150 Lakhs Shares of ₹5, fully paid up	**750**
(b) Reserves & Surplus	**5,457**
(2) Non-Current Liabilities:	
Long Term Borrowings - Secured Loans	**4,500**
(3) Current Liabilities:	
(a) Other Current Liabilities	**1,242**
(b) Short Term Provisions	**960**
Total	**15,429**
Assets	
(1) Non-Current Assets:	
(a) Fixed Assets:	
(i) Tangible Assets	**11,166**
(ii) Intangible Assets - Goodwill	**420**
(2) Current Assets:	
(a) Short Term Loans & Advances	**943**
(b) Other Current Assets	**2,900**
Total	**15,429**

You are required to calculate the following for each one of three categories of Equity Shares appearing in the above mentioned Balance Sheet -

- **Intrinsic Value on the basis of Book Values of Assets and Liabilities including Goodwill, Value per Share on the basis of Dividend Yield. Normal Rate of Dividend in the concerned Industry is 15%, whereas Jupiter Ltd has been paying 20% Dividend for the last four years and is expected to maintain it in the next few years. [4+4=8]**

Answer:

Computation of Capital employed **(₹ in Lakhs)**

Particulars	Amount	Amount
Goodwill at Cost Other fixed assets Current Assets Loans and advances		420 11,166 2,900 943
Total assets Less: Outside liabilities Secured loans .' Current liabilities Provisions	 4,500 1,242 960	**15,429** **6,702**
Capital employed attributable to Equity Share Holders		**8,727**

Computation of Value per Share under Intrinsic Value Method **(₹ in Lakhs)**

Particulars	Amount
Capital employed as on valuation Date i.e. Balance Sheet Date **Add:** Notional call on shares partly paid up (90 Lakhs shares x ₹ 2 per share)	8,727 180
Net assets available to equity shareholders [A]	**8,907**
Equivalent value of equity share capital (at par value) 180 + 90 Lakhs Shares of ₹ 10 150 Lakhs Shares of ₹ 5	 2,700 750
Face value of equity share capital [B]	**3,450**
Value per share of ₹1 = $\frac{A}{B} = \frac{₹8,907}{₹3,450}$	₹2.58
Value per Share	
₹ 10 Share, fully paid-up = ₹ 10 × ₹ 2.58	**₹ 25.80**
₹ 10 Share × 8 paid-up = ₹ 25.80 **Less** ₹ 2 Unpaid	**₹ 23.80**
₹ 5 Share, fully paid-up = ₹ 5 × ₹ 2.58	**₹ 12.90**

Note: Unpaid amount on partly paid up shares is assumed to be called up in the immediate future.

C. Computation of Value per Share under Dividend Yield Method (₹ in lakhs)

Particulars	
Company's Dividend Normal Industry Dividend	20% **15%**
Value per share	
₹ 10 Shares, fully paid up = $\frac{₹10 \times 20\%}{15\%}$	**₹ 13.33**
₹ 10 Shares, ₹ 8 paid up = $\frac{₹8 \times 20\%}{15\%}$	**₹ 10.67**
₹ 5 Shares, Fully paid up = $\frac{₹5 \times 20\%}{15\%}$	**₹6.67**

Note: Dividend is payable only on the paid up value. Hence under dividend - yield Method, the value per share for different Categories of shares, should be taken on pro- rata basis, as indicated above.

7. (a) Discuss the "Accounts of the Government of India" . [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:

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.

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.

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.

(b) Compare between Government Accounting and Commercial Accounting. [8]

Answer:

Although the basic principles of financial accounting that are applicable in regular commercial activities apply to the government accounts, there are certain features of governmental accounting which make it quite different from that of regular commercial accounting. The differences between commercial and government accounting have been presented hereunder:

i. Meaning: The accounting system applied in the government departments, offices and institutions is referred to as government accounting. While, the system of accounting applied by non-government organizations (whether profit-oriented or non-profit oriented) is known as commercial accounting.

ii. Objective: Government accounting is maintained by the government offices for recording and reporting the utilisation and position of public funds. Commercial accounting is maintained by business organizations to know the profit or loss for an accounting period and disclose the financial position of the entity.

iii. Scope: The government accounting happens to be more elaborate that that followed in commercial accounts.

iv. Budget: Government accounting is directly influenced by the government budgeting system, while commercial accounting does not follow the government budgeting system.

v. Basis: Government accounting is prepared on cash basis. On the other hand, commercial accounting may be done on cash basis or accrual basis, or sometimes even on hybrid basis.

vi. Level of Accounting: Government accounting has the system of central level and operating level accounting. Commercial accounting has no provision of central level and operating level accounting.

vii. Rules and Provisions: Government accounting is strictly maintained by following the financial rules and provisions as set by the concerned government. Commercial accounting is maintained by following the applicable rules and the 'Generally Accepted Accounting Principles' (GAAP).

viii. Information: Government accounting provides information to the government about the receipts, deposit, transfer and utilisation of public funds. Commercial accounting provides information to the various stakeholders about the operating result and financial position of the business.

ix. 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(namely, the Auditor General Office); while the books of accounts maintained under commercial accounting is audited by any professional auditor.

8. Write short notes on *any four* of the following: [4x4=16]
(a) Objectives of Government Accounting;
(b) Users of Triple Bottom Line Reporting;
(c) Financial liability;
(d) Meaning of XBRL;
(e) Fair value hierarchy as per Ind AS 113.

Answer:

(a) Objectives of Government Accounting:

Answer:

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.

(b) Users of Triple Bottom Line Reporting:

All types of entities viz. Businesses, non-profits organisations and government entities alike can all use the TBL.

Businesses: The TBL and its core value of sustainability have become compelling in the business world due to accumulating anecdotal evidence of greater long-term profitability. For example, reducing waste from packaging can also reduce costs. Among the firms that have been exemplars of these approaches are General Electric, Unilever, Proctor and Gamble, 3M among others.

Non-profit Organisations: Many non-profit organizations have adopted the TBL and some have partnered with private firms to address broad sustainability issues that affect mutual stakeholders. Companies recognize that aligning with nonprofit organizations makes good business sense, particularly those nonprofits with goals of economic prosperity, social well-being and environmental protection.

Government: State, regional and local governments are increasingly adopting the TBL and analogous sustainability assessment frameworks as decision-making and performance-monitoring tools.

(c) Financial liability:

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.

(d) Meaning of XBRL:

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

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) Fair value hierarchy as per Ind AS 113.

This Ind AS establishes a fair value hierarchy that categorises into three levels of the inputs to valuation techniques for measuring fair value.

(i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
(ii) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
(iii) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (*Level 3 inputs).*