FINAL EXAMINATION

GROUP - IV

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER - 2017

Paper-17 : CORPORATE FINANCIAL REPORTING

[Set-2]

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.

All working must form part of your answer.

Whenever necessary, suitable assumption may be made and disclosed by way of a note.

Answer Question No. 1 (carrying 20 marks) in Section-A which is compulsory and also answer any five questions (carrying 16 marks each) from Section B.

Section – A (20 Marks)

(This Section is compulsory)

(1 mark for answer + 1 marks for explanation)

1. (a) Choose correct option for the following statements: **2×10=20**

Statements:

I-Ind AS 101 provides an option to entities to use previous GAAP carrying values of PPE as on the date of transition as deemed cost.

II-IFRS1 provides an option to entities to use previous GAAP carrying values of PPE as on the date of transition as deemed cost.

Options:

(i) Statement I is correct and statement II is incorrect.

(ii) Statement I is incorrect and statement II is correct.

(iii) Statement I and II are incorrect.

(iv) Statement I and II are correct.

(b) Choose the correct option for the following statement:

Statement:

As per Ind AS 20, Government Grants related to assets are presented in the financial statement.

Options:

(i) By showing it as income of the year of the receipt.

(ii) By deducting the grant in arriving at the carrying amount of the asset.

(iii) By setting up the grant as deferred income.

(iv) By setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

(c) Choose correct option for the following statements:

Statements:

I-Ind AS 105 deals with Share-based payments.

II-Ind AS 104 deals with Insurance Contracts.

Options:

(i) Statement I is correct and statement II is incorrect.

(ii) Statement I is incorrect and statement II is correct.

(iii) Both statement I and II are incorrect.

(iv) Both statement I and II are correct.

(d) Choose correct option for the following statement:

Statement:

Pooling of Interest method is a recognized method of accounting for amalgamations in India.

Options:

(i) Statement in correct.

(ii) Statement is incorrect.

(iii) Statement is correct as AS 14 recognizes the method in specified cases.

(iv) Statement is correct as both AS 14 and Ind AS 103 recognize the method in specified cases.

(e) Capital employed is ₹ 255 Lakhs; Annual average profits are ₹ 44 Lakhs; Normal rate of return is 12%. The value of goodwill on the basis of 4 years purchase of super profits will be

(i) ₹ 176 Lakhs

(ii) ₹ 79 Lakhs

(iii) ₹ 40.70 Lakhs

(iv) ₹ 53.60 Lakhs

(f) IGAS 9 deals with

(i) Government Loans and Advances

(ii) Foreign Currency Transaction

(iii) Government Invest in Equity

(iv) **Public Debt and other Liabilities**

(g) Choose correct option for the following statement:

Statement:

Preparation of CFS is not mandatory for companies having subsidiary in India

Options:

(i) Statement is correct as the Companies Act, 2013 does not require preparation of CFS.

(ii) 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.

(iii) Statement is incorrect as the Companies Act, 2013 requires preparation of CFS.

(iv) Statement is incorrect as the Government of India by notification has imposed the requirement of preparation of CFS.

(h) Which of the following is not a role/duty of C & AG?

(i) To compile accounts of Union and States.

(ii) To give information and render assistance to the Union and States.

(iii) Audit of accounts of certain authorities or bodies.

(iv) Audit of Indian companies.

(i) Reverse merger helps a company to achieve

(i) organic growth

(ii) listing without IPO

(iii) inorganic growth

(iv) listing if IPO is made subsequently

(j) R Ltd. takes over S Ltd. on 31.03.2017.

There is Export Profit Reserve of ₹ 2,00,000 in the books of S Ltd. which is to be maintained for two more years. The journal entry will be

(i) Statutory Reserve A/c debit to Amalgamation Adjustment A/c.

(ii) Amalgamation Adjustment A/c debit to Statutory Reserve A/c.

(iii) General Reserve A/c debit to Amalgamation Adjustment A/c.

(iv) None of the above

Answer:

1. (a) (i)

Explanation- Ind AS 101 provides the option to entities to use previous GAAP carrying values of PPE as on the date of transition as deemed cost. But IFRS 1 does not provide such option.

(b) (iii)

Explanation- Ind AS 20 (para) on Government Grants gives only one option of setting the grant] as deferred income. IAS 20 however allows accounting by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

(c) (ii)

Explanation- Ind AS 102 deals with Share-based payments and Ind AS 104 deals with Insurane Contracts. Hence option (ii) is the correct option.

(d) (iv)

Explanation- AS 14 recognises pooling of interest method for accounting of amalgamations in the nature of mergers. Also, ind AS 103 recognises the method for accounting *of* business combination transactions between entities under common control. Hence, (iv) is the right choice.

(e) (iv) Super profit = Average profit — (Capital Employed × Normal Rate of Return)

= ₹ 44 Lakhs - (₹255 Lakhs × 12%)

= ₹ 44 Lakhs - ₹ 30.60 Lakhs

= ₹ 13.40 Lakhs

Goodwill - ₹ 13.4 × 4 = ₹ 53.60 Lakhs

(f) (iii)

Explanation- IGAS 9 deals with Government Investment in Equity. Hence, option **(iii)** is the right option

(g) (iii)

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

(h) (iv)

(i) (ii)

Explanation- In a reverse merger a private company can become a public company by joining with a public company with limited assets. Hence, it facilitates listing without IPO.

(j) (ii)

Explanation- Statutory Reserve A/c shall be credited as it is required to be retained for two years. Hence Amalgamation Adjustment A/c is to be debited.

SECTION - B (80 Marks)

Answer any five *questions (each question carrying 16 marks).* **16x5=80**

2. (a) State with reference to Accounting Standard (AS 2) how will you value the inventories in the following cases:

(i) Raw material was purchased at ₹ 100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10000 kg. of raw material is on stock at the year end. Replacement cost is ₹ 80 per kg.

(ii) In a production process, normal waste is 5% of input. 5000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end to be valued.

(iii) Per kg. of finished goods consisted of:

Material cost — ₹ 100 per kg.

Direct labour cost — ₹ 20 per kg.

Direct variable production overheads — ₹ 10 per kg.

Fixed production charges for the year on normal capacity of one lakh kg. are ₹10 lakhs. 2000 kg. of finished goods are on stock at the year end.

(b) (i) IB Sugar Limited borrowed an amount of ₹ 150 crores on 01.04.2016 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the Accountant of IB Sugar Ltd. capitalized ₹ 19.50 crores for the accounting period ending on 31.03.2017. Due to surplus fund, out of ₹ 150 crores, an income of ₹ 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of Accountant with reference to relevant accounting standard.

(ii) X Limited sold to Y Limited goods having a sales value of ₹ 25 lakhs during the financial year ended 31.03.2017. Mr. A, the Managing Director and Chief Executive of X Limited owns nearly 100 per cent of the capital of Y Limited. The sales were made of Y Limited at the normal selling price of X Limited. The Chief Accountant of X Limited does not consider that these sales should be treated any differently from any other sale made by the company despite being made to a controlled company, because the sales were made at normal and, that too, at arms' length prices.

Discuss the above issue from the view point of AS 18. (3+3+2)+(4+4)=16

Answer:

2. (a)

(i) As per para 24 of AS 2 (Revised) *on* Valuation of Inventories, materials and other supplies] held for use in the production of inventories are not written down below cost if the finished product in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realisable value, the materials are written down to net] realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value. Hence, in the given case, the stock of 10,000 kgs of raw material will be valued at ₹ 80 per kg. The finished goods, if on stock, should be valued at cost or net realisable value whichever is lower.

(ii) As per para 13 of AS 2 (Revised), abnormal amounts of waste materials, labour or other] production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. In this case, normal waste is 250 MT and abnormal waste is 50 MT. The cost of 250 MT will be included in determining the cost of inventories (finished goods) at the year end. The cost of abnormal waste amounting to {(1000 × 5000) ÷ 4750} × 50 MT = ₹ 52,631.50 will be charged in the profit and loss statement.

(iii) In accordance with paras 8 and 9 of AS-2 (Revised), the cost of conversion include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion is based on the normal capacity of the production facilities. Thus, cost per kg. of finished goods can be computed as follows :

	₹
Material cost	100
Direct labour cost	20
Direct variable production overhead	10
Fixed production overhead	10
	140

Thus, the value of 2,000 kgs. of finished goods on stock at the yearend will be ₹2,80,000 (2,000 kgs x ₹ 140).

2. (b)

(i) As per AS 16 Borrowing costs' stales, "to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incuned on that borrowing during the period less any income on the temporary investment of those borrowings." The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other tthan borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in 'the above case, treatment of accountant of IB Sugar Limited is incorrect. The amount of borrowing costs capitalized for the financial year 2016-17 should be calculated as follows:

Actual interest for 2016-17 (11% of ₹ 150 crores)	₹ 16.50 crores
Less : Income on temporary investment from specific borrowings	₹ 3.50 crores
Borrowing costs to be capitalized during year 2016-17	₹ 13.00 crores

2. (b)

(ii) Para 3 of AS 18 on Related Party Disclosures describes related party relationship as follows:

(a) Enterprises that directly, or indirectly through *one* or more intermediaries, control or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);

(b) Associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;

(d) Key management personnel and relatives of such personnel; and

(e) Enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

In the instant case, Mr. A as a managing director controls operating and financial actions of X Ltd. He also owns near 100% capital of Y Ltd. thereby exercising control over it. Hence, Y Ltd. is a related party as per para 3 of AS 18. Hence, the sale of goods worth ₹ 25 lakhs falls under AS 18 . Selling of goods at normal course of business or at arms' length prices do not alter the position as any transaction with related party is considered as related party transaction and requires appropriate disclosure in accordance with AS 18. Following matters require disclosure:

(i) The name of transacting related party	Y Ltd.
(ii) Description of the relationship between parties	Significant influence through ownership by a Director.
(iii) Description of nature of transaction	Sale of goods at normal selling price.
(iv) Volume of transaction	₹ 25 Lakhs

3. (a) Gagan Ltd. acquired a machine on 1st April, 2011 for ₹ 7 crore that had an estimated useful life of 7 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2015, the carrying value of the machine was reassessed at ₹ 5.10 crore and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended 31st March, 2017 conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only ₹ 79 lakhs. You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of Gagan Ltd. The Company had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

(b) Write a detailed note on Ind AS 1 : Presentation of Financial Statements. 8+8=16

Answer:

3. (a)

	₹ in Crore	₹ in Crore
Carrying amount of the machine as on 1st April 2011		7.00
Depreciation for 4 years i.e. 2011-12 to 2014-15 [₹ 1 crore × 4 years]		4.00

Carrying amount as on 31.03.2015		3.00
Add: Upward Revaluation (credited to Revaluation Reserve Account)		2.10
Carrying amount of the machine as on 1st April 2015 (revalued)		5.10
Less: Depreciation for 2 years i.e.2015-16 & 2016-17[(5.1/3)x2 years]		3.40
Carrying amount as on 31.03.2017		1.70
Less: Recoverable amount		0.79
Impairment loss		0.91
Less: Balance in Revaluation Reserve as on 31.03.2017:		
Balance in Revaluation Reserve as on 31.03.2017	2.10	
Less: Enhanced depreciation met from Revaluation Reserve 2015-16 & 2016-17 = [(1.70 -1.00) x 2 years]	1.40	0.70
Impairment loss set off against Profit & Loss Statement as per of AS 28 "Impairment of Assets"		0.21

3. (b)

Ind AS 1 on Presentation of Financial Statements prescribes the basis presenting general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The scope of the standard relates to preparation and presentation of general purpose financial statements in accordance with Indian Accounting Standards (Ind ASs). The standard gives purpose of the financial statements and also provides the content of complete set of financial statements.

Purpose of financial Statements :

Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's assets, liabilities, equity, income and expenses (including gains and losses), Contributions by and distributions to owners in their capacity as owners, and cash flows. This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Complete set of financial statements: A complete set of financial statements comprises:

(a) A balance sheet as at the end of the period (Including statement of changes is equity which is presented as a part of the Balance Sheet;

(b) A Statement of profit and loss for the period;

(c) Statement of changes in equity;

(d) A Statement of cash flows for the period;

(e) Notes, comprising a summary of significant accounting policies and other explanatory information; and

(f) Comparative information in respect of the preceding period;

(g) A balance sheet as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

4. A Ltd. agreed to take over B Ltd. as on 1st October, 2016. No Balance Sheet of B Ltd. was prepared on that date.

Summarised Balance Sheets of A Ltd. and B Ltd. as at 31st March, 2016 were as follows:

	A Ltd. (₹)	B Ltd. (₹)		A Ltd. (₹)	B Ltd. (₹)
Share Capital:			Fixed Assets	12,50,000	8,75,000
Equity shares of ₹ 10 each fully paid up	15,00,000	10,00,000	Current Assets:		
			Inventory	2,37,500	1,87,500
Reserves and Surplus:			Trade receivables	3,90,000	2,56,000
Reserve	4,15,000	2,56,000	Bank	2,93,750	1,50,000
Profit and Loss Account	1,62,500	1,37,500			
Trade payables	93,750	75,000			
	21,71,250	14,68,500		21,71,250	14,68,500

Additional information available:

(i) For the six months period from 1st April, 2016, A Ltd. made of profit of ₹ 4,20,000 after writing off depreciation at 10% per annum on its fixed assets.

(ii) For the same period, B Ltd. made a net profit of ₹ 2,04,000 after writing off depreciation at 10% p.a. on its fixed assets.

(iii) Both the companies paid on 1st August, 2016 equity dividends of 15%. Tax at 10% on such payments was also paid by each of them.

(iv) Goodwill of B Ltd. was valued at ₹ 1,20,000 on the date of takeover, inventory of B Ltd., subject to an abnormal item of ₹ 7,500 to be fully written off, would be appreciated by 25% for purpose of take over.

(v) A Ltd. to issue to B Ltd.'s shareholders fully paid equity shares of ₹ 10 each, on the basis of the comparative intrinsic values of the shares on the takeover date. Draft the Balance Sheet of A Ltd. after absorption of B Ltd. All workings are to form part of your answer. 16

Answer:

4.

A Ltd.

Balance Sheet as at 1st October 2016 (After Absorption)

Particulars	Note No.	₹
I. Equity and Liabilities		

(1) Shareholder's Funds		
(a) Share Capital	1	25,60,000
(b) Reserves and surplus	2	12,80,000
(2) Current Liabilities		
Trade payables		1,68,750
Total		40,08,750
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
i. Tangible assets	3	20,18,750
ii. Intangible assets	4	1,20,000
(2) Current assets		
(a) Inventories (₹ 2,37,500 + ₹ 2,25,000)		4,62,500
(b) Trade receivables (₹ 3,90,000+ ₹ 2,56,000)		6,46,000
(c) Cash and cash equivalents (₹ 5,28,750 + ₹ 2,32,750)		7,61,500
Total		40,08,750

Notes of Accounts

1.	**Share Capital**			
	2,56,000 Equity Shares of ₹ 10 each fully paid (1,06,000 shares allotted as fully paid without payment being received in cash)			25,60,000
2.	**Reserves and surplus**			
	Securities Premium		5,30,000	
	Reserves		4,15,000	
	Profit and Loss Account		3,35,000	12,80,000
3.	**Tangible Assets**			
	Other Fixed Assets (₹ 12,50,000 + ₹ 8,75,000)		21,25,000	
	Less: Depreciation		(1,06,250)	20,18,750
4.	**Intangible assets**			
	Goodwill			1,20,000

Working Note:

(1) Bank Balance on 1.10.2016

		A Ltd. (₹)		B Ltd. (₹)
Bank Balance as on 31.3.2016		2,93,750		1,50,000
Add: Net Profit				
Depreciation				
[12,50,000 x 10% x6/12]		4,20,000		2,04,000
[8,75,000 x 10% x 6/12]		62,500		43,750

		7,76,250		3,97,750
Less: Dividend [15,00,000 x 15%] [10,00,000 x 15 %]		(2,25,000)		(1,50,000)
		5,51,250		2,47,750
Less: Dividend Tax @ 10% on dividend		(22,500)		(15,000)
Bank Balance as on 1.10.2016		5,28,750		2,32,750

(2) Profit and Loss Account as on 1.10.2016

	A Ltd. (₹)	B Ltd. (₹)
Balance as on 31.3.2016	1,62,500	1,37,500
Add: 6 month's profit	4,20,000	2,04,000
	5,82,500	3,41,500
Less: Dividend	(2,25,000)	(1,50,000)
Dividend Tax	(22,500)	(15,000)
Balance	3,35,000	1,76,500

(3) Calculation of Intrinsic Value

Particulars	A Ltd.	B Ltd.
Net Fixed Assets (Fixed Assets – Depreciation)	11,87,500	8,31,250
Goodwill		1,20,000
Inventory	2,37,500	2,25,000 (i.e. ₹1,87,500 – ₹ 7,500) x 1.25
Trade Receivables	3,90,000	2,56,000
Bank	5,28,750	2,32,750
Total of Assets	23,43,750	16,65,000
Less: Trade Payables	93,750	75,000
Net Assets	22,50,000	15,90,000
Total Number of Equity Shares	1,50,000	1,00,000
Intrinsic Value of Share (Net Assets/Total Number of Equity Shares)	15.00	15.90

(4) Calculation of Equity Shares of A Ltd. to be issued to Shareholder of B Ltd. $\frac{Rs.15,90,000}{15} =$ 1,06,000 shares

5. H Ltd. is a company carrying on the business of beauty products and is having a subsidiary S Limited. Their Balance Sheets as on 31st March, 2017 were as under:

Equity and Liabilities	H Ltd. (₹)	S Ltd. (₹)
1. Shareholders Funds:	25,00,000	5,80,000
(a) Share Capital	2,00,000	1,20,000
(b) Reserves and Surplus:	3,12,500	2,05,000
General reserves	4,55,000	2,35,500
Profit and Loss Account	28,000	83,000
2. Current Liabilities:		
Trade Payable		
Bills Payable		
TOTAL	34,95,500	12,23,500
Assets	H Ltd. (₹)	S Ltd. (₹)
1. Non-current Assets:	21,70,000	6,25,000
Fixed Assets		
Investment:		
4350 shares in S Ltd.	5,10,000	---
2. Current Assets:		
(a) Inventories	4,80,000	3,19,200
(b) Trade Receivable	1,80,000	1,64,000
(c) Bills Receivable	68,000	1,00,000
(d) Cash and Cash equivalents	87,500	15,300
TOTAL	34,95,500	12,23,500

H Limited has also given the following information:

(i) **H Ltd. has acquired the share in S Ltd. in two lots on two different dates. The relevant information at the time of acquisition of shares were as under:**

No. of shares acquired		Balance of General Reserve (₹)	Balance of Profit and Loss Account (₹)
1st acquisition	3730	80,000	25,000
2nd acquisition	620	85,000	1,02,000

(ii) **Bills receivable of H Ltd. includes ₹ 15,000 being acceptance from S Ltd.**

(iii) **Both the companies have declared dividends of 10% on 31 March, 2017, but it has not been provided in the books of account.**

(iv) **S Limited's inventory includes stock of ₹ 1,45,000 purchased from H Limited. H Limited sells goods at mark up of 25% on its cost.**

Prepare the Consolidated Balance Sheet of H Ltd. along with Notes to Accounts. 16

Answer:

5.

Consolidated Balance sheet of H Ltd. and its subsidiary S Ltd.

As on 31st March, 2017

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	25,00,000
Reserves and Surplus	2	4,02,250
(2) Minority Interest (W.N.2)		2,11,750
(3) Current Liabilities		
Trade Payable	3	7,86,500
Other Current Liabilities	4	2,64,500
Total		41,65,000
II. Assets		
(1) Fixed Assets		
Tangible assets (21,70,000 + 6,25,000)	5	27,95,000
Intangible assets		
(2) Current assets		
Inventories	6	7,70,200
Trade Receivables	7	4,97,000
Cash and cash equivalents (87,500 + 15,300)	8	1,02,800
Total		41,65,000

Notes to Accounts

	Particulars		Amount (₹)
1	**Share Capital**		
	Authorised issued subscribed and pain up		
	25000 Equity shares of 100 each		25,00,000
2	**Reserves and surplus**		
	General Reserves (W.N. 4)	2,29,500	
	Profit and Loss Account (W.N.4)	1,60,800	
	Capital Reserve (W.N.3)	11,950	4,02,250
3	**Trade payables**		
	Trade payables		
	HLtd	4,55,000	
	SLtd	2,35,500	6,90,500
	Bills payable		
	H Ltd	28,000	
	S Ltd 83,000		

	Loss: mutual Owings 15,000	68,000	96,000
			7,86,500
4	**Other current liability** Dividend payable H Ltd Minority interest	 2,50,000 14,500	 2,64,500
5	**Tangible assets** H Ltd S Ltd	 21,70,000 6,25,000	 27,95,000
6	Inventories HLtd SLtd Less Unrealised profit	4,80,000 3,19,200 (29,000)	 7,70,200
7	**Trade Receivables** Trade Receivables: H Ltd S Ltd Bills Receivable: H Ltd. 68,000 Less: Mutual Owings (15,000) S Ltd.	 1,80,000 1,64,000 53,000 1,00,000	 3,44,000 1,53,000
			497000
8	Cash and cash equivalents H Ltd S Ltd	 87,500 15,300	 1,02,800

Working Notes:

1. Analysis of Profits

	Pre-acquisition Profits (₹)	Post-acquisition	
		General Reserve (₹)	Profit & Loss Account (₹)
General Reserve	80,000	40,000	—
Profit & Loss Account	25,000	—	1,80,000
For lot 1 (A)	1,05,000	40,000	1,80,000
Pre-acquisition for lot 2			
General Reserve (85,000 – 80,000)		5,000	
Profit &Loss A/c (1,02,000 – 25,000)			77,000
Post- acquisition for Lot 2		35,000	1,03,000
H Ltd 75% of (A)	78,750	30,000	1,35,000
Adj. of pre-acq. Gen. Res. for Lot 2 (10.69%)	535	(535)	(8,231)
Adj. of pre-acq. P. & L. A/c for Lot 2 (10.69%)	8,231		
HLtd	87,516	29,465	1,26,769
Minority interest (25%) of A	26,250	10,000	45,000

2. Minority Interest

	₹
Share Capital (25%)	1,45,000

Add:	Share of pre-acquisition profit of S Ltd	26,250
	Share of post-acquisition General Reserve Share of post-acquisition	10,000
	Profit & Loss Account	45,000
Less:	Share of Dividend declared and payable	2,26,250 14,500
		2,11,750

3. Cost of Control/Goodwill

	₹
Cost of investments	5,10,000
Less: Share Capital (75)	4,35,000
Share of pre-acquisition profit	87,516
Capital Reserve	**12,716**

4. Consolidated General Reserve & Profit and Loss Account

	General Reserve	Profit and Loss A/c
	₹	₹
HLtd	2,00,000	3,12,500
Less: Dividend declared by H Ltd		(2,50,000)
Less: Unrealised profit		(29,000)
	2,00,000	33,500
Add: Share in post-acquisition item of S Ltd	29,465	1,26,769
	2,29,465	1,60,269

6. (a) A Company has its share capital divided into shares of ₹ 10 each. On 1st April, 2016 it granted 10000 employees' stock options (ESOP) at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 16th December, 2016 and 15th March, 2017. The employees exercised their options for 9500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries.

(b) The capital structure of Voltamed Ltd. is as follows as on 31st March, 2017:

Particulars	₹
45000, Equity shares of ₹ 100 each fully paid	**45,00,000**
12500, 12% Preference Shares of ₹ 100 each fully paid	**12,50,000**
12% Secured Debentures	**12,50,000**
Reserves	**12,50,000**
Profit before interest and tax during the year	**18,00,000**

Tax rate 40%

Normally the return on equity shares in this type of industry is 15%.

Find out the value of equity shares subject to the following:

(i) Profit after tax covers fixed interest and fixed dividend at least 4 times.

(ii) Debt equity ratio is at least 2.

(iii) Yield on shares is calculated at 60% of distributed profits and 10% on undistributed profits.

(iv) The company has been paying regularly an equity dividend of 15%.

(v) Risk premium for dividends is generally assumed at 1%. 6+10=16

Answer:

6. (a)

Journal

Date	**Particulars**		**Dr.**	**Cr.**
2016			₹	₹
April, 1	Employee Compensation Expense A/c To Employee Stock Option Outstanding A/c (Being grant of 10,000 stock options to employees at ₹40 when market price is ₹ 130)	Dr. Dr.	9,00,000	 9,00,000
Dec, 16 to 15-Mar-17	Bank A/c Employee Stock Option Outstanding A/c To Share Capital A/c To Securities Premium (Being allotment to employees of 9,500 equity shares of ₹ 10 each at a premium of ₹ 120 per share in exercise of stock options by employees)	Dr. Dr.	3,80,000 8,55,000	 95,000 1,14,000
Mar, 17	Employee Stock Option Outstanding A/c To Employee Compensation Expense A/c (Being entry for lapse of stock options for 500 shares)	Dr.	45,000	 45,000
Mar, 17	Profit & Loss A/c To Employee Compensation Expense A/c (Being transfer of employee compensation expense to Profit and Loss Account)	Dr.	8,55,000	 8,55,000

6. (b)

Computation of Profit after Tax (PAT) and Retained Earnings

Particulars		₹
Profit before interest and tax (PBIT)		18,00,000
Less: Debentures interset (12,50000×12/100)		1,50,000
Profit before tax (PBT)		16,50,000
Less: Tax @ 40%		6,60,000
Profit after Tax		9,90,000
Less: Distributed profit		
Preference dividend	1,50,000	
Equity Dividend	6,75,000	8,25,000
Retained earnings (undistributed profit)		1,65,000

2. Computation of Interest and Fixed dividend coverage

=(PAT+ Debentures interest)/(Debentures interest Preference dividend)

= 9,90,000+1,50,000/1,50,000+1,50,000 = 3.8

This ratio is less than the prescribed ratio i.e. 4

3. Computation of Debt Equity Ratio

Debt Equity Ratio = Debt (long term loans)/Equity (shareholders' funds)

= Debentures/Preference share capital + Equity share capital + Reserves

= 12,50,000/12,50,000+45,00,000+12,50,000 = 0.179

The ratio is less than the prescribed ratio i.e. 2.

4. Computation of Actual Yield on Equity Shares

Yield on equity shares is calculated at 60% of distributed profits and 10% of undistributed profit as follows:

	Amount (₹)
60% of distributed profits (60% of ₹ 6,75,000)	4,05,000
10% of undistributed profits (10% 1,65,000)	16,500
	4,21,500

Yield on equity shares = (Yield on shares/Equity share capital) × 100

= (4,21,500/45,00,000) × 100 = 9.37%

5. Calculation of Expected Yield on Equity Shares

Normal return expected	15%	
add: Risk premium for low interest and fixed dividend coverage (3.8<4)	1%	(Note 1)
Risk adjustment for debt equity ratio not required	Nil	(Note 2)
	16%	

Note 1: When interest and fixed dividend coverage is lower than the prescribed norm, the riskiness of equity investors is high. Thus, they should claim additional risk premium over and above the normal rate of return.

Note 2: The debt equity ratio is lower than the prescribed ratio that means outside funds(Debts) are lower as compared to shareholders' funds. Thus, the risk is less for equity shareholders. Therefore, no risk premium is required to be added in such a case.

Value of an equity share

= (Actual yield/Expected Yield) × paid up value of a share = (9.37%/16%) × 100 = ₹ 58.56

7. (a) Make a detailed comparison between Government Accounting and Commercial Accounting.

(b) Write a note on disclosure requirements under Indian Government Accounting Standard (IGAS)- 1 for guarantees given by Governments. 8+8=16

Answer:

7. (a)

Although the basic principles of financial accounting that are applicable in regular commercial activities apply to the government accounts there are certain features ol governmental accounting which make it quite different from that of regular commercial accounting. A detailed comparison between commercial and government accounting have been presented herewith

(1) **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 organisations (whether profit oriented or non-profit oriented) is known as commercial accounting.

(2) **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 organisations to know the profit or loss for an accounting period and disclose the financial position of the entity.

(3) **Scope:** The government accounting happens to be more elaborate than that followed in commercial accounts.

(4) **Budget:** Government accounting is directly influenced by the government budgeting system, while commercial accounting does not follow the government budgeting system.

(5) **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.

(6) **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 of accounting.

(7) **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).

(8) **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 business,

(9) **Auditing:** The audit of 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.

7. (b)

IGAS 1 is an Indian Government Accounting Standard that deals with disclosure requirements relating to guarantees given by the Government. Name of the Standard is "Guarantees given by the Government: Disclosure Requirements".

Regarding disclosure, the standard provides that the Financial Statements *of* the Union Government, the State Government and the Union Territory Governments (with legislature) shall disclose the following:

- Maximum amount for which Guarantees have been given during the year, additions and deletions (other than invoked during the year) as well as Guarantees outstanding at the beginning and end of the year;
- Amount of Guarantees invoked and discharged or not discharged during the year;
- Details of Guarantee commission or fee and its realisation; and
- Other material details: The Financial Statements of the Union Government , the State Governments and the Government of Union Territories (with legislature) shall disclose in the notes the following details concerning class or sector of Guarantees;
- Limit, if any, fixed within which the Government may give guarantee;
- Whether Guarantee Redemption or Reserve Fund exists and its details including disclosure of balance available in the Fund at the beginning of the year, any payments made and balance at the end of the year;
- Details of subsisting external foreign currency guarantees in terms of Indian rupees on the date of Financial Statements;
- Details concerning Automatic Debit Mechanism and Structured Payment Arrangement, if any;
- Whether the budget documents of the Government contain details of Guarantees;
- Details of the tracking unit or designated authority for Guarantees in the Government and
- Other material details

8. Write short notes *(any four)*: 4x4=16

(a) Financial Reporting vs. Triple Bottom Line Reporting

(b) Provisioning against Standard Assets by NBFCs

(c) Accounting treatment of CENVAT Credit

(d) Objective and scope of Ind AS 36: Impairment of Assets

(e) Consolidated vs. Contingency Funds of India

Answer:

8. (a)

Financial Reporting vs. Triple Bottom Line Reporting

A brief comparison between financial reporting and of triple bottom line reporting is presented hereunder:

Origin: The origination of financial reporting precedes that of triple bottom line reporting, the) latter being just a few decades old.

Nature: It is mandatory for corporates to prepare and present their financial reports: while preparation/of TBL repots including social and environmental dimension is voluntary in nature.

Scope: TBL is broader in scope than financial reporting, as former includes the reporting of social and environmental performance in addition to the financial performance of an organization.

Contents: The information contained within a TBL report is *of* a different nature to that included in a financial report. Thus, TBL reporting enables disclosure of environmental and social risks that have the capacity to materially affect long-term financial performance, to be identified and, therefore, taken into consideration when preparing financial reports.

8. (b)

Provision against Standard Assets by NBFCs (Non-deposit Accepting)

- As per the "Non-systemically important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions,2015", every Non-Banking Financial company shall make provision for standard assets at 0.25 percent of the outstanding, which shall not be reckoned for arriving at net NPAs.
- As per the 'Non-systemically important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015", every Non-Banking Financial company shall make provision for standard assets at 0.25 percent by the end of March 2015; 0.30 percent by the end of March 2016; 0.35 percent by the end of March 2017 and 0.40 percent by the end of March 2018 and thereafter, of the outstanding, which shall not be reckoned for arriving at net NPAs. Thus, the provision for standard assets for NBFC-ND-S1 and for all NBFCs-D has now! been increased to 0.40% (at present 0.25%). The compliance to revised norm will be phased in as given below: -

  – 0.30% by the end of March 2016

  – 0.35% by the end of March 2017

  – 0.40% by the end of March 2018
- The provision towards standard assets need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance] sheet.

8. (c)

Accounting treatment of CENVAT Credit:	
CENVAT Credit relating to	**Treatment**
(i) Inputs	• Debit the specific Raw Material or Purchase A/c, so as to increase the cost of consumption, & valuation of closing stocks. • Apportion the excess credit pro-rata to all purchases/ components, if the specific Raw Material cannot be dentified.
(ii) Capital Goods /FA purchased	• Debit the cost of Specific Fixed Asset. • Charge depreciation on the revised unamortized depreciable amount, over the balance useful life, prospectively. • If the specific Fixed Asset no longer exists, write off the excess unutilisable credit to P&L Account.
(iii) Capital Goods on Lease / HP	Write off on pro-rata basis to P&L A/c, along with Lease Rentals.

8. (d) The objective and scope of Ind AS 36 : Impairment of Assets are described below:

Objective

The objective of this Standard is to prescribe the procedures that an entity applies to ensure! that its assets are carried at no more than their recoverable amount . An asset is carried at more than its recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognize or impairment loss. The standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

Scope

This Standard shall be applied in accounting for the impairment of all assets, other than :

(a) inventories (Ind AS 2, Inventories)

(b) contract assets and assets arising from costs to obtain or fulfil a contract thai are recognized in accordance with Ind AS 15, Revenue from Contract with Customers :

(c) deferred tax assets (Ind AS 12, Income taxes)

(d) assets arising from employee benefits (see Ind AS 19. Employee Benefits)

(e) financial assets that are within the scope of Ind AS 109, Financial Instruments

(f) biological assets related to agricultural activity within the scope of Ind AS 41 Agriculture that are measured at fair value less costs to sell :

(g) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of Ind AS 104, Insurance Contracts; and

(h) non-current assets (or disposal groups) classified as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations

8. (e)

Consolidated vs. Contingency Funds of India

Consolidated Funds of India

The consolidated funds are constituted under Article 266(1) of the Constitution of India. All revenue 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 Notification, treasury bills (Internal debt) and loans obtained from foreign government 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 largest of all the three funds.

Contingency Funds of India

The Contingency Fund of India 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 and are made for the purpose of meeting unforeseen expenditures 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.