FINAL EXAMINATION
GROUP - IV
(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER - 2017

Paper-17 : CORPORATE FINANCIAL REPORTING

[Set-1]

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

The figures in the right side indicate full marks.
Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.
Both the sections are to be answered subject to instructions given against each.
[All working must form part of your answer.]

Section – A

Answer the following questions.

1. Choose the most appropriate one from given four alternatives (1 Mark for right choice & 1 Mark for justification): 2x10=20

(i) On 1, April, 2017, H Ltd. acquired 120000 shares out of 150000 equity shares of ₹ 10 each of S Ltd. at ₹ 16,30,000. On that date balance of General Reserve; Capital Reserve; and Preliminary Expenses in S Ltd. were ₹ 2,42,000; ₹ 3,20,000; and ₹ 70,000 respectively. The amount of cost of control will be

(A) Capital Reserve ₹ 19,600

(B) Capital Reserve ₹ 3,62,000

(C) Capital Reserve ₹ 2,89,600

(D) Goodwill ₹ 36,400

(ii) A company undertook to pay contract for a building for ₹ 90 lakhs. As on 31.03.2017, it incurred a cost of ₹ 15 lakhs and expects that there will be ₹ 68 lakhs more for completing the building. It has received ₹ 12 lakhs as progress payment. What is the degree of completion?

(A) 16.67%

(B) 22.06%

(C) 18-07%

(D) 14-46%

(iii) Shiva Ltd. has obtained an institutional loan of ₹ 60 Crores for machinery on 01.06.2016. The machinery installed on 1st February, 2017 with cost of ₹ 52 Crores and balance loan has been utilized for working capital. Interest on above loan is @ 11% per annum. As per AS-16 the amount of interest to be capitalized for the year ended 31st March, 2017 will be

(A) ₹ 4.7667 Crores
(B) ₹ 3.8133 Crores
(C) ₹ 5.50 Crores
(D) ₹ 4.40 Crores

(iv) Chandra Ltd. purchased a machinery on 01.04.2013 for ₹ 35 Lakhs. Written down value of the machinery as on 31st March, 2017 is ₹ 18.27 Lakhs. The recoverable amount of the machinery is ₹ 12.45 Lakhs. The impairment loss as per AS-28 will be
(A) ₹ 16.73 Lakhs
(B) ₹ 22.55 Lakhs
(C) ₹ 5.82 Lakhs
(D) ₹ 4.28 Lakhs

(v) Kovid Ltd. agreed to absorb Shiva Ltd. Shiva Ltd. has been issued 120000 Equity Shares of ₹ 10 which having intrinsic value of ₹ 32 each. If intrinsic value of Kovid Ltd.'s equity share is ₹ 64 each, then how many equity shares should be issued by Kovid Ltd. to Shiva Ltd. to meet out the purchase consideration?
(A) 240000
(B) 120000
(C) 18750
(D) 60000

(vi) At the time of absorption of B Ltd. by A Ltd., 9% debenture-holders of ₹ 480,00,000 of ₹ 100 each in B Ltd. are to be paid off at 10% premium by 8% debentures in A Ltd. issued at a premium of 20%. How many debentures of ₹ 100 each are to be issued by A Ltd?
(A) 480000
(B) 440000
(C) 528000
(D) 400000

(vii) Patel Ltd. purchases 75% shares out of 60000 Equity Shares of ₹ 10 each in Chandu Ltd. at ₹ 7,95,000. On that date balance of Capital Reserve; Securities Premium; General Reserve and Discount on issue of Debentures were ₹ 69,000; ₹ 1,20,000; ₹ 2,15,000; and ₹ 40,000 respectively. The amount of minority interest will be
(A) ₹ 2,51,000
(B) ₹ 2,41,000
(C) ₹ 1,98,750
(D) ₹ 1,95,000

(viii) On the year ended 31st March, 2017, a Non-Banking Financial Company (NBFC) had following advances:

Assets classification	₹ in Lakhs
Standard	1050
Sub - Standard	750
Doubtful up to one year	200
Doubtful for one year to two year	220

The amount of provision which must be made against the advances will be:-

(A) ₹ 403 Lakhs

(B) ₹ 159 Lakhs

(C) ₹ 163 Lakhs

(D) ₹ 181 Lakhs

(ix) Capital Employed is ₹ 255 Lakhs; Annual average profits are ₹ 57 Lakhs; Normal rate of return is 12%. The value of goodwill on the basis of Capitalization of super profits will be

(A) ₹ 220 Lakhs

(B) ₹ 475 Lakhs

(C) ₹ 6.84 Lakhs

(D) ₹ 26.40 Lakhs

(x) Which of the following is constituted under Article 266(2) of the Constitution of India?

(A) Contingency funds of India

(B) Consolidated funds of India

(C) Public Accounts of India

(D) All of the above

Answer:

(i) (D) Cost of Acquisition - (share capital + G.R.+C.R. – Preliminary Exp.) × 80%

= ₹ 16,30,000 – ₹ (15,00,000 + 2,42,000 + 3,20,000 – 70,000) × 80%

= ₹16,30,000 – ₹15,93,600 = Cost of control / Goodwill of ₹ 36,400

(ii) (C) Percentage of Completion = $\frac{\text{Cost to date}}{\text{Cumulative cost incurred + Estimated cost to complete}} \times 100$

$$\frac{15}{15+68} \times 100 = 18.07\%$$

(iii) (B) 5200000 $\times \frac{11}{100} \times \frac{8}{12}$ = 3.8133 crores

(iv) (C) Impairment Loss = Carrying Amount – Recoverable amount

= ₹ 18.27 Lakhs – ₹12.45 Lakhs = ₹ 5.82 Lakhs

(v) (D) (120000 × 32) / 64 = 60000 Shares

(vi) (B) (480000 × 110%) /120% = 440000 Debentures

(vii) (B) (6,00,000+69,000+1,20,000+2,15,000-40,000) × 25% = ₹241000

(viii) Answer is not given in the options:

Provision on Standard Assets = ₹1,050 Lakhs x 0.4 % = 4.2 Lakhs
Provision on Sub – standard Assets = ₹750 Lakhs x 15% = ₹112.50 Lakhs
Provision on Doubtful Assets up to one year = ₹200 Lakhs x 25% = ₹50 Lakhs
Provision on Doubtful Assets from one to three year = ₹220 Lakhs x 40% = ₹88 Lakhs
Amount of Total Provision for bad debts = ₹4.2 + ₹112.50 Lakhs + ₹50 Lakhs + ₹88 Lakhs = ₹254.70 Lakhs

(ix) (A) Super profit = Average profit - (Capital Employed × Normal Rate of Return)

= ₹ 57 Lakhs – (₹ 255 Lakhs × 12%)

= ₹ 57 Lakhs – ₹ 30.60 Lakhs

= ₹ 26.40 Lakhs

Goodwill = ₹ $\frac{26.4}{12\%}$ = ₹ 220 lakhs

(x) (C) Public Accounts of India

Section – B

Answer any five *questions out of* seven *questions.*

2. (a) N. Ram Co. are heavy engineering contractors specializing in construction of dams. From the records of the company the following data is available pertaining to year ended 31st March, 2017:

	₹ in Crores
Total Contract Price	**720**
Work Certified	**300**
Work pending certification	**60**
Estimated further cost to completion	**420**
Stage wise payments received	**264**
Progress payments in pipe line	**72**

Using these data and applying the relevant accounting standard you are required to

(i) compute the amount of profit/loss for the year ended 31st March, 2017.

(ii) arrive at the contract work in progress as at the end of financial year 2016-2017.

(iii) determine the amount of revenue to be recognized out of the total contract value.

(iv) work out the amount due from/to customers as at year end.

(v) list down relevant disclosures with figures as per relevant accounting standard. 8

(b) Mahi Ltd. began construction of a new building on 1st April, 2016. It obtained ₹ 50 Lakhs special loan from State Bank of India to finance the construction of the building on 1st April, 2016 at an interest rate of 10%. The company's other outstanding two non-specific loans were:

Amount	**Rate of Interest**
₹ 80 Lakhs	**11%**
₹ 150 akhs	**13%**

The expenditures that were made on the building project were as follows:

	₹ in Lakhs
April 2016	**50**
July 2016	**55**
Oct. 2016	**125**
March 2017	**36**

Building was completed by 31st March, 2017. Following the principles prescribed in AS-16 Borrowing Cost, calculate the amount of interest to be capitalized and pass

one Journal entry for capitalizing the cost and borrowing cost in respect of the building. 8

Answer:

(a)

(i) Calculation of Contract Work – in – Progress and Stage of Completion

(₹in Crores)

Particulars	**2017**
A. Work Certified	300
B. Work pending Certification	60
C. Contract Work – in – Progress (A + B)	**360**
D. Estimated Cost for Completion of Contract	420
E. Total Completion Cost of Project (C + D)	780
F. Stage of Completion (Cost Incurred till year End/ Total Completion Cost of Project) i.e. (D/E)	0.461538 or 46.1538%

(ii) Revenue & Profit/Loss to be recognized in statement of profit as per AS – 7

(₹ in Crores)

Particulars	**2017**
A. Revenue to be recognized Total Contract Revenue x Stage of Completion i.e. ₹720 Lakhs x 46.1538%	332.31
B. Cost Incurred till the year end (Contract Expenses recognized during the year)	360.00
C. Loss to be recognized at the end of each year (Revenue Recognized in year – Cost Incurred till year End) i.e. (A – B)	27.69
D. Total Expected Loss on Contract i.e. Total Estimated Cost for Completion of Contract – Total Contract Revenue = ₹780 Lakhs – ₹720 Lakhs	60.00
E. Further Loss to be recognized in year = D – C	32.31

(iii) Amount due from / to customers

(₹ in Crores)

Particulars	**2017**
A. Contract Work – In – Progress	360.00
B. Add: Contract Revenue Recognized during the year	332.31
C. Less: Contract Expenses Recognized during the year	360.00
D. Less: Further loss recognized during the year	32.31
E. Less: Progress Payment Received/to be Received (₹264 Lakhs + ₹72 Lakhs)	336.00
F. Amount Due from/(to) Customers (A + B – C – D – E) As this amount is in negative it would be treated as amount due to customers and will be shown in current liabilities.	(36)

(iv) The relevant disclosures under AS 7 (Revised) are given below:

	₹in crores
Contract revenue till 31st March, 2017	332.31
Contract expenses till 31st March, 2017	360
Recognized losses for the year 31st March, 2017	(60)
Progress billings (264 + 72)	336
Retention (billed but not received from contractee)	72
Gross amount due to customers	36

(b) (i) Computation of average accumulated expenses

	₹ in Lakhs
₹ 50 Lakhs × 12/12	50.00
₹ 55 Lakhs × 9/12	41.25
₹125 Lakhs × 6/12	62.50
₹ 36 Lakhs × 1/12	3.00
	156.75

(ii) Calculation of average interest rate other than for specific borrowings.

Amount of loan (₹)	Rate of interest	Amount of interest (₹)
₹ 80 Lakhs ₹150 Lakhs	11% 13%	= 8.80 =19.50
₹ 230 Lakhs		= 28.30
Weighted average rate of interest 28.30/230		= 12.304% (approx)

(iii) Interest on average accumulated expenses

	₹ in Lakhs
Specific borrowings (₹ 50 Lakhs × 10%) Non- specific borrowings ₹156.75 – ₹ 50 = ₹ 106.75 Lakhs × 12.304%	5 13.1345
Amount of interest to be capitalized	18.1345

Actual Interest Cost

(50 ×10%) + (80×11%) + (150×13%) = 33.3

Amount to be capitalised is ₹ 18.1345 as it is not more than 33.3 (actual interest)

(iv) Total expenses to be capitalized for building

	₹ in Lakhs
Cost of building (50+55+125+36) Lakhs Add: Amount of interest to be capitalized	266 18.1345
	284.1345

(v) Journal Entry **₹ in Lakhs**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
31.3.17	Building A/c Dr. To Bank A/c (Being amount of cost of building and borrowing cost thereon capitalized)		284.1345	 284.1345

3. **(a) Sanwar Ltd. made a loss of ₹ 50 Lakhs for the year ending 31st March, 2015. For the year ending 31st March, 2016 and 31st March, 2017 it made profits of ₹ 25 Lakhs and ₹ 32 Lakhs respectively. It is assumed that the loss of a year can be carried forward for eight years and tax rate is 30%. By the end of the 31.03.2015, the company feels that there will be sufficient taxable income in the future years against which carry forward loss can be set off. There is no difference between taxable income and accounting income except that the carry forward loss is allowed in the years ending**

on 31st March, 2016 and 2017 for tax purposes. Prepare a statement showing Profit and Loss before Tax and after Tax for the years ending 31st March, 2015, 2016 and 2017. **8**

(b) Describe the objectives and scope of Ind AS - 105. **8**

Answer:

(a)

Particulars	2014-15	2015-16	2016-17
(a) Accounting Profit / Loss	(50,00,000)	25,00,000	32,00,000
(b) Income Tax Profit before adjustment	(50,00,000)	25,00,000	32,00,000
(c) Less: Set off of Brought Forward Losses	-	(25,00,000)	(25,00,000)
(d) Loss Carried Forward to Subsequent Years	(50,00,000)	(25,00,000)	-
(e) Income Tax Profit = (b) – (c)	NIL	NIL	7,00,000
(f) Difference between Accounting & Taxable Profit (e – a)	50,00,000	(25,00,000)	(25,00,000)
(g) Income Difference classified into: (1) Permanent Diff. (2) Timing Diff. – Originating (3) Timing Diff. – Reversing	 NIL (50,00,000) NA	 NIL NA (25,00,000)	 NIL NA (25,00,000)
(h) Current Tax = (e) ×30%	-	-	2,10,000
(i) Deferred tax - DTA / (DTL) originating during the year	(50,00,000×30%) 15,00,000	-	
- (DTA) / DTL reversing during the year	-	(7,50,000) (25,00,000×30%)	(7,50,000) (25,00,000×30%)
(j) Tax Expense = Current Tax + Deferred Tax	(15,00,000)	7,50,000	9,60,000
(k) Book Profit after Tax = (a – j)	(35,00,000)	17,50,000	22,40,000

(b) Ind AS — 105: Non-current Assets Held for Sale and Discontinued Operations

Objective

The objective of this Indian Accounting Standard (Ind AS) is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, this Ind AS requires:

(a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and

(b) assets that meet the criteria to be classified as held for sale to be presented separately in the balance sheet and the results of discontinued operations to be presented separately in the statement of profit and loss.

Scope

The classification and presentation requirements of this Ind AS apply to all recognised non-current assets and to all disposal groups of an entity. The measurement requirements of this Ind AS apply to all recognised non-current assets and disposal groups (as set out in paragraph-4), except for those assets listed in paragraph 5 which shall continue to be measured in accordance with the Standard noted.

Assets classified as non-current in accordance with Ind AS 1, Presentation of Financial Statements, shall not be reclassified as current assets until they meet the criteria to be classified as held for sale in accordance with this Ind AS.

Assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with this Ind AS.

4. B Ltd. was merged with A Ltd. with effect from 1st April, 2017 and the merger was in nature of purchase. The Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2017 are given below:

(₹ in Lakhs)

Particulars	A Ltd. (Amount)	BLtd. (Amount)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital:		
Equity Shares of ₹ 10 each	160	60
(b) Reserves and Surplus:		
General Reserve	60	40
Profit and Loss Account	50	16
***Less:* Preliminary Expenses**	(4)	.
2. Non-Current Liabilities:		
Long term Borrowings (10% Debentures)	40	20
3. Current Liabilities and Provisions		
(a) Trade Payables	12	10
(b) Provision for taxation	18	10
Total	336	156

Particulars	A Ltd. (Amount)	BLtd. (Amount)
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets:		
Tangible Assets	200	90
Intangible Assets	—	—
(b) Non-Current Investment	30	10
2. Current Assets		
(a) Inventories	32	10
(b) Trade Receivable	16	18
(c) Advance Tax	12	6
(d) Cash and Cash Equivalents	46	22
Total	336	156

A Ltd. would issue 10% Debentures to discharge the claims of the debenture holders of B Ltd. at par. Non-trade investments of A Ltd. fetched @8% while those of B Ltd. fetched @10%. Profit (Pre-tax) of A Ltd. and B Ltd. during 2014-15; 2015-16; and 2016-17 were as

follows:

(₹ in Lakhs)

Year	A Ltd.	BLtd.
2014-15	**67.60**	**20.00**
2015-16	**70.00**	**25.00**
2016-17	**85.00**	**26.82**

Goodwill may be calculated on the basis of 5 years purchase of super profit method taking 15% as the pre-tax normal rate of return. Purchase consideration is discharged by A Ltd. on the basis of intrinsic value per share. Prepare Balance Sheet of A Ltd. after merger as per revised Schedule III of the Companies Act, 2013. **16**

Answer:

Balance Sheet of A Ltd.

as at 1st April 2017 (After Merger)

(₹ in Lakhs)

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	214
(b) Reserves and Surplus	2	203.20
2. Non-Current Liabilities:		
Long term Borrowings: 10% Debentures (₹40 + ₹20)		60
3. Current Liabilities And Provisions		
(a) Trade Payables (₹12 + ₹10)		22
(b) Provision for taxational (₹18 + ₹10)		28
Total		527.20
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets:		290
- Tangible Assets (₹ 200 + ₹ 90)		35.20
- Intangible Assets: Goodwill		
(b) Non- Current investment (₹ 30 + ₹10)		40
2. Current Assets		
(a) Inventories (₹32 + ₹10)		42
(b) Trade Receivable(₹ 16 + ₹18)		34
(c) Advance Tax (₹12 + ₹ 6)		18
(d) Cash and Cash Equivalents (₹ 46 + ₹ 22)		68
Total		527.20

[Relevant Notes]

1. Share Capital

(₹ in Lakhs)

Particulars	Amount (₹)
Authorized, issued, subscribed and paid up capital of 2140000 Equity Shares of ₹ 10 each (of the above 540000 shares were issued to vendors for non cash consideration)	214

Total	214

2. Reserves and Surplus

(₹ in Lakhs)

Particulars	Amount (₹)
Securities Premium (@₹18 on 540000 shares)	97.20
General Reserve	60.00
Profit & Loss A/c	50.00
Less: Preliminary Expenses	(4.00)
Total	203.20

Working Notes:

(1) Calculation of Net Assets (Capital Employed)

Particulars	A Ltd. ₹ in Lakhs	B Ltd. ₹ in Lakhs
Sundry Assets as per Balance Sheet	336.00	156.00
Less: Non – Trade Investments	(30.00)	(10.00)
Less: 10% Debentures	(40.00)	(20.00)
Less: Current Liabilities & Provisions	(30.00)	(20.00)
Closing Net Capital Employed	236.00	106.00

(2) Calculation of Goodwill

Particulars	A Ltd. ₹ in Lakhs	B Ltd. ₹ in Lakhs
Total of Profits for three years	222.60	71.82
Simple Average Profits (Total of Profits/3)	74.20	23.94
Less: Income from Non – Trade Investments	(2.40)	(1.00)
Average Income from Capital Employed	71.80	22.94
Less: Normal Profits (Capital Employed x 15%)	(35.40)	(15.90)
Super – Normal Profits	36.40	7.04
Goodwill (Super – Normal Profits x 5 years)	182.00	35.20

(3) Calculation of Intrinsic Value

Particulars	A Ltd.	B Ltd.
Net Capital Employed	₹236.00 lakhs	₹106.00 lakhs
Add: Non – Trade Investments	₹30.00 lakhs	₹10.00 lakhs
Add: Goodwill	₹182.00 lakhs	₹35.20 lakhs
Total	₹448.00 lakhs	₹151.20 lakhs
Total Number of Equity Shares	16 lakhs	6 lakhs
Intrinsic Value of Share	₹28.00	₹25.20

(4) Calculation of Purchase Consideration

Particulars	Number of Equity Shares
Total Number of shares of B Ltd.	6.00 Lakhs
Number of shares of A Ltd to be issued to B Ltd. 6 Lakhs x (25.20/28.00)	5.40 Lakhs

5. The following are the summarized Balance Sheets of A Ltd., B Ltd. and C Ltd. as at 31.03.2017:

Liabilities	A Ltd. (₹)	B Ltd. (₹)	C Ltd. (₹)
Share Capital (Shares of ₹ 100 each)	**6,00,000**	**4,00,000**	**2,40,000**
Reserves	**80,000**	**40,000**	**30,000**

Profit and Loss Account	2,00,000	1,20,000	1,00,000
Trade payables	80,000	1,00,000	60,000
A Ltd.	__	40,000	32,000
Total	9,60,000	7,00,000	4,62,000
Assets	**A Ltd. (₹)**	**BLtd. (₹)**	**CLtd. (₹)**
Goodwill	80,000	60,000	40,000
Fixed Assets	2,80,000	2,00,000	2,40,000
Shares in :			
B Ltd. (3,000 Shares)	3,60,000	__	__
C Ltd. (400 Shares)	60,000	__	__
C Ltd. (1,400 Shares)	__	2,08,000	__
Due from : B Ltd.	48,000	__	__
C Ltd.	32,000	__	__
Current Assets	1,00,000	2,32,000	1,82,000
Total	9,60,000	7,00,000	4,62,000

(i) All shares were acquired on 01.10.2016 by A Ltd.

(ii) On 01.04.2016 the balances to the various accounts were as under

Particulars	A Ltd. (₹)	BLtd. (₹)	CLtd. (₹)
Reserves	40,000	40,000	20,000
Profit and Loss account	20,000	(Dr.) 20,000	12,000

(iii) During 2016-17, Profits accrued evenly.

(iv) In November, 2016, each company paid interim dividend of 10%. A Ltd. and B Ltd. have credited their profit and loss account with the dividends received.

(v) During 2016-17, C Ltd. sold an equipment costing ₹ 40,000 to B Ltd. for ₹ 48,000 and B Ltd. in turn sold the same to A Ltd. for ₹ 52,000.

Prepare the consolidated Balance Sheet as at 31.03.2017 of A Ltd. and its subsidiaries as per Schedule III. 16

Answer:

CONSOLIDATED BALANCE SHEET OF A LTD. AND ITS SUBSIDIARIES B LTD. & C LTD. AS AT 31/03/2017

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital		6,00,000
(b) Reserves and Surplus	1	3,36,104
(2) Minority Interest (W.N. 6)		2,34,896
(3) Current Liabilities & Provisions		
Trade Payables (80,000 + 1,00,000 + 60,000)		2,40,000
Total		2,20,125

II. Assets		**14,11,000**
(1) Non-Current Assets		
Fixed Assets		
a. Tangible Assets (2,80,000 + 2,00,000 + 2,40,000 – 12,000 for unrealised profits)		7,08,000
b. Intangible Assets	2	1,81,000
(2) Current Assets		
(a) Current Assets (1,00,000 + 2,32,000 + 1,82,000)		5,14,000
(b) Cash and Cash Equivalents	3	8,000
Total		**14,11,000**

Notes To Accounts:

Particulars	₹	₹
1. Reserves & Surplus		
(a) Reserves – Balance as on 31/03/2017	80,000	
Share in B Ltd. (W.N. 4)	2,188	
Share in C Ltd. (W.N. 3)	833	83,021
(b) Profit & Loss A/c – Balance as on 31/03/2017 – Given	2,00,000	
Share in B Ltd. (W.N. 4)	86,750	
Share in C Ltd. (W.N. 3)	9,333	
	2,96,083	
Less: Pre–acquisition – Dividend	(34,000)	
Less: Provision for unrealised profit		
75% on 8,000 + 75% on 4,000	(9,000)	2,53,083
Total		3,36,104
2. Intangible Assets		
Goodwill A Ltd. (given) B Ltd. (given) C Ltd. (given) As per W.N. 5		 80,000 60,000 40,000 1,000
Total		1,81,000
3. Cash & Cash Equivalents		
Cash – in – Transit (Rs. 48,000 – Rs. 40,000)		8,000
Total		8,000

Working Notes:

1) Shareholding Pattern

Particulars	B Ltd.	C Ltd.
Total Shares (in Numbers)	4,000	2,400
Held by A Ltd.	3,000 (75%)	400 (2/12)
Held by B Ltd.		1,400 (7/12)
Minority Interest	2,000 (25%)	1,000 (3/12)

2) Position of Revenue Reserves and Profit & Loss Account as on 01/10/2016 i.e. on date of investment

Particulars	B Ltd.		C Ltd.	
	Revenue Reserves	**Profit & Loss A/c**	**Revenue Reserves**	**Profit & Loss A/c**
A. Balance as on 31/03/2017	40,000	1,20,000	30,000	1,00,000
B. Balance as on 31/03/2016	40,000	(20,000)	20,000	12,000
C. Add: Interim Dividend Paid during the year		40,000 (4,00,000 x 10%)		24,000 (2,40,000 x10%)
D. Less: Interim Dividend Received during the year		14,000 (1,40,000 x 10%)		Nil
E. Increase during 2016 – 2017 (A – B + C – D)	Nil	1,66,000	10,000	1,12,000
F. Estimated Increase till 01/10/2016 (E x ½)	Nil	83,000	5,000	56,000
G. Balance as on 01/10/2016 (B + F)	40,000	63,000	25,000	68,000

3) Analysis of Profit of C Ltd.

Particulars	Capital Profits	Revenue Reserves	Revenue Profits
Balance of Revenue Reserve as on 01/10/2016	25,000		
Balance of Profit & Loss A/c as on 01/10/2016	68,000		
Less: Interim Dividend Paid	(24,000)		
Increase in reserves after acquisition		5,000	
Increase in Profit after acquisition			56,000
Total	69,000	5,000	56,000
Minority Interest (3/12)	17,250	1,250	14,000
Share of A Ltd. (2/12)	11,500	833	9,333

Share of B Ltd. (7/12)	40,250	2,917	32,667

4) Analysis of Profit of B Ltd.

Particulars	Capital Profits	Revenue Reserves	Revenue Profits
Balance of Revenue Reserve as on 01/10/2016	40,000		
Balance of Profit & Loss A/c as on 01/10/2016	63,000		
Less: Interim Dividend Paid	40,000		
Increase in reserves after acquisition		Nil	
Increase in Profit after acquisition			83,000
Share in C Ltd. (W.N. 3)		2,917	32,667
Total	63,000	2,917	1,15,667
Minority Interest (25%)	15,750	729	28,917
Share of A Ltd. (75%)	47,250	2,188	86,750

5) Calculation of Cost of Control/Goodwill

Particulars	₹	₹
A. Cost of Investments Investment in B Ltd. Investment in C Ltd. (60,000 + 2,08,000)	 3,60,000 2,68,000	 6,28,000
B. Less: Pre – acquisition Dividend Received by A Ltd. (30,000 + 4,000) Received by B Ltd.	 34,000 14,000	 48,000
B. Shares in Net Assets of Subsidiaries Paid up capital of B Ltd. Paid up capital of C Ltd. Capital Profits of B Ltd. Capital Profits of C Ltd. (11,500 + 40,250)	 3,00,000 1,80,000 47,250 51,750	 5,79,000
C. Cost of Control/Goodwill (A – B – C)		1,000

6) Calculation of Minority Interest

Particulars	₹	₹
A. Share Capital B Ltd. C Ltd.	 1,00,000 60,000	 1,60,000
B. Capital Profits B Ltd. C Ltd.	 15,750 17,250	 33,000
C. Revenue Reserves B Ltd. C Ltd.	 729 1,250	 1,979
D. Revenue Profits B Ltd.	 28,917	

C Ltd.	14,000	42,917
E. Total (A + B + C + D)		2,37,896
F. Less: Provision for unrealized profits on equipment sold From C Ltd to B Ltd. (8,000 x 25%) From B Ltd. to A Ltd. (4,000 x 25%)	2,000 1,000	3,000
G. Minority Interest (E – F)		2,34,896

Note: The above solution has been done by direct method. Alternatively, Students may follow indirect method. In Indirect method, the share in pre – acquisition profits of B Ltd. in C Ltd. amounting to ₹40,250 will be included as capital profit while analyzing the profits of B Ltd. and will not be considered for the cost of control. Thus, in this case the amount of goodwill and minority will be recalculated as ₹11,062 and ₹2,44,958 respectively in the consolidated Balance Sheet. Therefore, the total of the assets and liabilities side of the consolidated Balance Sheet will be ₹14,21,062. The W.N. 4,5 & 6 are recalculated for this alternate solution.

4) Analysis of Profit of B Ltd.

Particulars	Capital Profits	Revenue Reserves	Revenue Profits
Balance of Revenue Reserve as on 01/10/2016	40,000		
Balance of Profit & Loss A/c as on 01/10/2016	63,000		
Less: Interim Dividend Paid	40,000		
Increase in reserves after acquisition		Nil	
Increase in Profit after acquisition			83,000
Share in C Ltd. (W.N. 3)	40,250	2,917	32,667
Total	1,03,250	2,917	1,15,667
Minority Interest (25%)	25,812	729	28,917
Share of A Ltd. (75%)	77,438	2,188	86,750

5) Calculation of Cost of Control/Goodwill

Particulars	₹	₹
A. Cost of Investments Investment in B Ltd. Investment in C Ltd. (60,000 + 2,08,000)	 3,60,000 2,68,000	 6,28,000
B. Less: Pre – acquisition Dividend Received by A Ltd. (30,000 + 4,000) Received by B Ltd.	 34,000 14,000	 48,000
B. Shares in Net Assets of Subsidiaries Paid up capital of B Ltd. Paid up capital of C Ltd. Capital Profits of B Ltd. Capital Profits of C Ltd.	 3,00,000 1,80,000 77,438 11,500	 5,68,938
C. Cost of Control/Goodwill (A – B – C)		11,062

6) Calculation of Minority Interest

Particulars	₹	₹
A. Share Capital		
B Ltd.	1,00,000	
C Ltd.	60,000	1,60,000
B. Capital Profits		
B Ltd.	25,812	
C Ltd.	17,250	43,062
C. Revenue Reserves		
B Ltd.	729	
C Ltd.	1,250	1,979
D. Revenue Profits		
B Ltd.	28,917	
C Ltd.	14,000	42,917
E. Total (A + B + C + D)		2,37,896
F. Less: Provision for unrealized profits on equipment sold		
From C Ltd to B Ltd. (8,000 x 25%)	2,000	
From B Ltd. to A Ltd. (4,000 x 25%)	1,000	3,000
G. Minority Interest (E – F)		2,44,958

6. (a) A company has its share capital divided into shares of if 10 each. On 1st April, 2016 it granted 10,000 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 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show Journal entries up to the year ended 31.03.2017. **8**

(b) Following balances as on 31st March, 2017, are obtained from the account books of Gunnu Ltd.:

	₹ in Lakhs
200 Lakhs Equity Shares of ₹ 10 each	**2000**
10 Lakhs, 10% Preference Shares of ₹ 100 each	**1000**
General Reserve	**1600**
Profit and Loss Account	**1400**
12% Debentures	**1000**
Creditors	**800**
Goodwill	**1000**
Land and Buildings	**2500**
Plant and Machinery	**1500**
Investment in 10% Stock	**480**
Stock-in-trade	**1600**
Debtors	**400**
Cash and Bank	**220**
Preliminary expenses	**100**

Additional information are given below:

(i) Nominal value of investment is ₹ 500 Lakhs and its market value is ₹ 520 Lakhs.

(ii) Following assets are revalued:

	₹ in Lakhs
(i) Land and Building	3200
(ii) Plant and Machinery	1800
(iii) Stock-in-trade	1450
(iv) Debtors	360

(iii) Average profit before tax of the company is ₹ 2400 Lakhs and 12.50% of the profit is transferred to general reserve, rate of taxation being 30%.

(iv) Normal dividend expected on equity shares is 18% while fair return on closing capital employed is 12%.

(v) Goodwill may be valued at ₹ 2000 Lakhs.

You are required to ascertain the value of each equity share under the fair value method. 8

Answer:

(a) Journal Entries

Date	Particulars		Dr.	Cr.
2016			₹	₹
April. 1	Employee Compensation Expense	Dr.	9,00,000	
	To Employee Stock Option Outstanding A/c	Dr.		9,00,000
	(Being grant of 10,000 stock options to employees at ₹ 40 when market price is ₹ 130)			
Dec, 16 to	Bank A/C	Dr.	3,80,000	
15-Mar-17	Employee Stock Option Outstanding A/c	Dr.	8,55,000	
	To Share Capital A/c			95,000
	To Securities Premium			11,40,000
	(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)			
2017				
Mar. 16	Employee Stock Option Outstanding A/c	Dr.	45,000	
	To Employee Compensation Expense			45,000
	(Being entry for lapse of stock options for 500 shares)			
	Profit & Loss A/c		8,55,000	
	To Employee Compensation Expense			8,55,000
	(Being transfer of employee compensalion expense to profit and loss account)			

(b)

1. Calculation of Net Assets

	₹ in Lakhs
Assets: Goodwill	2000

Land and Buildings		3200
Plant and Machinery		1800
Investment at market value		520
Stock		1450
Debtors		360
Cash and Bank		220
		9550
Less: Liabilities:		
Debentures	1000	
Creditors	800	1800
		7750
Less: Preference Share Capital		1000
Capital Employed		6750

2. Calculation of Profit Available for Equity Shareholders

	₹ in Lakhs
Average Profit before Tax (given)	2400
Less: Income Tax @ 30%	720
Average Actual Profit	1680
Less: Transfer to Reserve @ 12.50% of ₹ 1680 Less: Preference Dividend	210 100
Profit available to Equity Shareholders	1370

3. Value per share (Based on Intrinsic Value Method)

= ₹6750 Lakhs/200 Lakhs Shares = ₹ 33.75

4. Value per share (Based on Yield Method)

Yield on Equity Shank = (Profit for Equity Shareholders/ Equity Share Capital) × 100

= (₹ 1370/₹ 2000(/Lakhs) × 100 = 68.50%

Value per share = (68.50/18) × ₹10 = ₹ 38.06

5. Value of Equity Share Under Fair Value Method

= (Intrinsic Value + Yield Value)/2

= (₹ 33.75 + 38.06)/2 = ₹ 35.905

7. (a) What do you understand by Government Accounting Standards Advisory Board (GASAB)? State its Responsibilities. 8

(b) Discuss the main features of Government Accounting. 8

Answer:

(a) Government Accounting Standards Advisory Board (GASAB)

The accounting systems, the world over, are being revisited with an emphasis on transition from rule to principle based standards and migration from cash to accrual based system of accounting. The GASAB, as a nodal advisory body in India, is taking similar action to formulate and improve standards of government accounting and financial reporting and enhance accountability mechanisms.

The Government Accounting Standards Advisory Board (GASAB) was constituted by the Comptroller and Auditor General of India (C&AG) with the support of Government of India through a notification dated August 12, 2002. This Board was constituted to establish and improve the standards of governmental accounting and financial reporting, and enhance the accountability mechanisms. The decision to set-up GASAB was taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace with International trends. The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending.

Responsibilities of GASAB

GASAB, inter alia, has the following responsibilities:

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

(b) Features of Government Accounting

Government Accounting is a unique application area which has certain characteristics of its own. Some of the main features of Government Accounting are discussed as under:

1. **Specific system of accounting:** It is a specific accounting system which is followed by government in its departments, offices and institutions.
2. **Reporting of utilisation of public funds:** The government and its institutions are public institution whose main objective is to provide services to the society and also to maintain law and order in the country, so the accounting system used by such institutions has to reveal how public funds and properties have been used for that purpose. It is to be noted that government accounting is not done for revealing any profit and loss.
3. **Government Regulations:** Government accounting is maintained according to government rules and regulations. The financial policies, rules and regulations as determined from time to time provide the system of government accounting.
4. **Double Entry System:** Government accounting is based on the principles and assumptions of double entry system of book keeping. Accordingly, every financial transaction entered into by a government/ government office/ institution are recorded showing their double effects. It implies that for each government financial

transaction one aspect of the transaction is debited and the other aspect is credited.

5. **Budget Heads:** All the expenses of government offices are classified into different budget heads and expenditures are made only on approved budget heads.
6. **Budgetary Regulation:** Government expenditures are governed by budgetary regulations, in other words, no government office can make expenditure more than tine amount allocated in the budget. Thus, in effect, government accounting gets regulated by the budget.
7. **Mode of Transaction:** All government transactions are supposed to be performed through banks.
8. **Fund-based Accounting:** A peculiar characteristic of governmental accounting is the employment of separate funds. The government is engaged in an ever-growing number of operations and activities which are quite unrelated to each other. The particular sources of revenue or income often are dedicated to use for a particular phase of the government's operations. The accounts must segregate these specially dedicated resources and isolate them from all other transactions in a separate "fund."
9. **Auditing:** The audit the books of accounts maintained by government departments, offices or institutions are to be audited by a recognised department of the government so as to ensure proper governance and also to prevent misuse and misappropriation of public funds.

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

(a) Concept of triple bottom line reporting.

(b) Features of XBRL Reporting.

(c) Role of Controller General of Accounts (CGA).

(d) Disclosure requirement as per AS-21.

(e) IFRS-2 : Shear-based payments.

Answer:

(a) Concept of triple bottom line reporting:

Triple bottom line reporting (TBLR) expands the traditional reporting framework to take into account social and environmental performance in addition to financial performance. The concept of Triple bottom line reporting states that reporting should incorporate the social, environmental and financial performance of an organization.

TBL reporting refers to the publication of economic, environmental and social information in an integrated manner that reflects activities and outcomes across these three dimensions of a company's performance. Triple Bottom Line Reporting requires that organisations should be reporting on three different 'bottom lines' that are quite distinct, but related from one another. They are discussed hereunder:

- The first bottom line happens to be the bottom line of the "income statement" (which is the traditional measure of operating result).
- The second bottom line is that of anorganisation's "people account" (a measure in some shape or form of how socially responsible an organisation has been throughout its operations); and

- The third bottom line is that of the organisation's "planet account" (which measures how environmentally responsible the company has been). Thus, only a company that produces a TBL reports is taking account of the full cost involved in doing business.

(b) Features of XBRL reporting

1. **Clear Definitions**

   XBRL allows the creation of reusable, authoritative definitions, called taxonomies, which capture the meaning contained in all of the reporting terms used in a business report, as well as the relationships between all of the terms. Taxonomies are developed by regulators, accounting standards setters, government agencies and other groups that need to clearly define information that needs to be reported upon. XBRL doesn't limit what kind of information is defined: it's a language that can be used and extended as needed.

2. **Testable Business Rules**

   XBRL allows the creation of business rules that constrain what can be reported. Business rules can be logical or mathematical, or both. These business rules can be used to:

   - Prevent poor quality information being sent to a regulator or third party, by being run by the preparer while the report is in draft stage.
   - Prevent poor quality information being accepted by a regulator or third party, by being run at the point that the information is being received. Business reports that fail critical rules can be sent back to the preparer for review and resubmission.
   - Identifying or highlighting questionable information, allowing prompt follow up, correction or explanation.
   - Creation of ratios, aggregations and other kinds of value-added information, based on the fundamental data provided.

3. **Multi-lingual Support**

   XBRL allows concept definitions to be prepared in as many languages as necessary. Translations of definitions can also be added by third parties. This means that it's possible to display a range of reports in a different language to the one that they were prepared in, without any additional work. The XBRL community makes extensive use of this capability as it can automatically open up reports to different communities.

4. **Strong Software Support**

   XBRL is supported by a very wide range of software from vendors large and small, allowing a very wide range of stakeholders to work with the standard.

(c) **Role of CGA:** Consolidating monthly accounts of the Government of India and reporting on the fiscal deficit is the primary responsibility of the CGA. The monthly accounts are compiled in the CGA office and a monthly review indicating flow of expenditure, revenue collection, internal and external borrowing and fiscal deficit is prepared for Minister of Finance. A summary of the monthly accounts is also placed on the web. He prepares a critical analysis of expenditures, revenues, borrowings and the deficit for the Finance Minister every month. He also prepares annual Appropriation Accounts and Union Finance Accounts for presentation to the parliament. Ministries, Departments approach the Controller General of Accounts for advice on accounting procedures for new schemes, programmes or activities undertaken by them. The advice rendered by the CGA generally covers aspects related to maintenance of accounts, collection of receipts and it's crediting into Government account, release of payment and it's accounting, creation and operation of funds within Government accounts, banking arrangements for making payments and collecting receipts etc. The advice of the Controller General of Accounts is binding on the Ministries/Departments.

(d) Disclosure in terms of AS-21

(a) Disclosure should be made in accordance with the format of the parent company's financial statements. Further disclosure under all the mandatory accounting standards when material and also compliance with General Classifications should be made in order to ensure comparability for one period to the next. Supplementary information about the effect of acquisition and disposal of subsidiaries on the financial position at the reporting date and results for the reporting period with comparative preceding period amount should be disclosed.

(b) Reasons for exclusion from consolidation of subsidiaries should be disclosed List of all subsidiaries-name, country of incorporation/residence, proportion of ownership interest and if different proportion of voting power.

(c) Nature of relationship if the parent does not own directly or indirectly more than 50% of voting power of the subsidiary.

(d) Names of subsidiary/subsidiaries of which reporting dates are different from that of the parent and the difference in reporting dates

(e) IFRS 2: Share-based Payment

- IFRS 2 was issued by the International Accounting Standards Board in 2004. The Standard has been effective since January 1, 2005.
- This standard deals with the recognition of share-based payment transactions of an entity.
- IFRS 2 requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.
- IFRS 2 recognises three types of share based payments. They are:
  1. Equity-settled transactions for goods or services acquired by an entity;
  2. Cash-settled but price or value of the goods or services based on the equity instrument of the entity; and
  3. Transactions for goods or services acquired by the entity in which either the entity can settle or supplier can claim settlement by equity instruments of the entity.