

PAPER 17: CORPORATE FINANCIAL REPORTING

SUGGESTED ANSWERS

SECTION – I

1. (a)

- (i) (C)
- (ii) (C)
- (iii) (A)
- (iv) (A)
- (v) (B)
- (vi) (D)
- (vii) (D)
- (viii) (B)
- (ix) (A)
- (x) (B)

SECTION - II

2. (a)

- (i) Basic EPS ₹ 5.625
- (ii) Diluted EPS ₹ 2.939

2. (b)

Present value of lease payments ₹ 18,49,740

Decision about the classification of lease

The present value of minimum lease payments (₹ 18,49,740) covers 92.49% of the fair value of the equipment. Besides, the lease term (3 years) covers the major part of the economic life of the asset (i.e., 5 years). Based on these two criteria, the lease under consideration constitutes a finance lease.

Unearned finance income ₹ 4,31,470

3. (a)

- (i) Carrying amount = ₹ 29,263 million (approx.)

(ii)

Value in use

| Year | Discounted cash flow |
|-----------|----------------------|
| 2023-2024 | 6,877.50 |
| 2024-2025 | 5,894.00 |
| 2025-2026 | 5,018.00 |
| 2026-2027 | 4,248.00 |
| 2027-2028 | 3,250.00 |
| 2027-2028 | 422.50 |
| | <u>25,710.00</u> |

- (iii) Impairment loss = ₹ 3,553 million
- (iv) Revised carrying amount = ₹ 25,710 million

3. (b)

| Subsidiary Company | NCI at proportionate share of INA (₹) | Goodwill or Gain on Bargain Purchase # |
|---------------------------|--|---|
| A Ltd. | 30,000 | 20,000 (Goodwill) |
| B Ltd. | 39,000 | 13,000 (Gain on BP) |
| C Ltd. | 28,000 | Nil |
| D Ltd. | Nil | 20,000 (Goodwill) |

4. (a)

- (i) Purchase Consideration = ₹ 41,47,200
(ii) Goodwill on absorption = ₹ 4,35,200

4. (b)**Principle of Control**

An investor shall determine whether it is a parent by assessing whether it controls the investee. An investor controls an investee if and only if the investor has all the following:

- (a) power over the investee;
(b) exposure, or rights, to variable returns from its involvement with the investee; and
(c) the ability to use its power over the investee to affect the amount of the investor's returns.

An investor shall consider all facts and circumstances when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7 of Ind AS 110 (see paragraphs 880-885).

Two or more investors collectively control an investee when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the co-operation of the other(s), no investor individually controls the investee. Each investor would account for its interest in the investee in accordance with the relevant Ind ASs, such as Ind AS 111, Joint Arrangements, Ind AS 28, Investments in Associates and Joint Ventures, or Ind AS 109, Financial Instruments.

5. (a)**Consolidated Balance Sheet of the Group as on 31.03.2023**

| Particulars | (₹ in lakh) |
|-------------------------------|---------------------|
| ASSETS | |
| Non-current assets | |
| Property, plant and equipment | 490 |
| Current assets | |
| Inventories | 169 |
| Trade receivables | 290 |
| Bills receivable | 1 |
| Cash and cash equivalents | <u>154</u> |
| Total assets | <u>1,104</u> |

| | |
|---|--------------|
| EQUITY & LIABILITIES | |
| Equity attributable to owners of the parent | |
| Share capital | 300 |
| Other Equity | |
| Reserves | 97 |
| Retained Earnings | 89.9 |
| Capital Reserve | 94 |
| Non-controlling interests | <u>83.1</u> |
| Total equity | <u>664</u> |
| LIABILITIES | |
| Current liabilities | |
| Trade payables | <u>440</u> |
| Total equity and liabilities | <u>1,104</u> |

5. (b)

If a parent loses control of a subsidiary, it shall:

(a) Derecognise:

- The assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost; and
- The carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them).

(b) Recognise:

- The fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;
- If the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution; and
- Any investment retained in the former subsidiary at its fair value at the date when control is lost.

(c) Reclassify to profit or loss, or transfer directly to retained earnings if required by other Ind AS, the amounts recognised in other comprehensive income in relation to the subsidiary.

(d) Recognise any resulting difference as a gain or loss in profit or loss attributable to the parent.

If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.

6. (a)

Value of Goodwill = ₹ 12,11,220

6. (b)

Journal entries in the books of B Ltd.

During the vesting period:

| | | Dr. (₹) | Cr. (₹) |
|---|-----|-----------|-----------|
| Year 1: Employee Expenses | Dr. | 13,44,000 | |
| To Share based payment reserve (Other Equity) | | | 13,44,000 |
| Year 2: Employee Expenses | Dr. | 14,40,000 | |
| To Share based payment reserve (Other Equity) | | | 14,40,000 |
| Year 3: Employee Expenses | Dr. | 13,92,000 | |
| To Share based payment reserve (Other Equity) | | | 13,92,000 |

| At the time option is exercised: | | Dr. (₹) | Cr. (₹) |
|--|-----|-----------|-------------|
| Bank | Dr. | 69,60,000 | |
| Share based payment reserve (Other Equity) | Dr. | 41,76,000 | |
| To Equity Share Capital | | | 6,96,000 |
| To Other Equity | | | 1,04,40,000 |

7. (a)

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.

The benefits of reporting under XBRL over traditional form are:

1. **Automated Data Processing:** The use of XBRL offers major benefits to the preparers and users of business and financial information by enabling this data to be exchanged and processed automatically by the software. XBRL identification tags reduce and eliminate the need for the data entry operator to manually key data into the software.
2. **More accurate and efficient:** XBRL makes reporting more accurate and more efficient by using comprehensive definitions and accurate data tags. Such data tags allow the preparation, validation, publication, exchange, consumption and analysis of business information of all kinds.
3. **Data Review:** Organisations can use software to automatically validate data electronically received through XBRL. The software can help analyse the data and identify problems that accountants and auditors can examine.
4. **Improved reporting quality:** XBRL provides its users with increased data integrity and uniformity. It also allows for increased transparency of public owned companies’ financial records for view by ‘interested’ parties.
5. **Interchangeable:** Information in reports prepared using the XBRL standard is interchangeable between different information systems in entirely different organisations. This allows for the exchange of business information across a reporting chain. The users who intend to report information, share information, publish information and allow straight through information processing rely on XBRL.
6. **Cost and time savings:** Currently all companies file their reports with regulators using formats like the Portable Document Format (PDF) which has its inherent limitations. Moreover, the costs of sending, receiving, storing, validating and auditing the financial records in this format are comparatively higher. XBRL reduces the involved time and also the cost.
7. **Tagging of transactions:** In addition to allowing the exchange of various business reports, XBRL has the capability to allow the tagging of transactions that can themselves be aggregated into XBRL

reports. These transactional capabilities allow system-independent exchange and analysis of significant quantities of supporting data. XBRL allows unique tags to be associated with reported facts, which leads to the following advantages:

- publishing of reports with the confidence that the information contained in them can be consumed and analysed accurately;
- testing of the reports against a set of business and logical rules, in order to capture and avoid mistakes at their source;
- using the information in the way that best suits the users' needs, including by using different languages, alternative currencies and in their preferred style
- providing confidence to the users that the data provided to them conforms to a set of sophisticated predefined definitions.

7. (b)

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:

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

8. (a)

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:

1. To record financial transactions of revenues and expenditure relating to the government organizations.

2. To provide reliable financial data and information about the operation of public fund.
3. To record the expenditures as per the appropriate Act, Rules, and legal provisions as set by the government.
4. To avoid the excess expenditures beyond the limit of the budget approved by the government.
5. To help in the preparation of various financial statements and reports.
6. To facilitate the auditing by the concerned government department.
7. To prevent misappropriation of government properties by maintaining the systematic records of cash and store items.
8. To facilitate for estimating the annual budget by providing historical financial data of government and expenditures.

8. (b)

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.

8. (c)

Integrated reporting refers to representation of the financial and non-financial performance of a company in a single report. IR provides non-financial data such as how the company performs on environmental, social and governance (ESG) parameters, how sustainability is embedded in the core business strategy etc.

IR is beneficial as it contributes to:

- incorporate sustainability into its core business
- communicate the impact of a company's operations on environment and community
- identify ESG related risks and opportunities
- provide a competitive edge over its peers in the long term
- informed decisions and improved overall performance
- identify cost savings by analysing financial and non-financial metrics together
- increase internal collaboration
- increase engagement with internal and external stakeholders through consistent and balanced reporting
- address reputational risk.
- increase brand value and customer loyalty

8. (d)

Government of India notified the Section 135 of the Companies Act, 2013 along with Companies (Corporate Social Responsibility Policy) Rules, 2014 "hereinafter CSR Rules" and other notifications related thereto which makes it mandatory (with effect from 1st April, 2014) for certain companies who fulfil the criteria as mentioned under Sub Section 1 of Section 135 to comply with the provisions relevant to Corporate Social Responsibility.

As per the said section, the companies having Net worth of INR 500 crore or more; or Turnover of INR 1000 crore or more; or Net Profit of INR 5 crore or more during any financial year shall be required to constitute a

Corporate Social Responsibility Committee of the Board “hereinafter CSR Committee” with effect from 1st April, 2014.

The above provision requires every company having such prescribed Net worth or Turnover or Net Profit shall be covered within the ambit of CSR provisions. The section has used the word “companies” which connotes a wider meaning and shall include the foreign companies having branch or project offices in India.

8. (e)

XBRL is the international standard for digital reporting. It offers benefits to all those who have to create, transmit, use or analyse such information. XBRL is used in many different ways, for many different purposes. The significant users of XBRL include:

1. Companies: Companies are required to provide relevant information to various stakeholders, and to accurately move information amongst them.
2. Not-for-profit Organisations: Several not-for-profit organisations, like universities, municipalities etc. opt for reporting under XBRL format.
3. Accountants: Accountants use XBRL in support of clients reporting requirements and are required to prepare and present financial statements using XBRL.
4. Analysts: Analysts that need to understand relative risk and performance.
5. Investors: Investors that need to compare potential investments and understand the underlying performance of existing investments.
6. Regulatory Authorities: The different regulatory authorities that use XBRL include:
 - Financial regulators that need significant amounts of complex performance and risk information about the institutions that they regulate.
 - Securities regulators and stock exchanges that need to analyse the performance and compliance of listed companies and securities, and need to ensure that this information is available to markets to consume and analyse.
 - Business registrars that need to receive and make publicly available a range of corporate data about private and public companies, including annual financial statements.
7. Government agencies: Government agencies that are in the process of simplifying the process of businesses reporting, reducing red tape (either by harmonising data definitions or consolidating reporting obligations, or both), or improving government reporting by standardising the way that consolidated or transactional reports are prepared.
8. Tax authorities: The tax authorities need financial statements and other compliance information from companies in order to process and review their corporate tax affairs.
9. Statistical and monetary policy authorities: These authorities that need financial performance information from many different organisations.
10. Specialist Data Providers: Specialist data providers that use published information for the purpose of creating comparisons, ratings and other value-added information products for various market participants.