PAPER – 18 : CORPORATE FINANCIAL REPORTING

SUGGESTED ANSWERS

SECTION – A

1.

(i)	(C)
(ii)	(C)
(iii)	(A)
(iv)	(B)
(v)	(B)
(vi)	(C)
(vii)	(B)
(viii)	(B)
(ix)	(B)
(x)	(A)
(xi)	(B)
(xii)	(C)
(xiii)	(B)
(xiv)	(C)
(xv)	(C)

SECTION – B

2. (a)

(i) Annual Lease Payment = ₹ 3,00,00,000

(ii) Unearned Finance Income = ₹ 1,54,44,900

2. (b)

	(₹ in crores)
Impairment loss	1.82
Impairment loss set off against revaluation reserve balance as per para 60 of Ind AS 36, Impairment of Assets	(1.40)
Impairment Loss to be debited to Profit and Loss Account	0.42

3. (a)

There are two performance obligations-one for sale of goods and other for sale of discount vouchers. Their standalone prices:

Goods	₹ 5,400
Discount Vouchers	₹ 720
Total	₹ 6,120

Transaction price is ₹ 5,400 which is sale price less current discount of 10%. It is to be allocated between performance obligations of goods and discount vouchers proportionately.

Allocation to goods = ₹ 4,765

Allocation to Discount Voucher = ₹ 635

Thus in 2021-22, Revenue is recognised for ₹ 4765 only, which is transaction price less future discount. Discount Voucher is carried as a liability at ₹ 635.

In 2022-23, this liability will be cancelled and revenue will be recognised for ₹ 635, when the discount voucher is redeemed or it expires.

The transaction price for additional sale during 2022-23 being ₹ 4,200 less 50% discount voucher being ₹ 2,100 comes to ₹ 2,100. Total revenue for 2022-23 is, therefore, ₹ 2,100 plus the revenue upon cancellation of liability in the form of advance for goods in the year 2021-22 i.e., ₹ 635.

Thus, the total revenue for 2022-23 is ₹ 2,735.

3. (b)

Value of goodwill = ₹ 1,38,600.

4. (a)

Value of Debt component of the convertible debentures (I)	₹ 95,53,600
Issue proceeds from convertible debenture (II)	₹ 1,00,00,000
Value of equity component (II – I)	₹ 4,46,400

Journal entry at initial recognition

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr.	1,00,00,000	
To 6% Debenture (Liability component) A/c		95,53,600
To 6% debenture (Equity component) A/c		4,46,400

4. (b)

In the books of Saraswati Ltd.

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
(i)	Equity share capital (₹ 100) A/c Dr.		1,00,00,000	
	To Equity Share Capital (₹ 40) A/c			40,00,000
	To Capital Reduction A/c			60,00,000
(ii)	12% Preference Share capital (₹ 100) A/c Dr.		50,00,000	
	To 12% Preference Sh. Capital (₹ 60) A/c			30,00,000
	To Capital Reduction A/c			20,00,000
(iii)	10% Debentures A/c Dr.		40,00,000	
	To 12% Debentures A/c			28,00,000
	To Capital Reduction A/c			12,00,000
(iv)	Trade payables A/c Dr.		20,00,000	
	To Equity Share Capital A/c			12,00,000
	To Capital Reduction A/c			8,00,000
(v)	Provision for Taxation A/c Dr.		1,00,000	
	Capital Reduction A/c Dr.		50,000	
	To Current Assets (Bank A/c) A/c			1,50,000
(vi)	Capital Reduction A/c Dr.		99,00,000	
	To P & L A/c			6,00,000
	To Property, plant and equipment A/c			37,50,000
	To Current Assets A/c			55,00,000
	To Investments A/c			50,000
(vii)	Capital Reduction A/c Dr.		50,000	
	To Capital Reserve A/c			50,000

5.

Consolidated Balance Sheet
as on 31.03.2023

Particulars	(₹)
Assets	
Non-current Assets	
Property, Plant & Equipment	15,00,000
Goodwill	10,000
Current Assets	
Inventories	2,90,000
Financial Assets	
Trade Receivables	3,60,000
Total	21,60,000
Equity and Liabilities	
Equity Share Capital (₹ 10)	14,25,000
Other Equity	
Reserve	2,00,000
Securities Premium	85,000
Current Liabilities	
Trade Payables	4,50,000
Total	21,60,000

6.

Consolidated Balance Sheet as on 31.03.2023

Particulars	Amount (₹ in lakh)
Assets	
Non-current Assets	
PPE	10,400
Goodwill	100
Current Assets	
Inventories	2,290
Trade Receivables – Sundry debtors	3,000
Total	15,790
Equity and Liabilities	
Equity	
Share Capital (₹ 10)	5,000
Other Equity (Retained Earnings)	8,950
NCI	900
Current Liabilities	
Trade Payables – Sundry creditors	900
Dividend Payable	40
Total	15,790

7. (a)

Value Added Statement
For the year ended on 31.03.2023

Particulars		**₹ In lakhs**
A. Sales		2,400
Add: Increase in stock		40
Total (A)		2,440
B. Cost of bought in goods &		
Raw material		775
Printing and Stationery		25
Rent, Rates and Taxes		170
Other expenses		90
Auditor's remuneration		30
Total(B)		1,090
Gross value Added(A-B)		**1,350**
Distribution of Value Added		
To Employees		
Wages and salaries	330	
Employees State Insurance	40	
PF Contribution	30	400
To Government		
Income tax		280
To Providers of Capital		
Interest on borrowing	40	
Dividends	150	190
Reinvested in Business		
Depreciation on plant and machinery	275	
Retained profits	205	480
		1,350

7. (b)

As per the Integrated Reporting Framework issued by International Integrated Reporting Council (IIRC), an integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term.

The objectives of integrated reporting are:

a. To improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

b. To promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time.
c. To enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies.
d. To support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

Integrated reporting is consistent with all the developments in corporate reporting over time across the world. It has the potential to synthesise all of them and can accelerate these individual initiatives and provide impetus to greater innovation in corporate reporting.

8. (a)

Role of Public Accounts Committee

1. Role regarding examination of the C&AG report: The chief function of P.A.C. is to examine the audit report of Comptroller and Auditor General (C&AG) after it is laid in the Parliament. C&AG assists the Committee during the course of investigation.
2. Role regarding unauthorized expenditures or excess expenditures: In examining the report of the Comptroller and Auditor General of India (C&AG), the committee has to satisfy itself that:
   (i) the expenditures made by the government, were authorized by the Parliament; and
   (ii) the expenditures under any head has not crossed the limits of parliamentary authorization.

It is to be noted that, every expenditure made by the government must be sanctioned by the Parliament. Thus, it is the role of the committee to bring to the notice of the Parliament instances of unauthorized expenditures or expenditures beyond sanctioned limits.

3. Role regarding spending of money by ministries: The committee not only ensures that ministries spend money in accordance with parliamentary grants, it also brings to the notice of the Parliament instances of extravagance, loss, in fructuous expenditure and lack of financial integrity in public services. However, the committee cannot question the polices of the government. It only concerns itself with the execution of policy on its financial aspects.
4. Scrutinizing the audit reports of public corporations: A new dimension has been added to the function of the P.A.C. by entrusting it with the responsibility of scrutinizing the audit report of public corporations.
5. Scrutinising the working process of ministries and public corporations: In examining the accounts and audits of the ministries and public corporations, the Committee gets the opportunity to scrutinize the process of their working. It points out the weakness and shortcomings of the administration of ministries and public corporations Criticisms of the P.A.C. draw national attention. This keeps the ministries and public corporations sensitive to the criticisms of the P.A.C. Thus, it is wrong to suppose that the P.A.C. is only an instrument of financial control, it is as well an instrument of administrative control.

8. (b)

IGFRS 4: Inventories

This standard has prescribed the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. This Standard aims at using accrual principles of accounting for inventories – both at the stage of charging as expense and depicting the closing stock in the financial statements at the end of the reporting period.

The Accounting Standard has derived inputs from Indian Accounting Standards (Ind AS 2), IPSAS 12 and IAS 2 (International Accounting Standards). The Standard is envisaged to provide guidance to the pilot studies and eventual development of a common reporting framework under accrual basis for the Union and the States. The IGFRS 4 could be revised by GASAB based on pilot studies.

8. (c)

Computation of goodwill

Particulars	**₹ in lakh**
1. Fair value of consideration	980
2. Fair value of previously held interest	420
3. Value of Identifiable Net Assets	1,120
4. Goodwill (1 + 2 – 3)	280

The difference between the fair value of previously held interest and the carrying amount of investment should be transferred to Profit and Loss A/c.

The journal entry is:

Net Identifiable Assets A/c................Dr.	1,120	
Goodwill A/c..................................... Dr.	280	
To Bank A/c		980
To Investment in Associate A/c		140
To Gain on Fair value of Previously Held Interest A/c		280