PAPER 18: CORPORATE FINANCIAL REPORTING

SUGGESTED ANSWER

SECTION A

1.

(i) (A)

(ii) (D)

(iii) (A)

(iv) (D)

(v) (C)

(vi) (D)

(vii) (A)

(viii) (C)

(ix) (C)

(x) (B)

(xi) (C)

(xii) (D)

(xiii) (B)

(xiv) (C)

(xv) (C)

SECTION - B

2. (a)

(i) Under this approach, the gross carrying amount may be restated by reference to the observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any impairment losses.

Computation of the revised gross carrying amount and accumulated depreciation and Net carrying amount under treatment (A)

Particulars	₹
Gross carrying amount	5,00,000
Accumulated depreciation	2,00,000
Carrying amount	3,00,000

Accumulated depreciation to be credited = ₹ 40,000

Depreciation per annum subsequent to revaluation = ₹ 50,000.

Journal

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Plant and Machinery A/c Dr.		1,00,000	
To Accumulated Depreciation A/c			40,000
To Revaluation Reserve A/c			60,000
Depreciation A/c Dr.		50,000	
To Accumulated Depreciation A/c			50,000

(ii) In this case, the gross carrying amount is restated to ₹ 3,00,000 to reflect the fair value and the accumulated depreciation is set to zero.

Journal

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Accumulated Depreciation A/c Dr.		1,60,000	
To Plant and Machinery A/c (Gross Block)			1,60,000
Plant and Machinery A/c Dr.		60,000	
To Revaluation Reserve A/c			60,000
Depreciation A/c Dr.		50,000	
To Accumulated Depreciation A/c			50,000

Since the revalued amount is the revised gross block, the useful life to be considered is the remaining useful life which is 6 years. Thus, the same depreciation charge per annum is ₹ 50,000.

2. (b)

(i) Calculation of carrying amount

Original cost = ₹ 45,000 million

Depreciation for 2.75 years = [(₹ 45,000 million – ₹ 650 million) x 2.75/7.75] = ₹ 15,737 million

Carrying amount on 31.3.2024 = [₹ 45,000 million – ₹ 15,737 million] = ₹ 29,263 million (approx.)

(ii) Calculation of value in use

Year	Cash Flow (in million)	Discount @ 9%	Discounted cash flow (₹ in million)
2024-2025	7,500	0.917	6,877.50
2025-2026	7,000	0.842	5,894.00
2026-2027	6,500	0.772	5,018.00
2027-2028	6,000	0.708	4,248.00
2028-2029	5,000	0.650	3,250.00
2028-2029	(residual) 650	0.650	422.50
			25,710.00

(iii) Calculation of impairment loss

When recoverable amount is less than carrying value

Value in use = ₹ 25,710 million

Selling Price = ₹ 25,000 million

Cost of disposal = ₹ 500 million

Net selling price = ₹ 24,500 million

Recoverable amount = Higher of value in use and net selling price i.e. ₹ 25,710 million.

Impairment loss = ₹ 29,263 million – ₹ 25,710 million = ₹ 3,553 million

(iv) Revised carrying amount = Recoverable amount = ₹ 25,710 million

3. (a)

The market price of equity shares subsequent to grant date is considered only when fair value at the grant date is not reliably measurable. Hence, market price ₹ 84 is not considered.

Expenses recognized during the vesting period

Year	Remuneration Expense Recognized each year (₹)	Cumulative Remuneration Expense (₹)
1	6,72,000	6,72,000
2	7,20,000	13,92,000
3	6,96,000	20,88,000

Journal of Z Limited

End of Year	Particulars	Debit (₹)	Credit (₹)
1	Employee Expenses A/c Dr. To Share Based Payment Reserve A/c	6,72,000	6,72,000
2	Employee Expenses A/c Dr. To Share Based Payment Reserve A/c	7,20,000	 7,20,000
3	Employee Expenses A/c Dr. To Share Based Payment Reserve A/c	6,96,000	 6,96,000

When shares are actually issued:

Exercise price ₹ 50; Cash Payment for subscription in shares ₹ 50 each share. Fair Value of Option granted ₹ 30.Equity shall be credited by Exercise price plus option value = ₹ 80; nominal value ₹ 10 and Security premium ₹ 70; market price ₹ 84 is not recognized.

Journal of Z Limited

Particulars	Debit (₹)	Credit (₹)
Bank A/c Dr.	34,80,000	
Share Based Payment Reserve A/c Dr.	20,88,000	
To Equity Share Capital A/c		6,96,000
To Securities Premium A/c		48,72,000

3. (b)

Valuation of Goodwill

Particulars	(₹)
Average Profit Before Tax	12,00,000
Less: Interest on Investment	50,000
Average Trading Profit Before Tax	11,50,000
Less: Income Tax	3,45,000
Average Trading Profit after Tax	8,05,000

Value of Goodwill = ₹ 8,05,000 x3 = ₹ 24,15,000

Calculation of Net Assets

Particulars	(₹)
Assets:	
PPE	36,00,000
Goodwill	24,15,000
Investment	4,80,000
Inventories	11,00,000
Trade Receivables	13,50,000
Cash at Bank	4,20,000
Total Assets	93,65,000
Less: Liabilities:	
Debentures	(15,00,000)
Trade Payables	(8,00,000)
Total liabilities	(23,00,000)
Net Assets	70,65,000

Alternative computation of net assets (based on the Equity and Liabilities side of the Balance Sheet)

Particulars	₹
Paid-up equity share capital	20,00,000
Other equity (Reserves)	15,00,000
Net gain /loss on revaluation of assets and reassessment of liabilities:	-
(i) Net gain on property, plant and equipment	12,00,000
(ii) Net gain on inventories	1,00,000
(iii) Net loss on trade receivables	(1,50,000)
(iv) Goodwill	24,15,000
Total net assets	70,65,000

Calculation of Value per Share (Based on Intrinsic Value Method)
Value per Share = 70,65,000/2,00,000 =₹ 35.325

4. (a)

Calculation of the amount of Provision

Particulars	Advances (₹ in Lakh)	Provision (%)	Provision (₹ in Lakh)
Standard Assets	16,800	0.40%	67.2
Sub-Standard Assets	1,780	10%	178
Secured Portions of Doubtful Debts:			
- Up to one year	350	20%	70
- One year to three years	140	30%	42
- more than three years	30	50%	15
Unsecured Portion of Doubtful Debts	175	100%	175
Loss Assets	51	100%	51
Total			598.2

4. (b)

Journal of NR Limited

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
31.3.24	Trade Payables A/c	Dr.		6,40,000	
	To 6% Debentures A/c				6,40,000
31.3.24	6% Preference Share Capital A/c	Dr.		6,40,000	
	Equity Share Capital A/c	Dr.		15,36,000	
	To Capital Reduction A/c				21,76,000
31.3.24	General Reserve A/c	Dr.		6,400	
	To Capital Reduction A/c				6,400
31.3.24	Capital Reduction A/c	Dr.		21,82,400	
	To Retained Earnings A/c				5,76,000
	To Provision for Doubtful Debts A/c				32,000
	To Goodwill A/c				8,96,000
	To Land and Buildings A/c				2,56,000
	To Plant and Machinery A/c				3,52,000
	To Capital Reserve A/c				70,400

Revised Balance Sheet of NR Ltd. as on 31st March, 2024

		Amount (₹)
II. ASSETS		
(1) Non-current Assets		
(a) PPE:		
Land and Building		12,80,000
Plant and Machinery		10,88,000
(2) Current Assets:		
Inventories		2,56,000
Trade Receivables	5,12,000	
Less: Provision for Doubtful Debts	(32,000)	4,80,000
Cash at Bank		38,400
Total		31,42,400
I. EQUITY AND LIABILITIES		
(1) Equity		
(a) Equity Share Capital		
Issued and Subscribed:		
3,84,000 Equity Shares of ₹5 each, ₹1 paid-up		3,84,000
(b) Other Equity:		
1,28,000 6% Preference Shares of ₹10 each, ₹ 5 paid-up		6,40,000
Capital Reserve		70,400
(2) Non-current Liabilities:		
5% Debentures		7,68,000
6% Debentures		6,40,000
(3) Current Liabilities: Trade Payables		6,40,000
Total		31,42,400

5.

Balance Sheet of LMS Ltd as on 31st March, 2024

Particulars	Note No.	Amount (₹ in Lakhs)
ASSETS:		
Non-current Assets:		
PPE		32,000
Financial Assets		2,600
Current Assets		23,000
Total		57,600
EQUITY AND LIABILITIES:		
Equity:		
Equity Share Capital		30,000
Other Equity	1	11,600
Borrowings		10,000
Current Liabilities		6,000
Total		57,600

Note 1: Other equity = ₹ (2,000+4,600+5,000) = ₹ 11,600 Lakh

Alternative

Consolidated Balance Sheet of LMS Ltd. as at 31st March, 2024

Particulars	Note No.	₹. In lakhs
I ASSETS	-	-
(1) Non-current assets	-	-
(a)Property, plant and equipment	1	32,000
(b)Financial assets	2	2,600
(2) Current assets	3	23,000
Total assets	-	57,600
II EQUITY AND LIABILITIES	-	-
(1) Equity	-	-
(a)Equity share capital	4	30,000
(b)Other equity	5	11,600
(2) Non-current liabilities	-	-
Financial liabilities	-	-
Borrowings	6	10,000
(3) Current liabilities	7	6,000
Total equity and liabilities	-	57,600

Notes to accounts (₹ in lakhs)

1. **Property, plant and equipment**

Property, plant and equipment of MS Ltd. at its carrying amount	16,000
Property, plant and equipment of LS Ltd. at its fair value	16,000
Total	32,000

2. **Financial assets**

Financial assets of MS Ltd. at its carrying amount	1,000
Financial assets of LS Ltd. at its fair value (equal to carrying amount)	1,600
Total	2,600

3. **Current assets**

Current assets of MS Ltd. at its carrying amount	13,000
Current assets of LS Ltd. at its fair value	10,000
Total	23,000

4. **Equity share capital**

Authorized	-
Issued, subscribed and fully paid	-
3,000 equity shares of ₹ 10 each	30,000
Total	30,000

5. **Other equity**

Other equity of MS Ltd.	2,000
Securities premium	5,000
Gain on bargain purchase	4,600
Total	11,600

6. **Borrowings**

Borrowings of MS Ltd.	6,000
Borrowings of LS Ltd.	4,000
Total	10,000

7. **Current liabilities**

Current liabilities of MS Ltd.	2,000
Current liabilities of LS Ltd.	4,000
Total	6,000

Working Notes:

(i) Nature of acquisition and the manner of preparing Balance Sheet after amalgamation

As per paragraph B 19 of Ind AS 103, it is a case of reverse acquisition in which LS Ltd. is the legal acquirer (accounting acquiree) and MS Ltd. is the legal acquiree (accounting acquirer) because MS Ltd. gets 2/3rd share and thereby control in the combined entity whereas LS Ltd. gets only 1/3rd share in the combined entity i.e., LMS Ltd. as supported by the following computation:

Particulars	LS Ltd. (₹ in Lakhs)	MS Ltd. (₹ in Lakhs)
Fair Value of Business	15,000	30,000
Share of each company in the merged company	1/3	2/3

To prepare the consolidated balance sheet of LMS Ltd. after amalgamation, as per paragraph B22 of Ind AS 103, the assets and liabilities of the accounting acquirer are shown at their pre-combination carrying amounts and the assets and liabilities of the legal acquirer (the accounting acquiree) are recognized and measured as per Ind AS 103 i.e., at their fair values.

Besides, the retained earnings and other equity balances of the accounting acquirer before business combination are also reflected.

The issued equity interests in the consolidated financial statements are determined by adding the issued equity interest of the accounting acquirer outstanding immediately before the business combination to the fair value of the accounting acquiree.

(ii) Computation of form and amount of consideration for LS Ltd.

(a) Fair value of business of MS Ltd.	₹30,000 lakhs
(b) Number of equity shares of MS Ltd.	2,000 lakhs
(c) Fair value per equity share of MS Ltd. (a/b)	₹15
(d) Fair value of business of LS Ltd. being the consideration of LS Ltd.	₹15,000 lakhs
(e) Number of equity shares to be issued by MS Ltd. for LS Ltd.(d/c)	1,000 lakhs

Thus, 1,000 equity shares of ₹10 each will be issued by MS Ltd. at a premium of ₹ 5 per share.

(iii) Computation of gain on bargain purchase of business of LS Ltd.

Particulars	₹. In lakhs
(i) Acquisition date fair value of the identifiable assets acquired	-
(a) Property, plant and equipment	16,000
(b) Current assets	10,000
(c) Financial assets	1,600
Total	27,600
(ii) Acquisition date fair value of the identifiable liabilities assumed	-
(a) Borrowing	4,000
(b) Current liabilities	4,000
Total	8,000
(iii) Acquisition date fair value of the net of identifiable assets acquired and liabilities assumed (i-ii)	19,600
(iv) Consideration transferred	15,000
(v) Gain on bargain purchase (iii-iv)	4,600
	-

6.

Calculation of Goodwill / Capital Reserve on acquisition of subsidiaries

₹ in lakhs

	Q Ltd.	**R Ltd.**
Investment or consideration	1,190.00	(980x80%) 784.00
Add: NCI at Fair value		
(1,400 x 20%)	280.00	
(1,120 x 40%)	-	448.00
	1,470.00	1,232.00
Less: Identifiable net assets (Share Capital + Increase in the reserves and Surplus till acquisition date)	(1,837.50)	(1,522.50)
Capital Reserve	367.50	290.50
Total capital reserve		658.00

Calculation of Non-controlling Interest **(₹ in lakhs)**

	Q Ltd.	**R Ltd.**
At Fair Value	280.00	448.00
Add: Post Acquisition Reserves	7.00	14.00
Add: Post-acquisition retained earnings	10.50	18.20
Less: NCI share of investment in R Ltd.	196.00	-
	101.50	480.20
Total		581.70

Note: The non-controlling interest in Q Ltd. will take its proportion in R Ltd. So, they have to bear their proportion in the investment by Q Ltd. (in R Ltd.) also.

Consolidated Balance Sheet of the Group as on 31st March, 2024

Particulars	**Note No.**	**₹ in lakh**
ASSETS		
Non-current Assets		
Property, Plant and Equipment	1	3,430.00
Current Assets		
(a) Inventories	2	1,183.00
(b) Financial Assets		
(i) Trade Receivables	3	2,037.00
(ii) Cash and cash equivalents	4	1,078.00
Total assets		7,728.00
EQUITY AND LIABILITIES		
Equity attributable to owners of parent		
(a) Share Capital		2,100.00
(b) Other Equity	5	1,966.30
Non-controlling interests [Answer 6(a). B]		581.70
Total equity		4,648.00
LIABILITIS		
Non-current liabilities		Nil
Current liabilities		
Financial Liabilities		
Trade payables	6	3,080.00
Total liabilities		3,080.00
Total equity and liabilities		7,728.00

Notes to Accounts

(₹ in lakh)

1.	Property Plant & Equipment		
	P Ltd.	1,120.00	
	Q Ltd.	1,260.00	
	R Ltd.	1,050.00	3,430.00
2.	Inventories		
	P Ltd.	770.00	
	Q Ltd.	238.00	
	R Ltd.	175.00	1,183.00
3.	Trade Receivables		
	P Ltd.	910.00	
	Q Ltd.	350.00	
	R Ltd.	770.00	
	(A)	2,030.00	
	Bills Receivables		
	P Ltd.	7.00	
	R Ltd.	0.00	
	(B)	7.0	
	Total Trade Receivables (A+B)		2,037.00
4.	Cash & Cash equivalents		
	P Ltd.	798.00	
	Q Ltd.	140.00	
	R Ltd.	140.00	1,078.00
5.	Other Equity		
	Reserve (W.N.3)	679.00	
	Retained earnings (W.N.3)	629.30	
	Capital reserve	658.00	1,966.30
6.	Trade payables		
	P Ltd.	1,645.00	
	Q Ltd.	805.00	
	R Ltd.	630.00	
	(A)	3,080.00	
	Bills payable		
	P Ltd.	0.00	
	Q Ltd.	0.00	
	(B)	0.00	
	Total Trade Payables (A+B)		3,080.00

Note: Bills Payable of P Ltd. is not reflecting as Bills receivable of Q Ltd. This may happen since Q Ltd. may have discounted/endorsed the same to the bank/third party.

Working Notes:

(i) Analysis of Reserves

(₹ In lakh)

		Q Ltd.		R Ltd.
Reserves as on 31.3.2023		280.00		210.00
Increase during the year 2023-2024	70.00		70.00	
Increase for the half year till 30.9.2023		35.00		35.00
Balance as on 30.9.2023 (A)		315.00		245.00
Total balance as on 31.3.2024		350.00		280.00
Post-acquisition balance of Reserves		35.00		35.00

Retained Earnings as on 31.3.2023		70.00		105.00
Increase during the year 2023-2024	105.00		105	
Increase for the half year till 30.9.2023		52.50		52.50
Balance as on 30.9.2023 (B)		122.50		157.50
Total balance as on 31.3.2024		(175.00)		(210.00)
Post-acquisition balance		52.50		52.50
Less: Unrealized Gain on inventories		-		(7.00)
Post-acquisition balance for CFS		52.50		45.50
Total balance on the acquisition date i.e. 30.9.2023 (A+B)		437.50		402.50

(ii) Calculation of Effective Interest of P Ltd. in R Ltd

Acquisition by P Ltd. in Q Ltd. = 80%
Non-controlling Interest of Q Ltd. = 20%
Acquisition by Q Ltd. in R Ltd. = 75%
Acquisition by Group in R Ltd. = 60%
Non-controlling Interest of R Ltd. = 40%

(iii) Calculation of Consolidated Other Equity (₹ In lakhs)

	Reserves	**Retained Earnings**
P Ltd.	630.00	560.00
Add: Share in Q Ltd.	28.00	42.00
Add: Share in R Ltd.	21.00	27.30
	679.00	629.30

7. (a)

Value Added Statement for Maahi. Ltd. for the year ended 31st March, 2024

Generation of Value Added	**(₹ in Lakh)**	**(₹ in Lakh)**
Sales Revenue		1,000
Add: Increase in Stock of Raw Materials, WIP & FG		30
Total		1,030
Less: Cost of brought-in-materials and services:		
Purchase of Raw Material	530	
Printing and Stationery	35	
Auditor's Fees	5	
Tent, Rates & Other Exp.	10	580
Total Value Added		450

Distribution of Value Added

Particulars	**(₹ in Lakh)**	**(₹ in Lakh)**
Total Value Added (Generated)		450
A. To Employees: Wages & Salaries		100
B. To Government: Taxes		25
C. To Providers of Capital:		
Interest	20	
Dividend	110	130
D. To Re-investment in Business:		
Depreciation	30	
Retained Earnings	165	195
Total Distribution (A+B+C+D)		450

7. (b)

Corporate sustainability reporting helps companies in the following ways:

(A) assessing and managing their sustainability impacts;
(B) reporting their contributions to sustainable development;
(C) integrating sustainability into their business strategies;
(D) identifying and managing their sustainability risks;
(E) improving governance; and
(F) enhancing reputation.

Benefits of sustainability reporting:
The benefits may be enumerated as under:

(i) Internal benefits:
The following are the internal benefits of sustainability reporting:

(A) Increased understanding of risks and opportunities;
(B) Enhanced link between financial and non-financial performance;
(C) More focus on long-term management strategy and policy and business plans;
(D) Streamlining processes, reducing costs and improving efficiency; and
(E) Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards and voluntary initiatives.

(ii) External benefits:
The following are the external benefits of sustainability reporting:

(A) Mitigating or reversing negative environmental, social and governance impacts;
(B) Improving reputation and brand loyalty; and
(C) Enhanced perception on organization's value.

Sustainability reporting does also have the potential to deliver financial returns and related competitiveness benefits. It contributes to positive returns in both financial and non-financial areas including reputation and brand, human resources, risk management, good governance, business climate, supply chain, social and environmental matters.

8. (a)

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. Ministers, 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.

8. (b)

The Constitution of India provides for the manner in which the accounts of the Government have to be kept. The accounts of Government are kept in three parts namely, Consolidated Fund, Contingency Fund and Public Account. They are briefly explained as under.

(i) Consolidated Funds of India

The Consolidated Funds is constituted under Article 266 (1) of the Constitution of India. All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutes (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament. This is the largest of all the three funds.

(ii) Public Accounts of India

The Public Accounts of India is constituted under Article 266(2) of the Constitution. The transactions to be recorded in it relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to 'Remittance' and 'Suspense' shall embrace all adjusting heads. The initial debts or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.

(iii) Contingency Fund of India

The Contingency Fund of India Fund set by the Government of India under Article 267 of the Constitution of India. It records the transactions connected with Contingency. It is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs. The corpus of this fund is ₹ 500 crores. Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest account of Government of India.

8. (c)

Amount to be transferred to P& L

Gain on disposal of 35% investment	₹ 30,000
Gain previously reported in OCI	₹ 70,000
Total transfer to P& L	₹ 1,00,000

Computation of goodwill/Gain from bargain purchase

Fair value of consideration given for controlling interest	₹ 6,00,000
Non-controlling interest	₹ 3,00,000
Fair value of previously held interest	₹ 4,50,000
	₹ 13,50,000
Less: Fair value of net assets of acquiree	₹ 12,00,000
Goodwill	₹ 1,50,000