FINAL EXAMINATION
GROUP - IV
(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS
JUNE - 2017

Paper-17 : CORPORATE FINANCIAL REPORTING

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 answer from the four alternatives given: (1 Mark for right choice & 1 Mark for justification): 2x10=20

(i) Jaggu Ltd. obtained a contract for a construction of a building for ₹ 95 Lakhs. As on 31st March, 2017, it incurred a cost of ₹ 22 Lakhs and expected that there will be ₹ 58 Lakhs more needed for completing the building. It has received ₹ 18 Lakhs as progress payment. Degree of completion will be
(A) 23.16%
(B) 27.5%
(C) 22.5%
(D) 84.21%

(ii) In case of amalgamation in the nature of purchase, Fixed Assets; Current Assets; Total Debts; Debit balance of Profit and Loss A/c and Purchase Consideration are ₹25,60,000; ₹12,50,000; ₹11,30,000; ₹2,20,000; and ₹24,00,000 respectively. The amount of Capital Reserve of Goodwill will be
(A) Goodwill ₹ 60,000
(B) Goodwill ₹ 2,80,000
(C) Capital Reserve ₹ 60,000
(D) Capital Reserve ₹ 1,60,000

(iii) Chandra Ltd. acquired a machine for ₹ 65 Lakhs on 1st July, 2014. It has a life of 5 years with a salvage value of ₹ 7 Lakhs. As on 31st March, 2017, if present value of future cash flows is ₹28 Lakhs and net selling price is ₹25 Lakhs, impairment loss will be
(A) ₹ 3 Lakhs
(B) ₹ 30 Lakhs
(C) ₹ 18.15 Lakhs
(D) ₹5.10 Lakhs

(iv) Roshan Ltd. agreed to absorb Richa Ltd. For this purpose Richa Ltd's 5000, 9% Preference shares are valued at ₹ 124.50 each and 65,000 Equity shares are valued at ₹ 32 each. If Roshan Ltd. discharged purchase consideration by issuing its Equity shares of ₹ 10 each which is having intrinsic value of ₹ 46 each. No. of Equity shares issued by Roshan Ltd. to Richa Ltd. will be
(A) 45214
(B) 270250

(C) 58750
(D) 70000

(v) At the time of absorption of B Ltd. by A Ltd., trade receivable of both companies shown in their Balance Sheets were ₹ 35 Lakhs and ₹ 18 Lakhs. On that date trade payable of B Ltd. includes payable to A Ltd. ₹ 4.5 Lakhs. After absorption, the amount of trade receivables will be shown in the A Ltd.'s Balance Sheet as
(A) ₹35 Lakhs
(B) ₹ 53 Lakhs
(C) ₹ 48.50 Lakhs
(D) ₹ 44 Lakhs

(vi) X Ltd. holds 69% of Y Ltd., Y Ltd. holds 51% of W Ltd., Z Ltd. holds 49% of W Ltd. As per AS 18 related parties are:
(A) X Ltd., Y Ltd. & W Ltd.
(B) X Ltd. & Z Ltd.
(C) Y Ltd. & Z Ltd.
(D) X Ltd. & Y Ltd.

(vii) Peeru Ltd. acquired 80% Equity shares of Pimo Ltd. on 1st April, 2016. On 31st March, 2017, goods worth ₹ 65,000 purchased from Peeru Ltd., were included in stock of Pimo Ltd. Peeru Ltd. made a profit of 25% on cost. At the time of preparation of consolidated Balance Sheet the amount of unrealized profit on stock will be
(A) ₹ 1,62,500
(B) ₹ 21,667
(C) ₹ 13,000
(D) NIL

(viii) Nikku Ltd. is a Non-banking finance company. It made a provision against the advances as on 31st March, 2017 of ₹248 Lakhs. Out of its advances, Sub-standard assets, Doubtful up to one year and one to three years were ₹910 Lakhs; ₹150 Lakhs and ₹210 Lakhs respectively. The amount of Doubtful Assets more than three years will be
(A) ₹ 1210 Lakhs
(B) ₹ 121 Lakhs
(C) ₹ 64 Lakhs
(D) NIL

(ix) In a company net assets available for share holders is ₹1450 Lakhs; Equity share capital 60 Lakhs shares of ₹10 each; An average dividend is ₹3.20 per equity share and normal rate of dividend for the company is 10%. The fair value of each share will be
(A) ₹32
(B) ₹24.17
(C) ₹ 27.81
(D) ₹ 28.09

(x) Members of Public Accounts Committee are elected by Lok Sabha and Rajya Sabha and comprise of not more than
(A) 15 members of Lok Sabha and 7 members of Rajya Sabha.
(B) 22 members of Lok Sabha and 7 members of Rajya Sabha.
(C) 22 members of Lok Sabha and 15 members of Rajya Sabha.
(D) No any limit.

Answer:

1. (i) — (B) Degree of Completion

$$= \frac{\text{Cost to Date}}{\text{Accumulated Cost Incurred + Estimated Cost to Complete}} \times 100$$

$$= \frac{₹22\text{ lakhs}}{₹22\text{ lakhs} + ₹58\text{ lakhs}} \times 100 \qquad = \quad 27.5\%$$

(ii) — (C) Net Assets = ₹ (25,60,000 + 12,50,000 – 11,30,000 – 2,20,000) = ₹ 24,60,000
Capital Reserve = Net Assets - Purchase Consideration
= ₹ 24,60,000 – ₹ 24,00,000 = ₹ 60,000

(iii) — (D) Carrying amount on 31st March 2017 = 65 - [(65 - 7)×33/60]
= 65-31.90 = ₹ 33.10 Lakhs
Recoverable amount (Present value) = ₹ 28 Lakhs i.e. higher of ₹28 Lakhs and ₹25 Lakhs
Hence, Impairment loss = ₹ 33.10 – ₹ 28 = ₹ 5.10 Lakhs

(iv) — (C)

Value of preference shares: 5000 × ₹ 124.50	=	₹ 6,22,500
Add: Value of Equity shares: 65000 × ₹ 32	=	₹ 20,80,000
Total Amount to be discharged		₹ 27,02,500

No. of Equity shares Issued by Roshan Ltd. = ₹ 27,02,500 ÷ ₹ 46 = 58750 shares.

(v) — (C) ₹ 35 Lakhs + ₹ 18 Lakhs – ₹ 4.50 Lakhs = ₹ 48.50 Lakhs.

(vi) — (A) Explanation - As per AS 18 holding of 20% or more is necessary to become a related party. Hence related parties are X Ltd. Y Ltd. and W Ltd.

(vii) — (C) ₹ 65,000 × 25/(100+25 = ₹ 13,000)

(viii) — (C) ₹ 248 – ₹ [(910 × 10%)+(150 × 20%)+(210 × 30%)]
= ₹ 248 – ₹ (91+30+63) = ₹ 248 – ₹184 = ₹ 64 Lakhs

(ix) — (D) Fair value = $\frac{\text{Intrinsic Value} + \text{Dividend Yield Value}}{2} = \frac{24.17 + 32}{2}$ = ₹28.085 per shear

Intrinsic value = $\frac{₹1450}{60}$ = ₹24.17
Yield value = 32% × 10 = ₹ 32
Average Dividend Rate = ₹ 3.2 / ₹ 10×100 = 32%.

(x) — (A) Justification not required, as per requirement.

Section – B

Answer any five questions out of seven questions.

16x5=80

2. (a) Shiva Infrastructures Limited obtained a contract for construction of a bridge for ₹ 100 Lakhs. The contract will be completed within 3 years for which total cost to be incurred is ₹ 85 Lakhs. The following data pertain to the construction period:

(₹ in Lakhs)

Particulars/Year	I	II	III
Cumulative costs incurred to date	30	70	85
Estimated cost yet to be incurred at year end	60	10	—
Progressive billing made during the year	20	65	15
Collections of billings	15	60	25

You are required to calculate the stage of completion and profit recognized in Statement of Profit and Loss as per AS-7 **8**

(b) Compute Basic and Adjusted Earnings per share from the following information: 8

Net Profit for 2015-16	**₹ 44 Lakhs**
Net Profit For 2016-17	**₹ 65 Lakhs**
No. of shares before Rights Issue	**110000**
Right Issue Ratio	**Two for every four held**
Right Issue Price	**₹ 180**
Date of exercising Rights Option	**31st July 2016**
Fair Value of shares before Right Issue	**₹ 270**

Answer:

2. (a) Calculation of Stage of Completion (₹ in Lakhs)

Particulars	**Year I**	**Year II**	**Year III**
A. Cumulative Cost Incurred till the year end	30	70	85
B. Estimated Cost yet to be incurred	60	10	0
C. Total Completion Cost of Project (A + B)	90	80	85
D. Stage of Completion (Cumulative Cost Incurred till year End/ Total Completion Cost of Project) i.e. (A/C)	0.3333 or 33.33 %	0.875 or 87.50 %	1 or 100 %

Profit to be recognized in statement of profit as per AS – 7 (₹ in Lakhs)

Particulars	**Year I**	**Year II**	**Year III**
A. Stage of Completion in %	33.33%	87.50%	100%
B. Revenue to be recognized Total Contract Revenue x Stage of Completion i.e. 100 Lakhs x A	33.33	87.50	100.00
C. Cumulative Cost Incurred till the year end	30.00	70.00	85.00
D. Cumulative Profit to be recognized at the end of each year (Revenue Recognized each year – Cumulative Cost) i.e. (B – C)	3.33	17.50	15.00
E. Profit/(Loss) recognized each year = Cumulative profit to be recognized at the end of current year – Cumulative Profit recognized till previous year	3.33	14.17 i.e. (17.50– 3.33)	(2.50) i.e. (15.00- 17.50)

2. (b) EPS of the year 2015 – 2016 (originally reported) $= \frac{₹44,00,000}{1,10,000} = ₹\ 40$

EPS for the year 2015 – 2016 (Restated for the Right Issue) $= \frac{₹44,00,000}{1,10,000 \times 1.125}$

$$= \frac{₹44,00,000}{1,23,750} = ₹\ 35.56$$

EPS of the year 2016 – 2017 including effect of Right issue

$$= \frac{₹44,00,000}{1,23,750} \quad \frac{₹65,00,000}{(1,10,000 \times 1.125 \times \frac{4}{12}) + (1,65,000 \times \frac{8}{12})} = \frac{₹65,00,000}{1,51,250} = ₹\ 42.98$$

Working Notes:

(1) Calculation of Theoretical Ex – rights Fair Value per Share

$$\frac{Fair\ Value\ of\ all\ outstanding\ Shares\ Immediately\ prior\ to\ right\ issue + Total\ amount\ received\ from\ execise\ of\ rights}{Number\ of\ Shares\ outstanding\ before\ exercise\ of\ rights + Shares\ issued\ in\ the\ exercise\ of\ rights}$$

$$\frac{(1{,}10{,}000 \times ₹270)+(1{,}10{,}000 \times \frac{2}{4} \times 180)}{1{,}10{,}000+55{,}000} = \frac{₹2{,}97{,}00{,}000 + ₹99{,}00{,}000}{1{,}65{,}000} = ₹\ 240$$

(2) Calculation of Adjustment Factor

$$= \frac{Fair\ Value\ per\ share\ before\ exercise\ of\ rights}{Theoretical\ Ex{-}rights\ Fair\ Value\ per\ share} = \frac{₹270}{₹240} = 1.125$$

3. (a) Sewada Ltd. made the following payments during the year ended 31st March 2017:

	Payment made for	₹ in Lakhs
(i)	To acquire a Software	204
(ii)	To acquire a Website for a period of 8 years	165
(iii)	To acquire a Copyright for a period of 15 years	135
(iv)	To acquire Goodwill of a firm	155
(v)	To acquire Goodwill arising under amalgamation in the nature of purchase	110
(vi)	To acquire a Patent for a period of 5 years. The net cash flows from the product during these 5 years are expected to be ₹ 36 lakhs; ₹ 46 Lakhs; ₹ 44 Lakhs; ₹ 40 Lakhs and ₹ 34 Lakhs	60

You are required to find out the amortization cost of the each of the item to be charged to Statement of Profit and Loss as per AS-26. **8**

(b) State the scope of Ind AS-102. **8**

Answer:

3. (a) (i) Amortization Cost of Software = ₹ 204 Lakhs/5 = ₹ 40.80 Lakhs per year (Since maximum amortization period of software is 5 years)

(ii) Amortization Cost of Website = ₹165 Lakhs/5 = ₹33 Lakhs per year (Since maximum amortization period of Website is 5 years)

(iii) Amortization Cost of Copy-right = ₹135 Lakhs/10 = ₹ 13.50 Lakhs per year (Since maximum amortization period of Copy-right is 10 years unless a higher period is justified with reasons in Notes to Accounts)

(iv) Amortization Cost of Goodwill = ₹ 155 Lakhs/10 = ₹15.50 Lakhs per year (Since maximum amortization period of Goodwill is 10 years unless a higher period is justified with reasons in Notes to Accounts)

(v) Amortization Cost of Goodwill arising under amalgamation in the nature of purchase = ₹110 Lakhs/5 = ₹ 22 Lakhs per year (Since maximum amortization period of such Goodwill is 5 years)

(vi) Amortization Cost of Patent

Year	Net Cash Flow (₹)	Amortization Ratio	Amortization Amount (₹)
1	36,00,000	0.18	10,80,000
2	46,00,000	0.23	13,80,000
3	44,00,000	0.22	13,20,000
4	40,00,000	0.20	12,00,000
5	34,00,000	0.17	10,20,000
	2,00,00,000	1.00	60,00,000

3. (b) Scope of Ind AS-102:

An entity shall apply this Standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

(a) equity-settled share-based payment transactions,

(b) cash-settled share-based payment transactions, and

(c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.

(d) A share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving or acquiring the goods or services. Paragraph 2 also applies to an entity that:

  (i) receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction, or

  (ii) has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them.

4. A Ltd. and B Ltd. were amalgamated on and from 1 April, 2017. A new company AB Ltd. was formed to take over the business of the existing companies. The Balance Sheets of A Ltd. and B Ltd. as on 31 March, 2017 are given below:

(Amount ₹ in Lakhs)

		A Ltd.	B Ltd.
Particulars	**Note No.**	**Amount (₹)**	**Amount (₹)**
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital:			
Equity shares of ₹ 100 each		**800**	**750**
8% Preference shares of ₹ 100 each		**300**	**200**
(b) Reserve and Surplus:			
Capital Reserve		**200**	**150**
General Reserve		**170**	**150**
Profit and Loss Account		**50**	**30**
2. Non-Current Liabilities:			
Long term Borrowings (10% Debentures)		**48**	**24**
3. Current Liabilities and Provisions:			
(a) Trade Payables		**270**	**120**
(b) Bills Payables		**150**	**70**
Total		**1988**	**1494**
II. ASSETS			
1. Non- Current Assets			
(a) Fixed Assets:			
Tangible Assets			
Land and Building		**550**	**400**
Plant and Machinery		**350**	**250**
Intangible Assets			
(b) Non-Current Investment		**150**	**50**
2. Current Assets:			
(a) Inventories		**350**	**250**
(b) Trade Receivable		**250**	**300**
(c) Bills Receivables		**50**	**50**
(d) Cash and Cash Equivalents		**288**	**194**
Total		**1988**	**1494**

Additional Information:

(1) **10% Debenture holders of A Ltd. and B Ltd. are discharged by AB Ltd., issuing such number of its 12% Debentures of ₹ 100 each, so as to maintain the same amount of interest.**

(2) **Preference shareholders of the two companies are issued equivalent number 10% preference shares of AB Ltd., at a price of ₹ 150 per share (face value of ₹ 100).**

(3) **AB Ltd. will issue 3 equity shares for every 2 equity shares of A Ltd. and 4 equity shares for every 3 equity shares of B Ltd. The shares are to be issued at ₹ 15 each, having a face value of ₹ 10 per share.**

Prepare the Balance Sheet of AB Ltd. as on 1 April, 2017 in the revised Schedule III format, after amalgamation has been carried out on the basis of amalgamation in the nature of purchase. **16**

Answer:

4.

Balance Sheet of AB Ltd. as at 31.03.2017

Particulars	**Note No**	₹ in Lakhs
I. Equity and Liabilities		
(1)Shareholders' Funds		
(a) Share Capital	1	2,700
(b) Reserves and Surplus (Securities Premium)		1,350
(2)Non-Current Liabilities		
(a) Long term borrowings (12 % Debentures)	2	60
(3)Current Liabilities & Provisions		
(a) Trade Payables (270+120)		390
(b) Bills Payables (150 + 70)		220
Total		4,720
II. Assets		
(1)Non-Current Assets		
(a) Fixed Assets		
Tangible Assets	3	1,550
Intangible Assets (Goodwill: 722 + 516)		1,238
(b) Non – Current Investments	4	200
(2)Current Assets		
(a) Inventories (350 + 250)		600
(b) Trade Receivables (250 + 300)		550
(c) Bills Receivables (50 + 50)		100
(d) Cash and Cash Equivalents (288 + 194)		482

Total		4,720

Notes to Accounts:

Particulars	**₹ in Lakhs**
1. Share Capital	
2,20,00,000 Equity Shares of ₹ 10 each	2,200
5,00,0000 Preference Shares of ₹100 each	500
Total	2,700
2. Non – Current Liabilities	
12% Debentures	60
Total	60
3. Tangible Assets	
Plant & Machinery (350 + 250)	600
Land & Building (550 + 400)	950
Total	
4. Non – Current Investments	
Investment (150 + 50)	200
Total	200

Working Notes:

(1) Calculation of Purchase Consideration

Particulars	A Ltd. ₹ in Lakhs	B Ltd. ₹ in Lakhs
3,00,000 Preference Shares given to Preference Shareholders of A Ltd. for their 3,00,000 Preference Shares in A Ltd. @ ₹150 per share	450	
2,00,000 Preference Shares given to Preference Shareholders of B Ltd. for their 2,00,000 Preference Shares in B Ltd. @ ₹150 per share		300
1,20,00,000 Equity Shares given to Equity Shareholders of A Ltd. for their 80,00,000 Equity Shares in A Ltd. in the ratio of 3:2 @ ₹15 per share	1,800	
1,00,00,000 Equity Shares given to Equity Shareholders of B Ltd. for their 75,00,000 Equity Shares in B Ltd. in the ratio of 4:3 @ ₹15 per share		1,500
Total	2,250	1,800

(2) Calculation of Securities Premium

Particulars	₹ in Lakhs
A. Securities Premium in Preference Shares given to Preference Shareholders of A Ltd. (3,00,000 x ₹50)	150
B. Securities Premium in Preference Shares given to Preference Shareholders of B Ltd. (2,00,000 x ₹50)	100
C. Securities Premium in Equity Shares given to Equity Shareholders of A Ltd. (1,20,00,000 x ₹5)	600
D. Securities Premium in Equity Shares given to Equity Shareholders of B Ltd. (1,00,00,000 x ₹5)	500
E. Securities Premium Account (A + B + C + D)	1,350

(3) Calculation of Issue of Debentures

Particulars	₹ in Lakhs
A. 12 % Debentures issued to Debenture Holders of A Ltd. (48 Lakhs x 10%/12%)	40
B. 12% Debentures issued to Debenture Holders of B Ltd. (24 Lakhs x 10%/12%)	20
C. Total 12% Debentures	60

(4) Calculation of Net Assets

Particulars	A Ltd. ₹ in Lakhs	B Ltd. ₹ in Lakhs
Total Assets (As per Balance Sheet)	1,988	1,494
Less: Liabilities Non – Current Liabilities (12% Debentures) Current Liabilities	 (40) (420)	 (20) (190)
Net Assets	1,528	1,284

(5) Calculation of Goodwill/Capital Reserve

Particulars	A Ltd. ₹ in Lakhs	B Ltd. ₹ in Lakhs
Purchase Consideration	2,250	1,800
Less: Net Assets	1,528	1,284
Goodwill	722	516

Q 4. Alternate Solution

Balance Sheet of AB LTD. as at 31.03.2017

Particulars	Note No	₹ in Lakhs
I. Equity and Liabilities		
(1)Shareholders' Funds		
(a) Share Capital	1	720
(b) Reserves and Surplus	2	2,092
(2)Non-Current Liabilities		
(a) Long term borrowings (12% Debentures)		60
(3)Current Liabilities & Provisions		
(a) Trade Payables (270+120)		390

(b) Bills Payables (150 + 70)		220
Total		3,482
II. Assets		
(1)Non-Current Assets		
(a) Fixed Assets		
Tangible Assets	3	1,550
(b) Non – Current Investments	4	200
(2)Current Assets		
(a) Inventories (350 + 250)		600
(b) Trade Receivables (250 + 300)		550
(c) Bills Receivables (50 + 50)		100
(d) Cash and Cash Equivalents (288 + 194)		482
Total		3,482

Notes To Accounts:

Particulars	**₹ in Lakhs**
1. Share Capital	
22,00,000 Equity Shares of ₹ 10 each	220
5,00,0000 Preference Shares of ₹ 100 each	500
Total	720
2. Reserve & Surplus	
Securities Premium	360
Capital Reserve (898 + 834)	1,732
Total	2,092
3. Tangible Assets	
Plant & Machinery (350 + 250)	600
Land & Building (550 + 400)	950
Total	
4. Non – Current Investments	
Investment (150 + 50)	200
Total	200

Working Notes:

(1) Calculation of Purchase Consideration

Particulars	A Ltd. ₹ in Lakhs	B Ltd. ₹ in Lakhs
3,00,0000 Preference Shares given to Preference Shareholders of A Ltd. for their 3,00,000 Preference Shares in A Ltd. @ 150 per share	450	
2,00,0000 Preference Shares given to Preference Shareholders of B Ltd. for their 2,00,000 Preference Shares in B Ltd. @ 150 per share		300
12,00,000 Equity Shares given to Equity Shareholders of A Ltd. for their 8,00,000 Equity Shares in A Ltd. in the ratio of 3:2 @ 15 per share	180	
10,00,000 Equity Shares given to Equity Shareholders of B Ltd. for their 7,50,000 Equity Shares in B Ltd. in the ratio of 4:3 @ 15 per share		150
Total	630	450

(2) Calculation of Securities Premium

Particulars	₹ in Lakhs
A. Securities Premium in Preference Shares given to Preference Shareholders of A Ltd. (3,00,000 x ₹50)	150
B. Securities Premium in Preference Shares given to Preference Shareholders of B Ltd. (2,00,000 x ₹50)	100
C. Securities Premium in Equity Shares given to Equity Shareholders of A Ltd. (12,00,000 x ₹5)	60
D. Securities Premium in Equity Shares given to Equity Shareholders of B Ltd. (10,00,000 x ₹5)	50
E. Securities Premium Account (A + B + C + D)	360

(3) Calculation of Issue of Debentures

Particulars	₹ in Lakhs
A. 12 % Debentures issued to Debenture Holders of A Ltd. (48 Lakhs x 10%/12%)	40
B. 12% Debentures issued to Debenture Holders of B Ltd. (24 Lakhs x 10%/12%)	20
C. Total 12% Debentures	60

(4) Calculation of Net Assets

Particulars	A Ltd. ₹ in Lakhs	B Ltd. ₹ in Lakhs
Total Assets (As per Balance Sheet)	1,988	1,494
Less: Liabilities Non – Current Liabilities (12% Debentures) Current Liabilities	 (40) (420)	 (20) (190)
Net Assets	1,528	1,284

(5) Calculation of Goodwill/Capital Reserve

Particulars	A Ltd. ₹ in Lakhs	B Ltd. ₹ in Lakhs
Purchase Consideration	630	450
Less: Net Assets	1,528	1,284
(Capital Reserve)	(898)	(834)

5. A Limited is a holding company and B Limited and C Limited are subsidiaries of A Limited. Their summarized Balance Sheets as on 31.03.2017 are given below:

	A Ltd. (₹)	B Ltd. (₹)	C Ltd. (₹)		A Ltd. (₹)	B Ltd. (₹)	C Ltd. (₹)
Share capital	1,00,000	1,00,000	60,000	Fixed Assets	20,000	60,000	43,000
Reserves	48,000	10,000	9,000	Investment Shares in B Ltd.	95,000		
Profit & Loss Account	16,000	12,000	9,000	Shares in C Ltd.	13,000	53,000	
Trade Payables	7,000	5,000		Inventory in Trade	12,000		
A Ltd. Balance		7,000		B Ltd. Balance	8,000		
C Ltd. Balance	3,000			Trade Receivables	26,000	21,000	32,000
				A Ltd. Balance			3,000
	1,74,000	1,34,000	78,000		1,74,000	1,34,000	78,000

The following particulars are given:

(i) The face value of share of all companies is ₹ 10 each.

(ii) A Ltd. held 8000 shares of B Ltd. and 1000 shares of C Ltd.

(iii) B Ltd. held 4000 shares of C Ltd.

(iv) All these investments were made on 30.09.2016.

(v) On 31.03.2016, the position was as shown below:

	B Ltd. (₹)	C Ltd. (₹)
Reserve	8,000	7,500
Profit & Loss Account	4,000	3,000
Trade payables	5,000	1,000
Fixed Assets	60,000	43,000
Inventory in Trade	4,000	35,500
Trade receivables	48,000	33,000

(vi) 10% dividend is proposed by each company.

(vii)The whole of inventory in trade of B Ltd. as on 30.09.2016 (₹ 4,000) was later sold to A Ltd. for ₹ 4,400 and remained unsold by A Ltd. as on 31.03.2017.

(viii)Cash-in-transit from B Ltd. to A Ltd. was ₹ 1,000 as at the close of business.

You are required to prepare the consolidated Balance Sheet of the group as per Schedule III as on 31.03.2017. **16**

Answer:

5.

Consolidated Balance Sheet of A Ltd.
and its subsidiaries B Ltd. and C Ltd.
as on 31st March, 2017

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		1,00,000
(b) Reserves and Surplus	1	60,305
(2) Minority Interest (W.N 5)		37,820
(3) Current Liabilities		
(a)Trade payables		12,000
(b)Short term provisions	2	10,000
	Total	2,20,125
II. Assets		
(2) Non-Current assets		

	Fixed assets		
	i. Tangible assets		1,23,000
	ii. Intangible assets	3	5,525
(2)	Current assets		
	(a) Inventories	4	11,600
	(b) Trade receivables		79,000
	(c) Cash and cash equivalents	5	1,000
		Total	2,20,125

Notes to Accounts

		₹	₹
1	Reserves and surplus		
	Reserves- Balance as on 31.3.2015 (given)	48,000	
	Share in		
	B Ltd. [WN 3]	1,200	
	C Ltd. [WN 2]	125	49,325
	Profit & Loss Account		
	Balance as on 31.3.2015 (given)	16,000	
	Share in		
	B Ltd. [WN 3]	4,800	
	C Ltd. [WN2]	500	
		21,300	
	Less: Proposed dividend (10% of ₹ 1,00,000)	(10000)	
	Provision for unrealised profit on inventory [80% of (₹ 4,400-₹ 4,000)]	(320)	10,980
			60,305
2	Short term Provisions		
	Proposed Dividend		10,000
3	Intangible Assets		
	Goodwill (W.N 4)		5,525
4	Inventories		
	Inventory in Trade	12,000	
	Less: Provision for unrealised Profit	(400)	11,600
5	Cash and cash equivalents		
	Cash in Transit (₹ 8,000-7,000)		1,000

Working Notes:

Shareholding pattern

	B Ltd.	C Ltd.
Total Shares	10,000	6,000
Held by A Ltd.	8,000 [80%]	1,000 [1/6th]
Held by B Ltd.	N.A.	4,000 [4/6th]
Minority Holding	20%	1/6th

(1) Position on 30.09.2016 i.e. date of investment

B Ltd.	Reserves (₹)	Profit and Loss A/c (₹)
Balance on 30.3.2017	10,000	12,000
Less: Balance on 31.3.2016	-8,000	-4,000
Increase during the year	2,000	8,000
Estimated increase for half year	1,000	4,000
Balance on 30.9.2016	9,000 (8,000+1,000)	8,000 (4,000+4,000)
C Ltd.		

Balance on 31.3.2017	9,000	9,000
Balance on 31.3.2016	7,500	3,000
Increase during the year	1,500	6,000
Estimated increase for half year	750	3,000
Balance on 30.9.2016	8,250 (7500+750)	6,000 (3000+3,000)

(2) Analysis of Profit of C Ltd.

	Capital Profit (₹)	Revenue Reserve(₹)	Revenue Profit (₹)
Reserves on 30.9.2016	8,250		
Profit and loss A/c on 30.9.2016	6,000		
Increase in reserves		750	
Increase in profit	---	---	3,000
	14,250	750	3,000
Less: Minority Interest (1/6)	(2,375)	(125)	(500)
	11,875	625	2,500
Share of A Ltd. (1/6)	2,375	125	500
Share of B Ltd. (4/6)	9,500	500	2,000

(3) Analysis of Profit of B Ltd.

	Capital Profit (₹)	Revenue Reserve (₹)	Revenue Profit (₹)
Reserves on 30.9.2016	9,000		
Profit and loss A/c on 30.9.2016	8,000		
Increase in reserves		1,000	
Increase in profit			4,000
Share in C Ltd.[WN 1]		500	2000
	17,000	1,500	6,000
Less: Minority Interest (2/10)	(3400)	(300)	(1200)
Share of A Ltd. (8/10)	13,600	1,200	4800

(4) Computation of Cost of Control

	₹	₹
Investments in		
B Ltd.	95,000	
C Ltd. [13,000+53,000]	66,000	1,61,000
Less : Paid up value of investments in		
B Ltd.	80,000	
C Ltd.	50,000	(1,30,000)
Capital Profits in		31,000
B Ltd. [WN 3]	13,600	
C Ltd. [WN 2]	11,875	(25,475)
Goodwill		5,525

(5) Minority interest

	₹	₹
Share Capital:		
B Ltd. [20%]	20,000	
C Ltd. [1/6th]	10,000	30,000
Share in profits and reserves (pre and post-		
B Ltd. [WN 3]	4,900	

C Ltd. [WN 2]	3,000	7,900
		37,900
Less: Provision for unrealized profit (20% of ₹ 400)		(80)
		37,820

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 ₹9,500 will be included as capital profit while analysing the profits of B Ltd. and will not be considered for the purpose of cost of control. Thus, in this case, the amounts of goodwill and minority interest will be shown at ₹7,425 and ₹39,720 respectively in the consolidated Balance sheet. Therefore, the total of the assets and liabilities side of the consolidated balance sheet will be ₹2,22,025. The W.N. 4,5 & 6 are recalculated for this alternate solution.

3) Analysis of Profit of B Ltd.

Particulars	Capital Profits	Revenue Reserves	Revenue Profits
Balance of Revenue Reserve as on 30/09/2016	9,000		
Balance of Profit & Loss A/c as on 30/09/2016	8,000		
Increase in reserves after acquisition		1,000	
Increase in Profit after acquisition			4,000
Share in C Ltd. (W.N. 3)	9,500	500	2,000
Total	26,500	1,500	6,000
Minority Interest (1/5)	5,300	300	1,200
Share of A Ltd. (4/5)	21,200	1,200	4,800

4) Calculation of Cost of Control/Goodwill

Particulars	₹	₹
A. Cost of Investments		
Investment in B Ltd.	95,000	
Investment in C Ltd. (13,000 + 53,000)	66,000	1,61,000
B. Shares in Net Assets of Subsidiaries		
Paid up capital of B Ltd.	80,000	
Paid up capital of C Ltd.	50,000	
Capital Profits of B Ltd.	21,200	
Capital Profits of C Ltd.	2,375	1,53,575
C. Cost of Control/Goodwill (A – B)		7,425

5. Calculation of Minority Interest

Particulars	₹	₹
A. Share Capital		
B Ltd.	20,000	
C Ltd.	10,000	30,000
B. Capital Profits		
B Ltd.	5,300	

C Ltd.	2,375	7,675
C. Revenue Reserves B Ltd. C Ltd.	 300 125	 425
D. Revenue Profits B Ltd. C Ltd.	 1,200 500	 1,700
E. Total (A + B + C + D)		39,800
F. Less: Provision for unrealized profits in unsold inventory i.e. 20% of 400		(80)
G. Minority Interest (E – F)		39,720

6. **(a) Dhoora Ltd. granted 1500 stock options to its employees on 01.04.2013 at ₹ 50 per share. The vesting period is 2½ years and the maximum exercise period is one year. Market price on that date is ₹ 190 per share. All the options were exercised on 30.06.2016. Pass journal entries in the books of company, if the face value of equity share is ₹ 10 per share and account books are closed on 31st March in every year. 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:

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

(b) Following assets are revalued:

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

(c) Average profit before tax of the company is ₹ 2,400 Lakhs and 12.50% of the profit is transferred to general reserve, rate of taxation being 30%.

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

(e) Goodwill may be valued at two year's purchase of super profits.

You are required to calculate the value of goodwill. 8

Answer:

6. (a)

Journal of Dhoora Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31.3.14	Employees Stock Option Expenses A/c Dr. To Employees Stock Option Outstanding A/c (Being expenses on 1500 stock options recognised)		84,000	 84,000
31.3.14	P/L A/c Dr. To Employees Stock Option Expenses A/c (Being Employees Stock Options expenses transferred)		84,000	 84,000
31.3.15	Employees Stock Option Expenses A/c Dr. To Employees Stock Option Outstanding A/c (Being expenses on 1500 stock options recognised)		84,000	 84,000
31.3.15	P/L A/c Dr. To Employees Stock Option Expenses A/c (Being Employees Stock Options expenses transferred)		84,000	 84,000
31.3.16	Employees Stock Option Expenses A/c Dr. To Employees Stock Option Outstanding A/c (Being expenses on 1500 stock options recognised)		42,000	 42,000
31.3.16	P/L A/c Dr. To Employees Stock Option Expenses A/c (Being Employees Stock Options expenses transferred)		42,000	 42,000
30.6.16	Bank A/c Dr. Employees Stock Option Outstanding A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being 1500 options exercised @ ₹ 50 per option)		75,000 2,10,000	 15,000 2,70,000

Working Notes:

Calculation of intrinsic value of option = Market price per share - Exercisable price per share = ₹190 – ₹ 50 = ₹140

Employee Compensation Expenses to be recognised:

	2013-14 (₹)	2014-15 (₹)	2015-16 (₹)
Gross Value of employee compensation expenses	84,000	1,68,000	2,10,000
Gross Value = No. of Options expected to vest × Intrinsic Value × expired period/ Vesting period	[1,500x140x1/2.5]	[1,500x140x2/2.5]	[1,500x140]
Less: Expenses already recognised upto preceding accounting period	----	84,000	1,68,000
Hence, Expenses to be recognised	84,000	84,000	42,000

6. (b) 1. Calculation of Capital Employed

		₹ in Lakhs
Assets: Land and Buildings		3,200
Plant and Machinery		1,800
Stock		1,450
Debtors		360
Cash and Bank		220
		7,030
Less: Liabilities:		
Debentures	1,000	
Creditors	800	1,800

Capital Employed	5,230

2. Calculation of Actual Profit

	₹ in Lakhs
Average Profit before Tax (given) Less: Income from Investment (₹ 5,00,00,000 × 10%)	2,400 50
	2,350
Less: Income Tax @ 30%	705
Average Actual Profit	1,645

3. Normal Profit = 12% of Capital Employed
= ₹ 5,230 Lakhs ×12% = ₹ 627.60 Lakhs

4. Super Profit = Average Actual Profit - Normal Profit
= ₹ 1,645 Lakhs – ₹ 627.60 Lakhs = ₹ 1,017.40 Lakhs

5. Goodwill = Super Profit × 2 = ₹ 1,017.40 Lakhs × 2 = ₹ 2,034.80 Lakhs

7. (a) What are the objectives of Government Accounting? **8**

(b) Discuss the role of Public Accounts Committee. **8**

Answer:

7. (a) Objectives of government accounting:

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.

7. (b) Role of Public Accounts Committee (P.A.C):

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:
   - the expenditures made by the government, were authorized by the Parliament; and
   - 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. to 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. Write short notes on any four of the following: 4x4=16

(a) Features of International Financial Reporting Standards (IFRS).

(b) Conditions for applying Hedge Accounting.

(c) Objectives of Ind AS-110.

(d) Responsibility of GASAB.

(e) Conditions as per AS-14 amalgamation in the nature of merger.

Answer:

8. (a) Features of IFRS:

The characteristics of IFRS are:

- These are global accounting standards.
- These standards are 'principle based', and not 'rule-based'.
- IFRS are developed and maintained by the IASB.
- These are issued with the intention of applying these standards across the globe on a consistent basis.
- It ensures high quality transparent reporting that would ensure comparability among the entities across the globe.
- Every standard has a specific structure to ensure uniformity and facilitate reading, interpretation and application. They are: Introduction, Standards, Basis of Conclusion (BC), Implementation Guidelines (IG), Illustrative Examples (IE), and Dissenting Opinions of board members.

(b) Conditions for applying Hedge Accounting:

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

(a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

(b) The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.

(c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

(d) The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.

(e) The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

(c) Objectives of Ind AS-110:

The objective of this Indian Accounting Standard (Ind AS) is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

For the purpose of meeting the above stated objective, this Ind AS:

(a) requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements;

(b) defines the principle of control, and establishes control as the basis for consolidation;

(c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee;

(d) sets out the accounting requirements for the preparation of consolidated financial statements; and

(e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

(d) 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.

(e) As per AS-14 Amalgamation in the nature of merger:

(a) All the assets and liabilities of the transferor company are taken over by the transferee company.

(b) Such assets and liabilities are incorporated without any adjustment (except to ensure uniformity of accounting policies) in the financial statements of the transferee.

(c) At least 90 percent equity holders of transferor become equity shareholders of transferee by virtue of the amalgamation.

(d) The consideration for the amalgamation is discharged by equity shareholders in the transferee, except for fractional shares by cash.

(e) The business of the transferor is intended to be carried on by the transferee.