FINAL EXAMINATION

GROUP - IV
(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS
JUNE - 2018

Paper-17 : CORPORATE FINANCIAL REPORTING

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

The figures in the margin on 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) A firm values goodwill under 'Capitalisation of Profits' method. Average profit of the firm for past 4 years has been determined at ₹ 1,00,000 (before tax). Capital employed in the business is ₹ 4,80,000 and its normal rate of return is 12%. Tax rate is 28% on average. Value of Goodwill based on capitalisation of average profit will be:
(A) ₹1,20,000
(B) ₹6,00,000
(C) ₹5,00,000
(D) ₹4,80,000

(ii) Biomed International Ltd. is developing a new production process. During the financial year ending 31st Match, 2017, the total expenditure incurred was ₹ 50 lakhs. This process met the criteria for recognition as an intangible asset on 1st December, 2016. Expenditure incurred till this date was ₹ 22 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2018 was ₹ 80 lakhs. As at 31st March, 2018, the recoverable amount of knowhow embodied in the process is estimated to be ₹ 72 lakhs. This includes estimates of future cash outflows as well as inflows. The amount of impairment loss for the year ended 31st March, 2018 is
(A) ₹ 80 lakhs
(B) ₹ 36 lakhs
(C) ₹ 28 lakhs
(D) ₹ 72 lakhs

(iii) AB Ltd. holds 20% share of CD Ltd. at a cost of ₹ 10 Lakh as on 31.3.2018. The Reserves and Surplus of CD Ltd. on that date was ₹ 25 Lakh. For the year ended 31.3.2018 CD Ltd. made a profit of ₹ 2,00,000 and distributed ₹ 1,00,000 as Dividend. The value of Investment of AB Ltd in CD Ltd as at 31.3.2018 will be shown as
(A) ₹ 10 lakhs
(B) ₹ 15.40 lakhs
(C) ₹ 15.20 lakhs
(D) ₹ 15.60 lakhs

(iv) **The following data apply to 'X' Ltd.'s defined benefit pension plan for the year ended 31.03.18:**

	₹
• Benefits paid	2,00,000
• Employer contribution	2,80,000
• Fair market value of plan assets on 31.03.18	11,40,000
• Fair market value of plan assets as on 31.03.17	8,00,000

The amount of actual return of plan assets is
(A) ₹ 2,80,000
(B) ₹ 2,60,000
(C) ₹ 2,00,000
(D) ₹ 4,60,000

(v) **On 1st December, 2017, Gruh Construction Company Limited undertook a contract to construct a building for ₹108 lakhs. On 31st March, 2018 the company found that it had already spent ₹83.99 lakhs on the construction. A prudent estimate of additional cost for completion was ₹36.01 lakhs. The amount of the provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2018 based on AS 7 "Accounting for Construction Contracts" is**
(A) ₹ 13.01 lakhs
(B) ₹ 120.00 lakhs
(C) ₹ 12.00 lakhs
(D) ₹ 36.01 lakhs

(vi) **ABC Ltd. has equity capital of ₹ 40,00,000 consisting of fully paid equity shares of ₹10 each. The net profit for the year 2017-18 was ₹ 60,00,000. It has also issued 36,000, 10% convertible debentures of ₹50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. The diluted earnings of 2017-18 are**
(A) ₹ 61,80,000
(B) ₹ 61,26,000
(C) ₹ 60,00,000
(D) ₹ 62,34,000

(vii) **A Company takes a Machinery on lease for a term of 6 years at a lease rent of ₹ 4,00,000 p.a. payable at end of each year with guaranteed and unguaranteed residual value of ₹ 3,00,000. The gross investment will be**
(A) ₹ 24,00,000
(B) ₹ 7,00,000
(C) ₹ 1,00,000
(D) ₹ 27,00,000

(viii) **On 1, April, 2017 Mark Ltd. acquired Mask Ltd. by using swap ratio based on EPS of two companies. The Earnings after Tax of 2016-17 of Mark Ltd. was ₹ 2,000 lakh and that of Mask Ltd. was ₹ 800 lakh. What is the EPS after merger if shares outstanding were 200 lakhs and 100 lakhs for Mark Ltd. and Mask Ltd. respectively?**
(A) ₹ 10
(B) ₹ 9.33
(C) ₹ 6.67
(D) None of the above

(ix) **A factory started activities on 1st April.**
- **Raw materials purchased during April = 80000 kgs. at ₹ 12 (out of which Excise duty = ₹ 2 per kg.). Stock on hand as on 30th April = 5000 kgs.**
- **Production during April = 14000 units (of which 10000 units were sold). In addition to the production, 1000 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).**
- **Wages and Production Overheads = ₹ 30 per completed unit.**

- **Selling Price = ₹ 110 per unit (of which Excise Duty is ₹ 10 per unit)**

Value of closing stock on 30th April will be
(A) ₹ 3,60,000
(B) ₹ 4,10,000
(C) ₹ 4,78,000
(D) ₹ 4,28,000

(x) Kaa Ltd. absorbs Baa Ltd. and shares are issued by Kaa Ltd. using swap ratio 3:7. The face value of each share is ₹ 10 for both the companies. The intrinsic value of each shares of Kaa Ltd. is ₹ 14. Total purchase consideration is equal to
(A) ₹4,20,000
(B) ₹6,82,000
(C) ₹3,78,000
(D) ₹2,70,000

Answer:

1. (i) (A) Profits after Taxes = (₹ 1,00,000 - 28% of ₹ 1,00,000) = ₹72,000
Capitalisation of Profits = ₹72,000/0.12 = ₹6,00,000
Therefore, Goodwill = ₹ 6,00,000 - ₹ 4,80,000 = ₹ 1,20,000

(ii) (B) Calculation of Cost capitalized till 31st March 2018

Cost Capitalised till 31st March 2017
= Total Expenditure till 31st March,2017 — Expenses incurred till recognition criteria is met
= ₹ 50 Lakhs - ₹22 Lakhs = ₹28 Lakhs
Expenditure incurred in Financial year 2017-2018 = ₹80 Lakhs
Cost Capitalised till 31st March,2018
= ₹800 Lakhs + ₹28 Lakhs =₹108 Lakhs

Impairment Loss
= Carrying amount as on 31st March 2018 – Recoverable Amount
= ₹108 Lakhs - ₹72 Lakhs = ₹36 Lakhs.

(iii) (C)

Calculation of amount to be Capitalised

Value of Investment
= Cost of Investment + Proportionate share in Reserve & Surplus
= ₹10,00,000 + 20% of (₹25,00,000 + ₹2,00,000 - ₹1,00,000)
= ₹10,00,000 + 20% of (₹26,00,000)
= ₹10,00,000 + ₹5,20,000
= ₹15,20,000

(iv) (B)

Value of Asset without Actual Return	
Fair value of plan assets on 31.03.2017	₹8,00,000
Add : Employer contribution	₹2,80,000
Less : Benefits paid	(₹2,00,000)
	8,80,000
Actual Return on Assets	
Fair market value as on 31.3.18	₹11,40,000
Less: Value of Asset without Actual Return	₹8,80,000
	₹2,60,000

(v) (C) Calculation of Estimated Cost of Construction

= ₹83.99 Lakhs + ₹36.01 Lakhs

= ₹120 Lakhs

Calculation of Provision to be made for foreseeable loss

= Contract Revenue – Estimated Cost of Construction

= ₹108 Lakhs - ₹120 Lakhs = ₹12 Lakhs.

(vi) (B)

Increase in earnings due to conversion of Debentures into Equity Shares

Interest on Debentures = 36,000 debentures × ₹50 per Debenture × 10%

= ₹18,00,000 × 10% = ₹1,80,000

Tax on Interest on Debentures = ₹1,80,000 × 30% = ₹54,000

Net Savings due to conversion of Debenture into Equity Shares

= ₹1,80,000 - ₹54,000 = ₹1,26,000

Diluted Earnings = Net Profits after tax + Net Savings due to conversion of Debentures into Equity Shares = ₹60,00,000 + ₹1,26,000 = ₹61,26,000

(vii)(D) Gross investment = Total Lease Payments + Guaranteed and Unguaranteed Residual Value

Gross Investment = (₹4,00,000 × 6 years) + ₹3,00,000

= ₹ 24,00,000 + ₹3,00,000 = ₹ 27,00,000.

(viii)(A) EPS for Mark Ltd. = ₹2,000 Lakhs/200 Lakhs = ₹10

EPS for Mask Ltd. = ₹800 Lakhs/100 Lakhs = ₹8

New Shares to be issued to mask Ltd. = 100 Lakhs × (₹8/₹10) = 80 Lakhs

New EPS = (₹2,000 Lakhs + ₹800 Lakhs)/ (200 lakhs + 80Lakhs)

= ₹2,800 Lakhs/280 Lakhs = ₹10

(ix) Excise Duty and other indirect duties have been clubbed into GST and GST arises at the point of sale and not at the point of manufacturing. Correct option is not available in the given options.

(x) Purchase consideration cannot be calculated from the information given in the question.

Section – B

Answer any five questions out of seven questions.

16x5=80

2. (a) Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing Balance	**500 units**
	₹ per unit
Cost price including GST	**200**
GST (Input credit is receivable on the GST paid)	**10**
Freight inward	**20**
Unloading charges	**10**
Replacement cost	**150**
Finished Goods Y	
Closing Balance	**1200 units**
	₹ per unit
Material consumed	**220**

Direct labour	**60**
Direct overhead	**40**

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20000 units. Calculate the value of the closing stock, when
(i) Realizable Value of the Finished Goods Y is ₹ 440 and Realizable Expenses ₹ 40
(ii) Realizable Value of the Finished Goods Y is ₹ 330 and Realizable Expenses ₹ 30
4+4=8

(b) The Chief Accountant of STOCK Ltd. gives the following data regarding its six segments:

							₹ in lakhs
Particulars	**M**	**N**	**O**	**P**	**Q**	**R**	**Total**
Segment Assets	**50**	**25**	**10**	**5**	**5**	**5**	**100**
Segment Results	**-50**	**-140**	**80**	**10**	**-10**	**10**	**-100**
Segment Revenue	**200**	**320**	**200**	**90**	**90**	**100**	**1000**

Identify the Reportable Segments as per AS-17 **8**

Answer:

2. (a) Calculation of Cost per unit of Raw Material

Particulars	₹
Cost Price including GST	200
Less: GST	10
Cost Price net of GST	190
Add: Freight Inward	20
Add: Unloading Charges	10
Cost per unit of Raw Material	220

Calculation of cost per unit of Finished Goods

Particulars	₹
Raw Materials Consumed	220
Add: Direct Labour	60
Add: Direct Overhead	40
Add: Fixed Overhead (₹2,00,000/20,000 units)	10
Cost per unit of Finished Goods	330

Calculation of Value of Closing Stock when Net Realisable Value of Finished Goods is more that cost of Finished Goods i.e. ₹440 - ₹40 = ₹400.

Particulars	₹
Cost of Raw Materials (₹220 × 500 units)	1,10,000
Cost of Finished Goods (₹330 × 1,200 units)	3,96,000
Value of Closing Stock	5,06,000

Calculation of Value of Closing Stock when Net Realisable Value of Finished Goods is less than cost of Finished Goods i.e. ₹330 - ₹30 = ₹300

Particulars	₹
Raw Materials to be valued at Replacement Cost (₹150 × 500 units)	75,000
Finished Goods to be valued at Net Realisable Value (₹300 × 1,200 units)	3,60,000
Value of Closing Stock	4,35,000

(b) As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue - external and internal of all segments; or

(ii) Its segment result whether profit or loss is 10% or more of:
The combined result of all segments in profit or the combined result of all segments in loss, whichever is greater in absolute amount; or

(iii) Its segment assets are 10% or more of the total assets of all segments.

Criteria For Reportable Segment	Reportable Segment fulfilling Criteria
1. 10% of Total Revenue (i.e.10% of ₹1,000 Lakhs)	M, N, O and R
2. 10% of Total Result (i.e.10% of ₹200 Lakhs)	M, N, O
3. 10% of Total Assets (i.e.10% of ₹100 Lakhs)	M, N, O

Hence, Reportable Segments as per AS 17 are M, N, O and R only.

3. (a) From the given information, you are required to compute the Deferred Tax Assets and Deferred Tax Liability for Ramanujam Limited as on 31st March 2018. The tax rate applicable is 35%.

(i) The Company has charged Depreciation of ₹ 7,42,900 in its Books of Accounts while as per Income Tax computation, the Depreciation available to the Company is ₹ 8,65,400.

(ii) The Company has made Provision for Doubtful Debts for ₹ 54,300 during the year.

(iii) The Company has debited Share Issue Expenses of ₹ 6,23,500 which will be available for deduction under the Income Tax Act from the next year.

(iv) The expenses of ₹ 7,84,500 has been charged to Profit and Loss Account which are disallowed under the Income Tax Act.

(v) The Company has made Donation of ₹ 2,00,000 which has been debited to Profit and Loss Account and only 50% thereof will be allowed as deduction as per Income Tax Law. **8**

(b) What are the objectives and scopes of Ind AS-1-Presentation of Financial statements? A Company made a Profit of ₹ 15 lakhs by selling a portion of vacant factory land and in the same year lost ₹ 5 lakhs due to a Fire, which destroyed a part of Factory Shed, which was not in use. The Company Accountant wanted to set off the loss of ₹ 5 lakhs against the Profit on sale of land. Advise whether it would be correct as per Ind AS-1. **8**

Answer:

3. (a)

COMPUTATION OF DTA / DTL (₹)

Description	Adj	Net Amt Diff.	Nature of	Treatment	DTA/DTL at 35%
Profit before Tax as per Books		XXX			
Add: Depreciation as per Books	7,42,900		Timing	Difference originating in the current year. So, Create DTL.	(42,875)
Less: Depreciation as per IT	(8,65,400)	(1,22,500)	Permanent	Ignored	NA
Add: Provision disallowed in IT		(54,300)	Timing	Difference originating in the current year. So, Create DTA.	2,18,225

Add: Share Issue Exp. Disallowed u/s 35D		6,23,500	Permanent	Ignored	NA
Add: Expense Disallowed under IT		7,84,500			
(assumed to be permanent diff)					
Add: Donation (50% of 2 Lakhs)		1,00,000	Permanent	Ignored	NA
Total Income		XXX			

(b) Objective

Ind AS 1 - Presentation of Financial Statements prescribes the basis for presentation of General Purpose Financial Statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope

An entity shall apply this Standard in preparing and presenting General Purpose Financial Statements in accordance with Indian Accounting Standards (Ind AS).

An Entity should not offset Assets and Liabilities or Income and Expenses, unless required or permitted by an Ind AS. When material, such items are to be disclosed separately. Therefore, disclosing Net Profit by setting off loss due to fire against Profit from sale of Land is not correct. As per Ind AS-1, Profit on Sale of Land and loss due to fire should be disclosed separately.

4. The summarized Balance Sheets of R. Ltd. and P. Ltd. for the year ending on 31.03.2018 are as under:

	R. Ltd. (₹)	P. Ltd. (₹)		R. Ltd. (₹)	P. Ltd. (₹)
Equity share Capital (in shares of ₹ 10 each)	**24,00,000**	**12,00,000**	**Fixed Assets**	**55,00,000**	**27,00,000**
8% Preference Share Capital (in shares of ₹ 10 each)	**8,00,000**		**Current Assets**	**25,00,000**	**23,00,000**
10% Preference Share Capital (in shares of ₹ 10 each)		**4,00,000**			
Reserves	**30,00,000**	**24,00,000**			
Current Liabilities	**18,00,000**	**10,00,000**			
	80,00,000	**50,00,000**		**80,00,000**	**50,00,000**

The following information are provided

			R. Ltd.	P. Ltd.
(1)	**(a)**	**Profit before tax**	**10,64,000**	**4,80,000**
	(b)	**Taxation**	**4,00,000**	**2,00,000**
	(c)	**Preference dividend**	**64,000**	**40,000**
	(d)	**Equity dividend**	**2,88,000**	**1,92,000**

(2) The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.

(3) R. Ltd. proposes to absorb P. Ltd. as on 31.03.2018. The terms of absorption are as under:

(a) Preference shareholders of P. Ltd. will receive 8% preference shares of R. Ltd. sufficient to increase the income of preference shareholders of P. Ltd. by 10%.

(b) The equity shareholders of P. Ltd. will receive equity share of R. Ltd. on the following basis:

(i) The equity shares of P. Ltd. will be valued by applying to the earnings per share of P. Ltd. 75% of price earnings ratio of R. Ltd. based on the results of 2017-18 of both the companies.
(ii) The market price of equity shares of R. Ltd. is ₹ 40 per share.
(iii) The number of shares to be issued to the equity shareholders of P. Ltd. will be based on the above market value.
(iv) In addition to equity shares, 8% preference shares of R. Ltd. will be issued to the equity shareholders of P. Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2017-18.

(4) The assets and liabilities of P. Ltd. as on 31.03.2017 are revalued by professional valuer as under:

	Increased by	Decreased by
	₹	₹
Fixed Assets	1,00,000	-
Current Assets	-	2,00,000
Current Liabilities	-	40,000

(5) For the next two years, no increase in the rate of equity dividend is expected. You are required to:
(i) Set out in detail the purchase consideration.
(ii) Prepare the Balance Sheet as on 31.03.2017 as per Schedule III after absorption.
Note: Journal entries are not required. 16

Answer:

4. Calculation of P/E Ratio for R Ltd.

Particulars	₹
Profit before tax	10,64,000
Less: Tax	4,00,000
Profit after tax	6,64,000
Less: Preference Dividend	64,000
Earnings available for Equity Shareholders	6,00,000
Numbers of Equity Shares	2,40,000
Earning Per Equity Share (₹6,00,000/2,40,000)	₹2.50
Price-Earning Ratio (P/E Ratio) = ₹40/₹2.5	16

Calculation of Earning per Equity Share of P Ltd.

Particulars	₹
Profit before tax	4,80,000
Less: Tax	2,00,000
Profit after tax	2,80,000
Less: Preference Dividend	40,000
Earnings available for Equity Shareholders	2,40,000
Numbers of Equity Shares	1,20,000
Earning Per Equity Share (₹2,40,000/1,20,000)	₹2.00

Calculation of number of Equity Shares to be issued to Equity Shareholders of P Ltd. pn the basis of 75% of P/E — Ratio of R Ltd.

Particulars	
Earning per Share of P Ltd.	₹2.00
75% of P/E Ratio of R Ltd. (i.e. 75% of 16)	12
Value of the share of P Ltd. on the basis of 75% of P/E Ratio of R Ltd. (₹2 × 12)	₹24.00
Equity Shares outstanding of P Ltd.	1,20,000
Number of Equity Shares to be issued to P Ltd. (1,20,000 × 24/40)	72,000

Calculation of Amount of 8% Preference Shares to be issued to Equity Shareholders of P Ltd. to make shortfall in Dividend

Particulars	
Dividend distributed to the Equity Shareholders of P Ltd.	₹1,92,000
Dividend per share distributed by R Ltd. to its. Equity Shareholders (₹2,88,000/2,40,000)	₹1.20
Estimated Dividend to the Equity Shareholders of P Ltd. (72,000 shares ×₹1.2)	₹86,400
Estimated Shortfall of Dividend (₹1,92,000 - ₹86,400)	₹1,05,600
Amount of Preference Shares to be issued to Equity Shareholders of P Ltd. to make shortfall of Dividend (₹1,05,600/0.08)	₹13,20,000

Calculation of Amount of 8% Preference Shares to be issued to Preference Shareholders of P Ltd.

Particulars	
Preference Dividend available to Preference Shareholders of P Ltd. (₹4,00,000 × 10%)	₹40,000
Add: Estimated Increase in earnings (₹40,000 × 10%)	₹4,000
Estimated Preference Dividend for P Ltd.	₹44,000
Amount of Preference Shares to be issued to Preference Shareholders of P Ltd. (₹44,000/0.08)	5,50,000

Calculation of Purchase Consideration

Particulars	
Amount of Preference Shares to be issued to Preference Shareholders of P Ltd.	₹5,50,000
Equity Shares to be issued to P Ltd. (72,000 × ₹40)	₹28,80,000
Amount of Preference Shares to be issued to Equity Shareholders of P Ltd. to make shortfall of Dividend	13,20,000
Purchase Consideration	47,50,000

R. Ltd.
Balance sheet as at 31st March, 2018
(after absorption)

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	57,90,000
(b) Reserves and Surplus	2	51,60,000
(2) Non-Current Liabilities		
(3) Current Liabilities		
Current Liabilities (18,00,000 + 9,60,000)		27,60,000
Total		1,37,10,000
II. Assets		
(1) Non-current Assets		
(a) Fixed Assets		
Tangible Assets (55,00,000 + 28,00,000)		83,00,000
Intangible Assets – Goodwill		8,10,000
(2) Current assets		
Current Assets (25,00,000 + 21,00,000)		46,00,000
Total		1,37,10,000

Notes to Accounts:

		(₹)
1.	Share Capital	

	3,12,000 Equity Shares of ₹10 each (Out of which 72,000 were issued to vendors for non-cash consideration) 2,67,000 8% Preference Shares of ₹10 each (Out of which, 1,87,000 were issued to vendors for non-cash consideration)	31,20,000 26,70,000
	Total	57,90,000
2.	Reserve and surplus	
	Reserves	30,00,000
	Securities premium (72,000 Equity Shares × ₹30)	21,60,000
		51,60,000

Working Note:

Calculation of Goodwill accruing on Absorption

		₹
Purchase Consideration		47,50,000
Net Assets taken over:		
Fixed Assets	28,00,000	
Current Assets	21,00,000	
Total Assets	49,00,000	
Less: Current Liabilities	9,60,000	(39,40,000)
Goodwill (Purchase Consideration – Net Assets taken over)		8,10,000

5. The following are the Balance Sheets of A Ltd. and its subsidiary company B Ltd. as at 31.03.2018

Particulars	**A Ltd. (₹ in Lakh)**	**B Ltd. (₹ in Lakh)**
I EQUITY AND LIABILITIES		
1. Share holder's Funds		
(a) Share Capital:		
(i) Equity Share Capital of ₹10 each	**1,200**	**400**
(ii) 8% Pref. Share Capital of ₹ 100 each	**---**	**320**
(b) Reserves and Surplus:		
(i) General Reserve	**200**	**160**
(ii) Statement of Profit & Loss (01.04.17)	**100**	**50**
(iii) Surplus for the year	**240**	**130**
2. Non-Current Liabilities:		
10% Debentures of ₹ 100 each	**100**	**80**
3. Current Liabilities and Provisions		
Trade payables	**150**	**82**
Bills Payable to A Ltd.	**---**	**50**
Debenture Interest Accrued	**---**	**8**
Total	**1,990**	**1,280**

Particulars	**A Ltd. (₹ in Lakh)**	**B Ltd. (₹ in Lakh)**
II ASSETS		
1. Non-Current Assets		
(a) Fixed Assets:		
(i) Tangible Assets		
Land and Building	**550**	**480**
Plant and machinery	**300**	**300**
(ii) Intangible Assets	**---**	**---**
(b) Non-Current Investment		
30,00,000 Equity shares in B Ltd.	**660**	**---**

20,000; 10% Debentures in B Ltd.	20	---
2. Current Assets:		
(a) Inventories	150	240
(b) Trade receivables	130	170
(c) Bills Receivable	60	---
(d) Cash and cash Equivalents	120	90
Total	**1,990**	**1,280**

Additional information:

(i) B Ltd. incurred a major expenditure of ₹ 60 Lakh on repairs of a machinery in the beginning of the current year and wrongly charged the amount to Profit and Loss Account. Rate of depreciation on plant and machinery is 15% and on Land and Building is 10%.

(ii) No entries have been made in the books of A Ltd. for debenture interest due from B Ltd. for the year ended 31st March, 2018.

(iii) A Ltd. acquired shares in B Ltd. on 31st March, 2018. For the purpose of acquisition of shares, Land & Building and Plant & Machinery were revalued at ₹ 600 Lakh and ₹ 280 Lakh respectively.

(iv) Trade Payables of A Ltd. included an amount of ₹ 30 Lakh, which due to B Ltd.

(v) Contingent liability of A Ltd. ₹ 40 Lakh in respect of bills discounted which includes bills of ₹ 20 Lakh accepted by B Ltd.

(vi) Ignore tax aspects.

You are required to prepare Consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd. as at 31st March, 2018. **16**

Answer:

5.

Consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd.
as on 31st March, 2018

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
1. Shareholders' Funds:		
(a) Share Capital		1,200.00
(b) Reserves and Surplus	1	542.00
2. Non-Current Liabilities:		
10% Debentures (100 + 80 - 20)		160.00
3. Minority Interest (W.N. 4)		549.20
4. Current Liabilities And Provisions:		
Trade payables (150 + 82 – 30)		202.00
Bills Payable (50 – 30)		20.00
Debenture Interest Accrued (8 – 2)		6.00
Total		**2679.20**
II. Assets		
1. Non-Current Assets		
Fixed Assets:		
Tangible Assets Land & Building (550 + 600) Plant & Machinery (300 + 280)		 1150.00 580.00
Intangible Assets (W.N.3)		49.20
2. Non-Current Assets:		
10% Debentures in B Ltd. (20 - 20)		
3. Current Assets		
(a) Inventories (150 + 240)		390.00
(b) Trade Receivables (130 + 170 – 30)		270.00

(c) Bills Receivable (60 – 30)		30.00
(c) Debenture Interest (2 – 2)		
(d) Cash and Cash Equivalents (120 – 90)		210.00
Total		**2679.20**

Notes to the accounts:

Reserve & Surplus

Particulars	₹	₹
(a) General Reserve		200.00
(b) Profit and Loss A/c — Balance as on 31.03.2017 (Given)		100.00
(c) Current year Profit (Given)	240.00	
Add: Interest on Debentures	2.00	242.00
Total		542.00

Working Notes:

1) Shareholding Pattern of Equity Shares in B Ltd.

Particulars	B Ltd.
Total Shares (in Numbers)	40,00,000
Held by A Ltd.	30,00,000 (i.e. 75%)
Held by Minority	10,00,000 (i.e. 25%)

2) Analysis of profit of B Ltd.

Particulars	Capital Profit ₹	Revenue Reserves ₹	Revenue Profits ₹
Balance of revenue reserve as on 31.03.2018	160.00		
Balance of Profit & Loss A/c as on 01.04.2017	50.00		
Profit during the year	181.00		
Less: Preference Dividend	(25.60)		
Less: Revaluation Loss on Plant & Machinery	(71.00)		
Add: Revaluation Profit on land & Building	120.00		
Total	414.40		
Share of A Ltd (75%)	310.80		
Share of Minority (25%)	103.60		

3) Calculation of Cost of Control/Goodwill

Particulars	₹ in Lakhs
A. Cost of Investment	660.00
B. Less: 75% Share in Paid up capital of B Ltd.	300.00
C. Less: 75% Share in Capital Profits of B Ltd.	310.80
D. Cost of Control/Goodwill (A – B – C)	49.20

4) Calculation of Minority Interest

Particulars	₹ in Lakhs
A. 25% Share in Paid up Capital of B Ltd.	100.00
B. 25% Share in Capital Profits of B Ltd.	103.60
C. 8% Preference Share Capital	320.00
D. Preference Dividend	25.60
Minority Interest	549.20

5) Calculation of Current year Profit of B Ltd.

Particulars	₹ in Lakhs
A. profit as given in Balance Sheet	130.00
B. Add; Capital Expenditure Wrongly Charged as revenue Expenditure	60.00
C. Less: 15% depreciation on above Capital Expenditure	(9.00)
D. profit for the year	181.00

1) Analysis of profit of B Ltd.

Particulars	Plant & Machinery ₹	Land & Building ₹
Book Value as given in Balance Sheet on 31.03.2018	300.00	480.00
Adjustment due to Capital Expenditure being treated as revenue Expenditure	60.00	0.00
Adjustment for depreciation on Capital Expenditure being treated as Revenue expenditure	(9.00)	0.00
Correct Book Value as on 31.03.2018	351.00	480.00
Value after Revaluation	280.00	600.00
Profit/(Loss) on Revaluation	(71.00)	120.00

6. (a) Virtual Limited granted on 1st April, 2015, 100000 Employees Stock Option at ₹ 40, when the Market Price was ₹ 60. These options will vest at the end of Year 1, if the earning of Virtual Limited is more than 15% or it will vest at the end of the year 2, if the average earnings of two years is more than 12% or lastly it will vest at the end of third year, if the average earnings of 3 years will be 9% or more. 6000 unvested options lapsed on 31st March 2016. 5,500 unvested options lapsed on 31st March, 2017 and finally 3,000 unvested options lapsed on 31st March, 2018.

Year ended on	Earnings in %
31.03.2016	13%
31.03.2017	9%
31.03.2018	7%

Employees exercised for 85,000 Stock Options which vested in them at the first opportunity and the balance options were lapsed. Pass necessary journal entries and show the necessary working. 8

(b) Following is the Balance Sheet of Rainbow Limited as on 31st March, 2018:

Liabilities	₹	Assets	₹
100000 equity shares of ₹ 10 each	10,00,000	Goodwill	5,00,000
10000, 12% preference shares of ₹100 each	10,00,000	Buildings	15,00,000
General Reserve	6,00,000	Plant	10,00,000
Profit and Loss Account	4,00,000	Investment in 10% stock	4,80,000
15% Debentures	10,00,000	Stock-in-trade	6,00,000
Creditors	8,00,000	Debtors	4,00,000
		Cash	1,00,000
		Preliminary Expenses	2,20,000
	48,00,000		48,00,000

Additional information:

(i) Normal value of investment is ₹5,00,000 and its market value is ₹5,20,000.

(ii) Following assets are revalued:

Building	**₹ 32,00,000**
Plant	**₹ 18,00,000**
Stock-in-trade	**₹ 4,50,000**
Debtors	**₹ 3,60,000**

(iii) Average profit before tax of the company is ₹12,00,000 and 12-50% of the profit is transferred to general reserve, rate of taxation being 50%.

(iv) Normal dividend expected on equity shares is 8% while fair return on closing capital employed is 10%.

(v) Goodwill may be valued at three year's purchase of super profits.

Ascertain the value of each equity share under fair value method. 8

Answer:

6. (a)

Journal of Virtual Ltd.

Date	Particulars		Dr. (₹)	Cr. (₹)
31.3.2016	Employees Compensation Expenses A/c To ESOS Outstanding A/c (Being Compensation Expenses recognized in respect of Employee Stock Option, i.e. 94,000 options at a discount of ₹ 20 each)	Dr.	9,40,000	 9,40,000
	P&L A/c To Employees Compensation Expense A/c (Being the t/f of ECE A/c)	Dr.	9,40,000	 9,40,000
31.3.2017	Employees Compensation Expenses A/c To ESOS Outstanding A/c (Being Compensation Expenses recognized in ESOP A/c)	Dr.	2,40,000	 2,40,000
	P&L A/c To Employees Compensation Expense A/c (Being the t/f of ECE A/c)	Dr.	2,40,000	 2,40,000
31.3.2018	Employees Compensation Expenses A/c To ESOS Outstanding A/c (Being Compensation Expenses recognized in ESOP)	Dr.	5,30,000	 5,30,000
	P&LA/c To Employees Compensation Expense A/c (Being the t/f of ECE A/c)	Dr.	5,30,000	 5,30,000
	Bank A/c [85,000 x ₹ 20] ESOS Outstanding A/c To Equity Share Capital A/c [85,000 x ₹ 10] To Securities Premium A/c [85,000 x ₹ 50] (Being 85,000 Options exercised)	Dr. Dr.	34,00,000 17,00,000	 8,50,000 42,50,000
	ESOS Outstanding A/c [500 x ₹ 20] To General Reserve A/c (Being ESOP outstanding A/c on lapse of 500 options transferred to General Reserve)	Dr.	10,000	 10,000

Working Notes:

EXPENSE TO BE RECOGNISED EACH YEAR

Particulars	Year 1	Year 2	Year 3
Length of the expected vesting period (at the end of the year)	2 years	3 years	3 years
A. No. of Options expected to vest	94,000	88,500	85,500
B. Fair Value of An option	₹ 20	₹ 20	₹ 20
C. Total Fair Value of Option [A x B]	18,80,000	17,70,000	17,10,000

D. Total Expense accrued at the end of year (₹)	9,40,000	11,80,000	17,10,000
	(D/2)	(D x 2/3)	(D x 3/3)
E. Expense recognised till the end of previous year (₹)	Nil	9,40,000	11,80,000
F. Expense to be recognized for the year (₹) [D - E]	9,40,000	2,40,000	5,30,000

(b) 1. Calculation Capital Employed

Particulars	₹	₹
A. Assets		
Buildings	32,00,000	
Plant	18,00,000	
Stock	4,50,000	
Debtors	3,60,000	
Cash	1,00,000	59,10,000
B. Liabilities		
Creditors	8,00,000	
Debentures	10,00,000	18,00,000
C. Capital Employed (A – B)		41,10,000

2. Calculation of Operating Profit

Particulars	₹
Average profit before taxes	12,00,000
Less: Income from Investment	50,000
Operating Profit before Taxes	11,50,000
Less: Tax @ 50%	5,75,000
Operating Profit	5,75,000

3. Calculation of Profit available for Equity Shareholders

Particulars	₹
Operating Profit	5,75,000
Less: Transfer to Reserves @ 12.5%	71,875
Less: Preference Dividend	1,20,000
Profit available for Equity Shareholders	3,83,125

4. Calculation of Goodwill

Particulars	₹
A. Normal (10% of Capital Employed i.e. 10% of ₹41,10,000)	4,11,000
B. Operating Profit	5,75,000
C. Super normal Profit (B – A)	1,64,000
D. Goodwill (Supernormal Profit × years Purchase)	4,92,000

5. Calculation of Net Assets for Equity Shareholders

Particulars	₹
A. Capital Employed	41,10,000
B. Add: Goodwill	4,92,000
C. Add: Investment	5,20,000
D. Less: Preference Share Capital	(10,00,000)
E. Net Assets for Equity Shareholders	41,22,000

6. Intrinsic Value of the Equity Share
= Net Assets for Equity Shareholders/ Number of Equity Shares
= ₹41,22,000/1,00,000 = ₹41.22

7. Value of Share as per Yield Method

Particulars	₹
Profits available for Equity Shareholders	₹3,83,125
Equity Share Capital	₹10,00,000
Actual Yield $\left(\frac{3,83,125}{10,00,000}\times100\right)$	38.3125%
Normal Yield	8%
Value of Share as per yield method ₹$\left(10\times\frac{3,83,125}{10,00,000}\right)$	₹47.891

8. Value of Equity Share under Fair Value Method
=(Intrinsic Value + Yield Value)/2 =(41.22 + 47.89)/2= ₹ 44.56

7. (a) State the Objectives, Constitution and Functions of Public Accounts Committee. 8

(b) Write a short note on Consolidated Fund of India, Contingency Fund and Public Account of India. 8

Answer:

7. (a) Objectives of Public Accounts Committee

The Committee on Public Accounts is constituted by Parliament each year:
1. To examine accounts showing the appropriation of sums granted by Parliament for expenditure of Government of India.
2. To examine the annual Finance Accounts of Government of India, and such other Accounts laid before Parliament as the Committee may deem fit (e.g. Accounts of autonomous and semi-autonomous bodies except those which come under the purview of the Committee on Public Undertakings).

Constitution of Public Accounts Committee

1. The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajya Sabha elected by that House in like manner are associated with the Committee.
2. The Chairman is appointed by the Speaker from amongst its members of Lok Sabha. The Speaker, for the first time, appointed a member of the Opposition as the Chairman of the Committee for 1967-68. This practice has been continued since then.
3. A Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment.

Functions of Public Accounts Committee

1. To Examine the Appropriation Accounts relating to the Railways, Defence Services, P&T Department and other Civil Ministries of the Government of India and Reports of the Comptroller and Auditor-General of India thereon as also the Reports of the Comptroller and Auditor-General on Revenue Receipts mainly form the basis of the deliberation of the Committee.
2. To ascertain that money granted by Parliament has been spent by Government within the scope of the demand. It considers the justification for spending more or less than the amount originally sanctioned. If any money has been spent on a service in excess of the amount granted by the House for the purpose, the Committee examines with reference to the facts of each case, the circumstances leading to such an excess and makes such

recommendations as it may deem fit.
3. To examine cases involving losses, nugatory expenditure and financial irregularities.
4. To examine various aspects of Government's tax administration.
5. To examine cases involving under-assessments, tax-evasion, non-levy of duties, misclassifications etc.
6. To identify the loopholes in the taxation laws and procedures and makes recommendations in order to check leakage of revenue.

(b) CONSOLIDATED FUND OF INDIA

Subject to assignment of certain taxes to the States,
- all revenues received by the Government of India,
- all loans raised by the Government and
- all moneys received by that Government in repayment of loans

Shall form one consolidated fund to be called "the Consolidated Fund of India"
- No moneys shall be appropriated out of the Consolidated Fund of India except in accordance with law.
- No money can be issued out of Consolidated Fund of India unless the expenditure is authorised by an Appropriation Act.

CONTINGENCY FUND (ARTICLE 267) AND CONTINGENCY FUND OF INDIA ACT, 1950
- Parliament may by law establish a Contingency Fund in the nature of an imprest to be called "the Contingency Fund of India.
- Fund shall be placed at the disposal of the President to enable advances to be made for meeting unforeseen expenditure, pending authorization by Parliament

PUBLIC ACCOUNT OF INDIA ARTICLE 266(2)
All other public moneys received by or on behalf of the Government of India shall be credited to the Public Account of India

REVENUE ACCOUNT (ARTICLE 112)
- The estimates of expenditure embodied in the annual financial statement shall show separately ………………………………………. and shall distinguish expenditure on revenue account from other expenditure.
- Proceeds of taxation and other receipts classed as revenue and Expenditure met there from

CAPITAL HEADS
- Expenditure met usually from borrowed funds with the object of increasing concrete assets of a material and permanent character. Includes receipts of capital nature intended to be applied as a set off to capital expenditure.
- Receipts of capital nature which cannot be applied as a set off to capital expenditure.

8. Write short notes on *any four* of the following: 4x4=16
(a) Meaning and Potential applications of XBRL.
(b) Differences between Ind AS 21 and IAS 21 on treatment of exchange difference.
(c) Functions of Committee on Public Undertakings.
(d) Meaning and Advantages of Triple Bottom Line Reporting (TBL).
(e) Meaning and Advantages of Sustainability Reporting.

Answer:

8. (a) MEANING OF XBRL
XBRL stands for extensible Business Reporting Language. It is one of a family of "XML" languages which is becoming a standard means of communicating information between businesses and on the internet.

POTENTIAL APPLICATIONS OF XBRL

1. **XBRL for Financial Statements:** Financial statements of all sorts used to exchange financial information
2. **XBRL for Taxes:** Specification for tax returns which are filed and information exchanged for items which end up on tax returns
3. **XBRL for Regulatory Filings:** Specifications for the large number of filings required by government and regulatory bodies
4. **XBRL for Accounting and Business Reports:** Management and accounting reporting such as all the reports that are created by your accounting system rendered in XML to make reusing them possible
5. **XBRL for Authoritative Literature:** A standard way for describing accounting related authoritative literature published by the AICPA, FASB, ASB, and others to make using these resources easier, "drill downs" into literature from financials possible

(b) There are some differences between Ind AS 21 and IAS 21 regarding treatment of exchange differences. Ind AS 21 provides some carve outs.

IAS 21

- Exchange differences arising on translation or settlement of foreign currency monetary items are recognized in profit or loss in the period in which they arise.
- Exchange differences on monetary items, that in substance, from part of net investment in a foreign operation, are recognized in profit or loss in the period in which they arise in the separate financial statements and in other comprehensive income in the consolidated financial statements and reclassified from equity to profit or loss on disposal of the net investment.

IND AS 21

- Similar to IFRS, However an entity may continue the policy adopted for exchange differences arising from translation of long term foreign currency monetary items recognized in the financial statements for the period ending immediately before the beginning of the first Ind As financial reporting period as per previous GAAP.

(c) The Committee on Public Undertakings exercises the same financial control on the public sector undertakings as the Public Accounts Committee exercises over the functioning of the Government Departments. The functions of the Committee are:-
(a) to examine the reports and accounts of public undertakings.
(b) to examine the reports of the Comptroller & Auditor General on public undertakings.
(c) to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.

The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.
The objective of the Financial Committees, in doing so, is not to focus only on the individual irregularity, but on the defects in the system which led to such irregularity, and the need for correction of such systems and procedures.

(d) Meaning

TBL reporting refers to providing information on the economic, environmental and social dimensions of the activities carried on by an organisation.
Thus, The Triple Bottom Line is made up of "Social (People), Economic (Profit) and

Environmental (Planet)".
In the private sector, a commitment to CSR implies a commitment to some form of TBL reporting.

Advantages
1. enhancement of reputation and brand
2. securing a social licence to operate
3. attraction and retention of high calibre employees
4. improved access to investors
5. reduced risk profile
6. identification of potential cost savings
7. increased scope for innovation
8. alilgning stakeholder needs with management focus, and
9. creatino of sound basis for stakeholder dialogue

(d) Meaning

A sustainability report" is an organizational report that gives information about economic, environmental, social and governance performance.

A sustainability report is the key platform for communicating positive and negative sustainability impacts.

Sustainability reporting is a vital step for managing change towards a sustainable global economy - one that combines long term profitability with social justice and environmental care Sustainability reporting can be considered as synonymous with other terms for non-financial reporting; triple bottom line reporting, corporate social responsibility (CSR) reporting, and more. It is also an intrinsic element of integrated reporting; a recent development that combines the analysis of financial and non-financial performance.

Advantages

I. Internal benefits for companies and organizations can include:

1. Increased understanding of risks and opportunities
2. Emphasizing the link between financial and non-financial performance
3. Influencing long term management strategy and policy, and business plans
4. Streamlining processes, reducing costs and improving efficiency
5. Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives
6. Avoiding being implicated in publicized environmental, social and governance failures
7. Comparing performance internally, and between organizations and sectors

II. External benefits of sustainability reporting can include:

1. Mitigating - or reversing - negative environmental, social and governance impacts
2. Improving reputation and brand loyalty
3. Enabling external stakeholders to understand company's true value, and tangible and intangible assets
4. Demonstrating how the organization influences, and is influenced by, expectations about sustainable development