FINAL EXAMINATION

GROUP - IV

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

JUNE - 2019

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 and 1 Mark for justification.): 2x10=20

(i) XYZ Ltd. acquired 2000 equity shares of DEF Ltd. on 01.04.2017 for a price of ₹ 3,00,000. DEF Ltd. made a net profit of ₹ 80,000 during the year 2017-18. DEF Ltd. issued Bonus shares of one shares for every five shares held out of post-acquisition profits earned during 2017-18. The share capital of DEF Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the shares of XYZ Ltd. in the pre-acquisition profit of DEF Ltd. is ₹ 56,000, the amount of Goodwill/Capital Reserve to be shown in the consolidated balance sheet as on 31.03.2018 is:

(A) ₹ 4,000 (Goodwill)
(B) ₹ 4,000 (Capital Reserve)
(C) ₹ 44,000 (Goodwill)
(D) ₹ 50,000 (Goodwill)

(ii) Mittal Ltd. has provided the following information:
Depreciation as per accounting records ₹ 30,00,000, Depreciation as per income tax records ₹ 75,00,000. Unamortized preliminary expenses as per income tax records ₹ 4,50,000. Tax rate 35%. There is adequate evidence of future profit sufficiency. As per AS 22 Deferred Tax Asset/Liability to be recognized will be:

(A) ₹ 15,75,000 (DTL)
(B) ₹ 14,17,500 (Net DTL)
(C) ₹ 72,000 (Net DTA)
(D) None of the above

(iii) The market price of Company Caa is ₹ 450 per share and that of Company Baa is ₹ 300. If Caa offers three-fourths a share of common stock for each share of Baa, the ratio of exchange of market prices would be:

(A) 0.667

(B) 1.000

(C) 1.125

(D) 1.500

(iv) A company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 25% above cost. Policy adopted by the company is

(A) Correct as per AS but not as per Ind AS

(B) Not Correct

(C) Correct, if total transfer is below 10% of total revenue of the Company

(D) Always correct, if applied consistently

(v) Cee Ltd. acquired a 60% interest in Jee Ltd. on January 1, 2017. Cee Ltd. paid ₹ 700 Lakhs in cash for their interest in Jee Ltd. The fair value of Jee Ltd.'s assets is ₹ 1,800 Lakhs and the fair value of its liabilities is ₹ 900 Lakhs. Compute the Non-controlling interest (NCI) at fair value.

(A) ₹ 360 Lakhs

(B) ₹ 700 Lakhs

(C) ₹ 280 Lakhs

(D) None of the above

(vi) Utkarsh Ltd. declares the following information:

	Exchange Rate (USD/IND ₹)
Purchased goods on 12.03.2018 of USD 1,00,000	68.60
Exchange rate as on 31.03.2018	69.00
Date of actual payment is 12.04.2018	69.50

What will be the gain/loss to be booked in the financial year 2018-19?

(A) ₹ 90,000 (loss)

(B) ₹ 40,000 (loss)

(C) ₹ 1,30,000 (loss)

(D) None of the above

(vii) During 2017-18, Mindblogger Ltd. incurred costs to develop and produce a mobile application computer software product, as follows:

Completion of detailed program design	₹ 23,000
Cost incurred for coding and testing to establish technological feasibility	₹ 20,000
Other coding costs after establishing technological feasibility	₹ 39,000

Other testing costs after establishing technological feasibility ₹ 31,000
Cost of producing product masters for training purposes ₹ 30,000
What amount should be capitalized as software cost?
(A) ₹ 43,000
(B) ₹ 70,000
(C) ₹23,000
(D) ₹1,00,000

(viii)Suchitra purchased 1000 shares in Tip-Top Ltd. of ₹ 600 per share in 2016. There was issue in 2018 of one share for every two held at price of ₹ 150 per share. If Suchitra subscribes the rights, what would be carrying cost of 1500 shares as per AS-13.
(A) ₹ 6,00,000
(B) ₹ 6,75,000
(C) ₹ 75,000
(D) Data insufficient

(ix) Future Limited undertakes a contract for construction of a Bridge on 01.04.2017 at a contract price of ₹ 1,250 Lakh. The contract was to be completed in two years. Cost incurred up to 31.03.2018 is ₹ 780 Lakh. The Company estimated that a further cost of ₹ 520 lakh would be incurred for completing the project. What amount should be credited to revenue as Contract Price for the financial year 2017-18 as per the provisions of Ind AS 11?
(A) ₹ 780 Lakh
(B) ₹ 750 Lakh
(C) ₹ 730 Lakh
(D) None of the above

(x) Statement - Preparation of CFS is not mandatory for companies having subsidiary in India. Choose correct option:
(A) Statement is correct as the Companies Act, 2013 does not require preparation of CFS.
(B) Statement is correct as AS 21 allows it if financial statement of subsidiary is attached with the stand-alone financial statements of the holding Company.
(C) Statement is incorrect as the Companies Act, 2013 requires preparation of CFS.
(D) Statement is incorrect as the Government of India by notification has imposed the requirement of preparation of CFS.

Answer:

1. (i) (A) Cost of Control

	(₹)
Amount invested (A)	3,00,000
Share Capital (80% of 2,50,000 + 80% of ₹ 50,000*)	2,40,000
Share of capital profit**	56,000
Total(B)	2,96,000
Goodwill (A-B)	4,000

* being amount of bonus issue @1:5
** It is assumed share of profit given in the problem is after issue of bonus shares.

(ii) (B) Explanation:

₹ 14,17,500 (Net DTL) as calculated below:

Deferred tax liability:

For Depreciation = 35% (75,00,000 - 30,00,000)	= ₹ 15,75,000
Less: For Prel. Exp. 35% of 4,50,000	= ₹ 1,57,500
Net Deferred tax liability	= ₹ 14,17,500

(iii) (C) Explanation:

3/4th of ₹ 450 = ₹ 337.50. Hence, acquiring company is paying ₹ 337.50 against market price of ₹ 300 of Company Baa. Hence, on the basis of market price, the Exchange ratio is:
₹ 337.50/₹ 300 = 1.125

(iv) (C) Explanation:

Transfer price may be below cost if it is internal transfer. However, it should be applied consistently. It does not affect valuation of inventory. Hence, (D) is the right option.

(v) (A) Explanation:

₹ 360 Lakhs is correct option as detailed below:
NCI = 40%, ₹ (1,800 - 900) Lakhs = ₹ 360 Lakhs

(vi) (D) Explanation:

As per AS-11, exchange difference on settlement of monitory items should be transferred to Profit & Loss A/c. Here loss to be debited to Profit & Loss A/c in 2018-19 is ₹ (1,00,000 x 69.50) - (1,00,000 x 69.00) = ₹50,000.

(vii)(D) Explanation:

Costs incurred after establishing technological feasibility should be capitalised (₹ 39,000 + ₹ 31,000 + ₹ 30,000) = ₹ 1,00,000 is to be capitalised and costs incurred before establishing technological feasibility is to be treated as expense as and when it is incurred.

(viii)(B) Explanation:

Cost of original holding (Purchase) (1,000 x 600)	₹ 6,00,000
Amount paid for Rights (500 x 150)	₹ 75,000
Total carrying cost of 1500 shares:	₹ 6,75,000

(ix) (B) Explanation:

Statement showing the amount to be credited to Revenue as per Ind AS 11

	₹ in Lakh
Cost of construction incurred upto31.03.2018	780
Add: Estimated future	520
Total estimated cost of construction	1300
Degree of completion {(780/1300) x 100}	60%

	₹ in Lakh
Revenue recognition (1250 x 60%)	750

(x) (C) Explanation:

Companies Act, 2013, [Section 129(3)] requires preparation of CFS by company having subsidiary(ies). Other options are not correct as those are not based on relevant accounting standard or notification of the Government of India.

Section – B

Answer any five questions out of seven questions.

16x5=80

2. (a) Which is Related Party as per Ind AS 24? State objectives and scopes of the Ind AS 24.
4+4=8

(b) Following are the Extracts of Balance Sheets of Mirchiram Ltd.:

Particulars	31.03.2019(₹)	31.03.2018(₹)
Equity Share Capital	9,10,000	5,00,000
General Reserve	2,10,000	2,50,000
Profit and Loss A/c	9,50,000	(40,000)
Securities Premium	50,000	—
Capital Redemption Reserve	—	1,00,000
Capital Grant	8,00,000	Nil
Convertible Debentures (into equity shares at 25% premium)	—	2,00,000
Trade Payables	1,05,000	1,00,000
Goodwill	15,000	—
Plant and Machinery	7,65,000	5,00,000
Inventories	95,640	54,000
Trade Receivables	7,50,000	6,25,000
Less: Provision for Doubtful Debts	(1,90,000)	(1,50,000)
Voluntary Separation Payments	1,25,000	65,000

Additional Information:

(i) Depreciation on Plant and Machinery written off @ 15%.

(ii) It was decided to value Inventories at cost whereas previously the practice was to value Inventories at cost less 10%. However the closing stock on 31st March, 2019 was correctly valued at cost.

(iii) On 31st March, 2019, the business of Y Ltd. was purchased for ₹ 60,000 payable in

fully paid equity shares of ₹ 10 each at a premium of 20%. The assets included Inventories ₹ 26,640, Trade Receivables ₹ 10,000 and Machine ₹ 18,360. In addition Trade Payables of ₹ 15,000 were taken over.

(iv) Debtors of ₹ 2,30,000 were written off against the Provision for Doubtful Debts A/c during the year. Grant of ₹ 10,00,000 amortised in P&L A/c. Compensation received in a suit filed by the Company ₹ 90,000. Voluntary Separation Payments ₹ 50,000 adjusted against General Reserve.

Required : Calculate
(A) Cash Flow Operating Activities.
(B) Cash Flow from Investing Activities.
(C) Cash Flow from Financing Activities
for preparing Cash Flow Statement as per AS-3. **8**

Answer:

2. (a) As per Ind AS 24 Related Party means any party that controls or can significantly influence the operating policy of the Company during reporting period. The criteria for Related party relationship are control, Common control, Joint control and significant influence.

The objectives of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments with such parties.

Scope of Ind AS 24:

This Standard shall be applied for the following purposes:
(a) Identifying related party relationships and transactions;
(b) Identifying outstanding balances, including commitments, between an entity and its related parties;
(c) Identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
(d) Determining the disclosures to be made about those items.

(b)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2019

A	Cash Flow from Operating Activities		₹
	Net Profit [9,50,000 - (40,000) + 10,000 (t/f to Reserve)]		10,00,000
	Add: Depreciation [(7,65,000 x 15/85)]		1,35,000
	Add: Goodwill amortised [60,000 - (26,640 + 10,000 + 18,360 - 15,000)]-15,000		5,000
	Less: Under valuation of Opening stock (54,000 x 10/90) Less: Compensation received Less: Capital Grant amortised		(6,000) (90,000) (10,00,000)
	Operating Profit before Working Capital changes		44,000

	Add: Increase in Provision for doubtful debts	40,000	
	Less: Increase in Inventories [(95,640 - 26,640) - (54,000 + 6,000)]	(9,000)	
	Increase in Trade Receivables [(7,50,000-10,000)-6,25,000]	(1,15,000)	
	Decrease in Trade Payables [(1,05,000 - 15,000) - 1,00,000]	(10,000)	(94,000)
	Operating Profit before extraordinary items		(50,000)
	Add: Compensation received		90,000
	Less: Voluntary Separation Payments [(1,25,000+50,000) - 65,000]		(1,10,000)
	Cash used in Operating Activities		(70,000)
B	Cash Flow from Investing Activities		
	Purchase of Machinery [(7,65,000+1,35,000) - 5,00,000 - 18,360]		(3,81,640)
C	Cash Flow from Financing Activities		
	Issue of Equity Share Capital [(9,10,000 – 50,000 (Vendor) - 1,00,000 (Bonus) – 1,60,000 Conversion) – 5,00,000] Grant Received		1,00,000 18,00,000

3. (a) An equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair value of the equipment are ₹ 6,00,000. The amount will be paid in 3 installments and at the termination of lease, lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is ₹ 80,000. The (internal rate of return) IRR of the investment is 8%. The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of machinery. The present value of Re. 1 due at the end of 1st, 2nd and 3rd year at 8% rate of interest is 0.9259, 0.8573 and 0.7938 respectively.

(i) Calculate unearned finance income.

(ii) Segregate the finance income in the hands of lessor. 8

(b) A machine was acquired by ABC Ltd. 15 years ago at a cost of ₹ 20 crore. Its accumulated depreciation as at 31st March, 2018 was ₹ 16.60 crore. Depreciation estimated for the financial year 2018-19 is ₹ 1 crore. Estimated Net Selling Price of the machine as on 31st March, 2018 was ₹ 1.20 crore, which is expected to decline by 20 per cent by the end of the next financial year.

Its value in use has been computed at ₹ 1.40 crore as on 1st April, 2018, which is expected to decrease by 30 per cent by the end of the financial year. Assuming that other conditions of relevant accounting standard for applicability of the impairment are satisfied:

(i) What should be the carrying amount of this machine as at 31st March, 2019?

(ii) How much will be the amount of write off (impairment loss) for the financial year ended 31st March, 2019?

(iii) If the machine had been revalued ten years ago and the current revaluation reserves against this plant were to be ₹ 48 lakh, how would you answer to question (i) and (ii) above? 8

Answer:

3. (a) (i) Calculation of Annual Lease Payment

	₹
Cost of equipment	6,00,000
Less: PV of unguaranteed residual value for 3 years @ 8% (₹ 80,000 x 0.7938)	(63,504)
Fair value to be recovered from 3 years Annual Lease Payment	5,36,496
Annuity for 3 years @ 8% (0.9253+0.8573+0.7938)	2.577
Annual Lease Payment (₹ 5,36,496 / Annuity for 3 years @ 8%)	2,08,186

(ii) Unearned Finance Income

	₹
Total Lease payment (₹ 2,08,186 x 3)	6,24,558
Add: Residual value	80,000
Gross investment	7,04,558
Less: Present / Fair value of Investment	(6,00,000)
Unearned Finance Income	1,04,558

(iii) Segregation of Finance Income

(All figures in ₹)

Year	Lease	Finance charges @ 8% on outstanding	Repayment	Outstanding
	Rentals	amount of the year		Amount
	a	b	c	d
		(d of previous year × 8%)	a-b	(d = d of previous year - c of current year)
0				6,00,000
I	2,08,186	48,000	1,60,186	4,39,814
II	2,08,186	35,185	1,73,001	2,66,813
III	2,08,186	21,373**	1,86,813	80,000*
	6,24,558	1,04,558	5,20,000	

*This amount is unguaranteed residual value of equipment i.e. ₹ 80,000

** Difference in interest value is due to approximation.

Alternative Calculation:

Year	Net Investment in the Lease = Receivable (`)	Finance Income @ 8% on NI (`)	Total Lease Payments received from Leasee (`)	Balance Reduction in Receivable (i.e. Principal) (`)
1	**2**	**3 = 2 × 8%**	**4**	**5 = 4 – 3**
1	6,00,000	48,000	2,08,186	1,60,186
2	6,00,000 – 1,60,186 = 4,39,814	35,185	2,08,186	1,73,001
3	4,39,814 – 1,73,001 = 2,66,813	21,345	2,08,186	1,86,841
3 (end)	2,66,813 – 1,86,841 = 79,972	-	80,000(URV)	(difference is due to rounding off) Nil

(b) As per the requirements of the question, the following solution has been drawn on the basis of AS 28:

(₹ In crore)

i	Carrying amount of plant (before impairment) as on 31st March 2019	2.40
	Carrying amount of plant (after impairment) as on 31st March 2019	0.98
ii	Amount of impairment loss for the financial year ended 31st March 2019 (2.4 Cr-0.98 Cr)	1.42
iii	If the plant had been revalued 10 years ago	
	Debit to revaluation reserve	0.48
	Amount charged to Capital profit and loss (1.42-0.48)	0.94

Working Notes:

1) Calculation of closing Book Value as at 31st March 2019

	₹ in crore
Opening book value as on 01.04. 2018	3.40
Less: Depreciation for financial year 2018-2019	(1.00)
Closing book value as on 31.03. 2019 (before impairment)	2.40

2) Calculation of Estimated Net selling price on 31st March 2019

	₹ in crore
Estimated net selling price as on 1.4.2018	1.20
Less: Estimated decrease during the year (20% of ₹ 1.20 Cr.)	(0.24)
Estimated net selling price as on 31.03.2019	0.96

3) Calculation of Estimated Value in Use of Plant on 31st March 2019

	₹ in crore
Estimated value in use on 1.4.2018	1.40
Less: Estimated decrease during the year (30% of ₹ 1.40 Cr.)	(0.42)
Estimated value in use as on 31.3.2019	0.98

4) Recoverable amount as on 31.03.2019 is equal to higher of Net selling price and value in use

	₹ in crore
Net selling price	0.96
Value in use	0.98
Recoverable amount	0.98
Impairment Loss [Carrying amount - Recoverable amount i.e., (2.40 Cr - 0.98 Cr)]	1.42
Revised carrying amount on 31.03.2019 is equal to recoverable amount (after impairment)	0.98

Note: Since question requires computation of Impairment loss on 31.3.2019, hence impairment probability on 31.03.2018 has been ignored. However, since there is impairment probability at the beginning of the year as well, one may calculate the carrying amount at the beginning of the year after impairment and then calculate the impairment possibilities at the end of the year. Accordingly the solution will be as follows:

	₹ in crore
Carrying amount before impairment on 1.4.2018 (20 - 16.60)	3.40
Recoverable amount i.e., higher of NSP (1.20 cr.) and the value in use (1.40 cr.)	1.40
Impairment loss	2.00
Revised carrying amount after impairment as on 01.04.2018	1.40
Less: Depreciation for 2018-19 (as given in the question)	(1.00)
Carrying amount as on 31.03.2019	0.40
Recoverable amount as on 31.03.2019 (Refer W.N 2,3 and 4 above)	0.98
Impairment Loss as on 31.3.2019 (since carrying amount is less than recoverable amount)	NIL

4. (a) Following are the summarized Balance Sheets of Hope Ltd. and Happy Ltd. as on 31st March, 2018.

Liabilities	Hope Ltd (₹)	Happy Ltd. (₹)	Assets	Hope Ltd (₹)	Happy Ltd. (₹)
Equity Share Capital (₹ 10 each fully paid up)	**10,50,000**	**5,00,000**	**Building**	**9,25,000**	**3,00,000**
General Reserve	**8,16,900**	**2,23,300**	**Machinery**	**2,25,000**	**75,000**
Profit & Loss A/c	**1,00,000**	**1,00,000**	**Furniture**	**1,50,000**	**28,000**
Trade Payables	**3,81,000**	**1,60,000**	**Inventory**	**3,00,000**	**3,90,000**
			Trade Receivables	**4,10,000**	**1,05,000**
			Cash at Bank	**3,37,900**	**85,300**
	23,47,900	**9,83,300**		**23,47,900**	**9,83,300**

On 1st October, 2018 Hope Ltd. decided to take over Happy Ltd. No Balance Sheet was prepared on that date. For six months period form 1st April, 2018 to 30th September, 2018, Hope Ltd. and Happy Ltd. earned a profit of ₹ 3,36,000 and ₹ 1,98,000 respectively after writing off depreciation @ 15% per annum on Building and @ 10% per annum on Machinery and Furniture for both the Companies.

Hope Ltd. and Happy Ltd. paid equity dividend @ 8% on 15th July, 2018. Tax @ 10% on such payments was also paid by each of them. Goodwill of Happy Ltd. was valued at ₹ 97,320 on the date of takeover.

For the purpose of takeover:

Inventory of both the Companies would be appreciated by 12%. Trade Receivables of Hope Ltd. and Happy Ltd. would be reduced by 5% and 6% respectively. Hope Ltd. issued fully paid equity shares of ₹10 each to the shareholders' of Happy Ltd., on the basis of comparative intrinsic values of shares on the take-over date. You are required to calculate total purchase consideration and intrinsic value of share of both the Companies for the purpose of calculation of share exchange ratio. All the working are to form part of your answer. **8**

(b) What are the objectives of Ind AS 103 ? List the information an acquirer should disclose to help users of financial statement to evaluate the nature and financial effect of a business combination. 2+6=8

Answer:

4. (a) Calculation of Intrinsic value

	Hope Ltd. (₹)	Happy Ltd. (₹)
Goodwill	-	97,320
Tangible Assets (W.N. 2)	12,11,875	3,75,350
Inventory*	3,36,000	4,36,800
Trade receivables**	3,89,500	98,700
Bank Balance (W.N. 1)	6,69,625	2,66,950
	26,07,000	12,75,120
Less : Trade payables	(3,81,000)	(1,60,000)
Net Assets	22,26,000	11,15,120
Number of Shares	1,05,000	50,000
Intrinsic value	21.20	22.3024

* Including appreciation @12%

** Net of reduction @ 5% for Hope Ltd. and @ 6% for Happy Ltd.

(i) Purchase consideration = ₹11,15,120 to be paid by Hope Ltd.

(ii) No. of Shares to be issued on the basis of intrinsic value = $\frac{11,15,120}{21.20}$ = 52,600

Working Notes:

(1) Bank Balance on 30.09.2018 (before absorption)

	₹	Hope Ltd. ₹	₹	Happy Ltd. ₹
Bank Balance as on 31.3.2018		3,37,900		85,300
Add : Cash net profit				
Net profit of 6 months	3,36,000		1,98,000	
Depreciation on Building	69,375		22,500	
Depreciation on Machinery	11,250		3,750	
Depreciation on Furniture	7,500	4,24,125	1,400	2,25,650
		7,62,025		3,10,950
Less : Dividend paid		(84,000)		(40,000)
Less : Dividend distribution tax @10%		(8,400)		(4,000)
Bank Balance as on 1.10.2018		6,69,625		2,66,950

(2) Tangible Assets

		Hope Ltd.		Happy Ltd.	
		(₹)	(₹)	(₹)	(₹)
1.	Tangible Assets				
	Building	9,25,000		3,00,000	
	Less : Depreciation @ 15% for 6 months	(69,375)	8,55,625	(22,500)	2,77,500
	Machinery	2,25,000		75,000	
	Less : Depreciation @ 10% for 6 months	(11,250)	2,13,750	(3,750)	71,250
	Furniture	1,50,000		28,000	
	Less : Depreciation @ 10% for 6 months	(7,500)	1,42,500	(1,400)	26,600
			12,11,875		3,75,350

(b) (i) The objectives of Ind As 103:

- To improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.
- To accomplish that, this Ind AS103 establishes principles and requirements for how the acquirer:
  (a) Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree
  (b) Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and
  (c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

An acquirer should disclose information that enables users of financial statement to evaluate the nature and financial effect of a business combination that were affected. Pieces of information includes:

(a) the name and a description of the acquiree.
(b) the acquisition date.
(c) the percentage of voting equity interests acquired.
(d) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree.
(e) a qualitative description of the factors that make up the goodwill recognized.
(f) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as: (i) cash; (ii) other tangible or intangible assets, including a business or subsidiary of the acquirer; (iii) liabilities incurred, for example, a liability for contingent consideration; and (iv) equity interests of the acquirer,
(g) information for contingent consideration arrangements and indemnification assets.
(h) information for acquired receivables.

(i) information for each contingent liability recognised as prescribed.

(j) the total amount of goodwill that is expected to be deductible for tax purposes.

(k) The amount of the accquiree's profit and loss since the acquisition date included in acquirer's profit or loss for the period, unless impracticable. If impracticable fact must be disclosed.

5. (a) Following are the Balance Sheets of three Companies as at 31st March, 2019:

Particulars	A Limited (₹ in lakh)	B Limited (₹ in lakh)	C Limited (₹ in lakh)
I. Equity and Liabilities			
1. Shareholders' Funds			
(a) Equity Share Capital (of ₹ 10 each)	**50,000**	**15,000**	**4,500**
(b) Reserves and Surplus:			
- General Reserve	**62,000**	**6,300**	**---**
- Statement of Profit and Loss	**17,000**	**2,400**	**1,125**
2. Non-current Liabilities			
(a) 10% Debentures of ₹ 100 each	**---**	**---**	**2,250**
(b) Loan from B Limited	**---**	**---**	**150**
3. Current Liabilities			
(a) Trade Creditors	**25,200**	**5,400**	**1,395**
(b) Bills Payables	**---**	**---**	**225**
Total	**1,54,200**	**29,100**	**9,645**
II. Assets			
1. Non-current Assets			
(a) Fixed Assets:			
- Tangible Assets	**88,000**	**18,000**	**4,090**
(b) Non-current Investment (on 1st April, 2018)			
- 900 Lakh Equity Shares in B Ltd.	**13,500**	**---**	**---**
- 360 Lakh Equity Shares in C Ltd.	**3,250**	**---**	**---**
- 5 Lakh 10% Debentures in C Ltd.	**490**	**---**	**---**
(c) Long-term Loans & Advances			
- Loan to C Ltd.	**---**	**180**	**---**
2. Current Assets			
(a) Inventories	**28,500**	**6,000**	**2,270**
(b) Trade Debtors	**13,500**	**2,700**	**1,935**
(c) Bills Receivables	**390**	**150**	**---**
(d) Cash and Cash Equivalents	**6,570**	**2,070**	**1,350**
Total	**1,54,200**	**29,100**	**9,645**

Additional Information:

(i) On 1st April, 2018 B Limited showed a balance of ₹ 5,100 Lakh in General Reserve and a credit balance of ₹ 3,800 Lakh in Statement of Profit and Loss. On the same date, C Limited showed a debit balance of ₹ 540 Lakh in Statement of Profit and Loss.

(ii) All the Bills payable appearing in C Limited's Balance Sheet were accepted in favour of B Limited out of which bills amounting to ₹ 110 Lakh were endorsed by B Limited to A Limited and bills amounting to ₹ 65 Lakh had been discounted by B Limited with its Bank.

(iii) On 28th March, 2019 C Limited remitted ₹ 30 Lakh by means of a cheque to B Limited to return part of the loan, but the cheque was not received by B Limited up to 31st March, 2019.

(iv) Stock with B Limited includes goods purchased from A Limited for ₹ 260 Lakh, which was owing also on 31st March, 2019. A Limited invoiced the goods at cost plus 30 per cent.

(v) In August, 2018 B Limited declared and distributed dividend @ 20 per cent for the year ended 31st March, 2018. B Limited credited the dividend received to its Statement of Profit and Loss Account.

You are required to prepare a Consolidated Balance Sheet of A Limited and its subsidiaries B Limited and C Limited as at 31st March, 2019. **12**

(b) What are the disclosure requirements under Ind AS 112 about subsidiaries that have non-controlling interests that are material to reporting entity. **4**

Answer:

5. (a)

Consolidated Balance Sheet of A Limited and its subsidiaries B Limited and C Limited as at 31st March, 2019

Particulars	Note No.	(₹ in Lakh)
1. Equity and Liabilities		
1. Shareholders' Funds		
(a) Equity Share Capital(of ₹ 10 each)		50,000
(b) Reserves and Surplus:	1	81,002
2. Minority Interest (9480 +1125)	W.N.(iii)	10,605
3. Non-current Liabilities		
-10% Debentures of ₹100 each	2	1,750
4. Current Liabilities		
(a) Trade Creditors	2	31,735
(b) Bills Payables	2	65
Total		1,75,157

II. Assets		
1. Non-Current Assets		
Fixed Assets:	2	
-Tangible Assets		1,10,090
- Intangible Assets (Goodwill - C Ltd.)	W.N.(ii)	82
2. Current Assets		
(a) Inventories	2	36,710
(b) Trade Debtors	2	17,875
(c) Bills Receivables	2	380
(d) Cash and Cash Equivalents	2	10,020
Total		1,75,157

Notes to Accounts:

1. Reserves and Surplus

Particulars	(₹ in Lakh)
General Reserve {W.N. (iv)}	62,720
Statement of Profit and Loss {W.N. (iv)}	17,442
Capital Reserve (B Limited) {W.N. (ii)}	840
Total	81,002

2. Consolidated Balances

Particulars	Debentures (₹ in Lakh)	Trade Creditors (₹ in Lakh)	B/P (₹ in Lakh)	Tangible Fixed Assets (₹ in Lakh)	Inventories (₹ in Lakh)	Trade Debtors (₹ in Lakh)	B/R (₹ in Lakh)	Cash& Bank (₹ in Lakh)
A Limited	---	25,200	---	88,000	28,500	13,500	390	6,570
B Limited	---	5,400	---	18,000	6,000	2,700	150	2,070
C Limited	2,250	1,395	225	4,090	2,270	1,935	---	1,350
Total	2,250	31,995	225	1,10,090	36,770	18,135	540	9,990
Less: Unrealised Profit	—	--------	—	---	60	------	—	------
Less: Mutual Owings	500	260	160	-------	------	260	160	—
Add: Cheque in Transit		—	—	-------		—	—	30
Consolidated Balance	1,750	31,735	65	1,10,090	3,6710	17,875	380	10,020

Working Notes:

(i) Calculation of Pre and Post Acquisition Profits of Subsidiaries

Particulars	Total (₹ in Lakh)	Pre-acquisition Capital Profit (₹ in Lakh)	Revenue Reserves (₹ in Lakh)	Revenue Profits (₹ in Lakh)
B Limited:				
General Reserve	6,300	5,100	1,200	---
Statement of P/L (#)	2,400	800	---	1,600
Total		5,900	1,200	1,600
A Ltd.'s Share (60%)		3,540	720	960
Minority Interest (40%)		2,360	480	640
C Limited: Statement of P/L	1,125	(540)	---	1,665
A Ltd.'s Share (80%)		(432)	—	1,332
Minority Interest (20%)		(108)		333

(#) Pre-acquisition Profit of B Limited = Cr. balance of Statement of P/L on 1.4.18 - Dividend Paid = ₹ 3,800 Lakh - 20% of ₹ 15,000 = ₹ 800.

(ii) Cost of Control/ Capital Reserve

Particulars	B Limited (₹ in Lakh)		C Limit (₹ in Lakh)	
Investment in Shares		13,500		3,250
Less: Dividend Received & credited to P/L		1,800		---
Actual Cost of Investment		11,700		3,250
Less: Paid-up Share Capital	9,000		3,600	
Less : Share in Capital Profits or Add: Cap. Loss	3,540	12,540	(432)	3,168
	(Capital Reserve) 840		(Goodwill) 82	

(iii) Minority Interest

Particulars	B Limited (₹ in Lakh)	C Limited (₹ in Lakh)
Share Capital Share	6,000	900
Capital Profit or (Loss) Share	2,360	(108)
Revenue Reserve Share	480	333
Revenue Profit Share	640	
	9,480	1,125

(iv) Consolidated General and Profit & Loss Account

Particulars	B Limited (₹ in Lakh)	C Limited (₹ in Lakh)
A Limited	62,000	17,000
Less: Wrongly Dividend Credited		(1,800)
B Limited	720	960
C Limited		1,332
Less: Unrealised Profit		(60)
Add: Profit on Debentures(500 - 490)		10
Total	62,720	17,442

(v) Mutual Owing:
Regarding Bills = 225 - 65 = ₹ 160 Lakh; and
Regarding Debtors & Creditors (Inter-company sale) = ₹ 260 Lakh

(vi) Unrealised Profit = 260 x 30/130 = ₹ 60 Lakh

(vii) Dividend from M Ltd. wrongly credited to Statement of P/L = 20% of ₹ 9,000 Lakh = ₹ 1,800 Lakh.

(b) An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity, the following —

(a) the name of the subsidiary.
(b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.
(c) the proportion of ownership interests held by non-controlling interests.
(d) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.
(e) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.
(f) accumulated non-controlling interests of the subsidiary at the end of the reporting period.
(g) summarised financial information about the subsidiary.

6. (a) (i) Write a brief note on initial measurement of financial asset or financial liability under Ind AS 109. 2

(ii) A Company has its share capital divided into shares of ₹ 10 each. On 1st April, 2017 it granted 10000 employees' stock options (ESOP) at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 16th December, 2017 and 15th March, 2018. The employees exercised their options for 9500 shares only; the remaining options lapsed. The Company closes its books on 31st March every year. Show Journal entries up to the year ended 31.03.2018. 6

(b) From the following information, calculate the Fair Value of an Equity Share:

(i) 400000 Equity Shares of ₹ 10 each (paid up ₹ 8 each).

(ii) 700000 Equity Shares of ₹ 5 each fully called up (Call-in arrears @ ₹ 2 on 200000 shares).

(iii) 10000, 9% Preference Shares of ₹ 100 each fully paid up.

(iv) Reserves and Surplus ₹ 73,76,000.

(v) Tangible Fixed Assets ₹ 3,00,000. 50% of total Tangible Fixed Assets are found undervalued by 50% of market value and 50% of remaining are found overvalued by 50% of market value. 10% Investments: [Face value ₹ 80,000] ₹ 1,00,000. Of the Investments 10% is trade and the balance non-trade. All trade Investments are to be valued at 10% below cost.

(vi) External Liabilities ₹ 10,00,000.

(vii) Expected Future Maintainable Profits before tax ₹ 25,59,000.

(viii) Rate of Tax-30% (Ignore Corporate Dividend Tax).

(ix) Normal Rate of Earnings-9%. **8**

Answer:

6. (a) (i) An entity shall recognise a financial asset or financial liability in its Balance sheet when and only when, the entity becomes party to the contractual provisions of the instrument. For example, unconditional receivables and payables are recognised as assets or liabilities when the entity becomes party to the contract, and as a consequence has a legal right to receive or legal obligation to pay.

Alternative Answer:

Except for trade receivables, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

(ii)

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
2017 April, 1	Employee Compensation Expense A/c	Dr.	9,00,000	
	To Employee Stock Option Outstanding A/c			9,00,000
	(Being grant of 10,000 stock options to employees at ₹ 40 when market price is ₹ 130)			
Dec, 16 to 15-Mar-18	Bank A/c	Dr.	3,80,000	
	Employee Stock Option Outstanding A/c	Dr.	8,55,000	
	To Share Capital A/c			95,000
	To Securities Premium			11,40,000
	(Being allotment to employees of 9,500 equity shares of ₹ 10 each at a premium of ₹ 120 per share in exercise of stock options by employees)			

2018 Mar, 16	Employee Stock Option Outstanding A/c To Employee Compensation Expense A/c (Being entry for lapse of stock options for 500 shares)	Dr.	45,000	 45,000
	Profit & Loss A/c To Employee Compensation Expense A/c (Being Employees Stock Options expenses transferred)	Dr.	8,55,000	 8,55,000

Fair Value of an Equity Share = (Net Assets Value + Earning Yield Based Value)/2

Step 1: Net Assets available for Equity Shareholders		₹ in lacs
A. Paid up Equity Share Capital [₹ 32 lacs + ₹ 31 lacs]		63
B. Notional Uncalled Call		8
Notional Unpaid Call		4
C. Reserves & Surplus		73.76
D. Net Profit on Revaluation of Assets & Liabilities		
Increase in Value of Tangible Fixed Assets [3,00,000×50%×100%] Decrease in Value of Tangible Fixed Assets [3,00,000×50%×50%×1/3] Decrease in Value of Trade Investments [1,00,000×10%×10%]	1,50,000 (25,000) (1,000)	 1.24
E. Net Assets for Equity Shareholders		150
Step 2: Total Equivalent No. of Equity Shares of ₹ 10 each [4,00,000 (of ₹ 10 each) + 3,50,000 (of ₹ 5 each)]		7.50

Step 3: Value of an Equivalent Equity Share of ₹ 10 each
= Net Assets for Equity Shareholders/Total Equivalent No. of Equity Shares of ₹ 10 each
= 150/7.50 = ₹ 20

Step 4: Value of an Equity Share (₹ 8 paid up) = ₹ 20 – ₹ 2 = ₹ 18
Value of an Equity Share (₹ 5 paid up) = ₹ 20 × 5/10 = ₹ 10
Value of an Equity Share (₹ 3 paid up) = ₹10 – ₹ 2 = ₹ 8

EARNING YIELD BASED VALUE

Step 1: Expected FMP for Equity Shareholders	₹ (in lacs)
A. Expected Future Maintainable Profits before tax	25.59
B. Less: Tax @ 30%	(7.677)
C. Expected FMP after tax (A-B)	17.913
D. Less: Preference Dividend @ 9%	(0.90)
E. Expected FMP for Equity Shareholders	17.013
Step 2: Total Paid up Value of all Equity shares [₹ 32 lacs + ₹ 31 lacs]	63 lacs

Step 3: Average Rate of Earning = ₹ 17.013/₹ 63 lacs ×100 = 27%

Step 4: Value of an Equity Share

= (Average Rate of Earning/ Normal Rate of Return) × Paid up Value of an Equity Share

Value of an equity share (₹ 8 paid up) = 27/9 × ₹ 8 = 24

Value of an equity share (₹ 5 paid up) = 27/9 x ₹ 5 = 15

Value of an equity share (₹ 3 paid up) = 27/9 x ₹ 3 = 9

Step 5: Fair Value of an Equity Share = (Net Assets Value + Yield Based Value)/2

Fair Value of an Equity Share (₹ 8 paid up) = (₹ 18 + ₹ 24)/2 = ₹ 21

Fair Value of an Equity Share (₹ 5 paid up) = (₹10 + ₹15)/2 = ₹ 12.50

Fair Value of an Equity Share (₹ 3 paid up) = (₹ 8 + ₹ 9)/2 = ₹ 8.50

7. (a) State the process of Election of Members of Public Accounts Committee. 8

(b) Write a short note on Government Accounting Standards issued by Government Accounting Standards Advisory Board (GASAB). 8

Answer:

7. (a) (1) 15 Members of Lok Sabha: In April each year a motion is moved in Lok Sabha by the Minister of Parliamentary Affairs or Chairman of the Committee, if in office, calling upon members of the House to elect from amongst themselves 15 members to the Public Accounts Committee. After the motion is adopted, a programme, fixing the dates for filing the nominations/withdrawal of candidatures and the election, if necessary, is notified in Lok Sabha Bulletin Part-II. On receipt of nominations, a list of persons who have filed nomination papers is put up on the Notice Boards. In case the number of members nominated is equal to the number of members to be elected, then, after expiry of time for withdrawal of candidatures, the members nominated are declared elected and the result published in Bulletin Part-II. If the number of members nominated after withdrawals is more than number of members to be elected, election is held on the stipulated date and result of election published in Bulletin Part-II.

(2) 7 Members of Rajya Sabha: Another motion is moved in Lok Sabha recommending to Rajya Sabha to nominate seven members of that House for being associated with the Committee. After adoption, the motion is transmitted to Rajya Sabha through a Message. Rajya Sabha holds election of members to the Committee and the names of members elected are communicated to Lok Sabha.

(3) Appointment of Chairman: The Chairman of the Committee is appointed by the Speaker from amongst the members of Lok Sabha elected to the Committee. As a convention, starting from the Public Accounts Committee of 1967-68, a member of the Committee belonging to the main opposition party/group in the House is appointed as the Chairman of the Committee.

(4) Minister not to be Member of Committee: A Minister is not eligible to be elected as a member of the Committee and if a member, after his election to the Committee, is appointed as a Minister, he ceases to be a member of the Committee from the date of such appointment.

(5) Term of Office: The term of office of the members of the Committee is one year.

(6) Association of Members with Government Committees: A member, on his election to the Committee, has to communicate to the office of the Committee, the particulars regarding the various Committees appointed by Government with which he is associated, for being placed before the Speaker. Where the Speaker considers it inappropriate that a member should continue to serve on the Government Committee, the member is required to resign membership of the Committee constituted by Government. Where the Speaker permits a member to continue to hold membership of Government Committee, he may require that the report of the Government Committee shall be placed before the Committee on Public Accounts for such comments as the latter Committee may deem fit to make, before it is presented to Government. Whenever the Chairman or any member of the Committee on Public Accounts is invited to accept membership of any Committee constituted by Government, the matter is likewise to be placed before the Speaker before the appointment is accepted.

(b) Government Accounting Standards Advisory Board (GASAB) has been constituted by Comptroller and Auditor General of India (CAG), with the support of Government of India through a notification dated 12th August, 2002.

The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending instead of just identifying resources for public scheme funding.

GASAB, as a nodal advisory body in India, is taking similar action to establish and improve standards of government accounting and financial reporting and enhance accountability mechanisms.

The mission of the Government Accounting Standards Advisory Board (GASAB) is to formulate and recommend Indian Government Accounting Standards (IGASs) for cash system of accounting and Indian Government Financial Reporting Standards (IGFRS) for accrual system of accounting, with a view to improving standards of Governmental accounting and financial reporting which will enhance the quality of decision-making and public accountability.

GASAB has been developing two types of Accounting Standards, namely Indian Government Accounting Standards (IGAS) and Indian Government Financial Reporting Standards (IGFRS) for the Government. These standards have been developed to address the issues related with the existing cash system of accounting and its migration to the accrual system of accounting in future.

The standards being developed to make existing cash system of accounting more transparent are called Indian Government Accounting Standards (IGAS).The Indian Government Accounting Standards (IGAS), formulated by the Government Accounting Standards Advisory Board (GASAB) and notified by the Ministry of Finance, Government of India are:

- Guarantees given by Governments: Disclosure Requirements (IGAS 1);
- Accounting and Classification of Grants-in-aid (IGAS 2)
- Loans and Advances made by Governments (IGAS 3)

The Indian Government Accounting Standards (IGAS), approved by the Government Accounting Standards Advisory Board (GASAB) and under consideration of Government of India, are:

- Foreign Currency Transactions and Loss/Gain by Exchange Rate Variations (IGAS 7);
- Government Investments in Equity (IGAS 9);

Public Debt and Other Liabilities of Governments: Disclosure Requirement (IGAS 10).

There are IGFRS also. The standards being developed for accrual system of accounting in the Government are called the Indian Government Financial Reporting Standards (IGFRS). These are approved by the Government Accounting Standards Advisory Board (GASAB).

8. Write short notes on any four of the following: 4x4=16

(a) Corporate Social Responsibility Reporting
(b) Myth about XBRL reporting
(c) Fair value hierarchy as per Ind AS 113
(d) Meaning and Advantages of Triple Bottom Line Reporting (TBL)
(e) Derivative and an Embedded Derivative as per Ind AS 109

Answer:

8. (a) Annual report on CSR activities to be included in the Board's Report

1. A brief outline of the company's CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs.
2. The Composition of the CSR Committee.
3. Average net profit of the company for last three financial years
4. Prescribed CSR Expenditure (2% of the Average net profit)
5. Details of CSR spent during the financial year.
   (a) Total amount to be spent for the financial year;
   (b) Amount unspent, if any;
   (c) Manner in which the amount spent during the financial year is detailed below.

6. In case the company has failed to spend the 2% of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report.
7. A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company.
8. CSR Report is required to be duly signed by:
   (i) Chief Executive Officer or Managing Director or Director
   (ii) Chairman CSR Committee
   (iii) Person specified u/s 380 (1) (d) (wherever applicable)

(b) There are certain myths regarding XBRL. In the following section, certain myths regarding XBRL are clarified. In other words, it is discussed what XBRL is not:

i. XBRL is not a set of Accounting Standards: It needs to be clearly understood that XBRL does not represent a set of accounting standards content will reside and be represented.
ii. XBRL is not a chart of accounts: It is not a detailed universal chart of accounts. Formulation of a company's chart of accounts is an exercise conducted by its management with regard to its specific business intricacies. XBRL can facilitate the implementation of such structures through its ability to transport data between disparate software applications that might be used within an organizations operational structure.
iii. XBRL is not a GAAP translator: it does not provide a mechanism for facilitating a drilldown of existing GAAP information into lower level information that would be necessary for translating financial statement from one GAAP to another. The business-reporting documents contain the same GAAP information, be it in an XBRL format or an MS word or PDF format.
iv. XBRL is not a proprietary technology: XBRL is freely licensed and available to the public.
v. XBRL is not a Transaction Protocol: XBRL deals with business reporting information, not with data capture at the transaction level. It is designated to address issues related to generation and usage of information contained within business reports and begin at the accounting classification level.

(c) Fair value hierarchy as per Ind AS 113

Ind As 113 establishes a fair value hierarchy into three levels of the inputs to valuation techniques for measuring fair value.

- Level 1- Based on quoted prices(unadjusted) for identical asset or liabilities that is traded in a currently active market.
- Level 2- Other than included within Level 1 that are observable for the asset or liabilities either directly or indirectly.
- Level 3- Unobservable inputs for asset or liabilities

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical asset or liabilities (Level 1 inputs) and the lowest priority unobservable inputs (Level 3 inputs).

(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. establish position as a preferred supplier
6. reduced risk profile
7. identification of potential cost savings
8. increased scope for innovation
9. aligning stakeholder needs with management focus, and
10. creation of sound basis for stakeholder dialogue

(e) (i) A Derivative is a Financial Instrument or other contract with the following all three characteristics:

(a) Change in Value: Its Value changes in response to the change in a specified Interest Rate, Financial Instrument Price, Commodity Price, Foreign Exchange Rate, Index of Prices or Rates, Credit Rating or Credit Index, or other Variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

(b) No /Smaller Initial Net Investment: It requires No Initial Net Investment or an initial net investment that is Smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(c) Settlement at a Future Date: It is settled at a Future Date.

(ii) An Embedded Derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a standalone derivative.

Note: A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.