PAPER – 18 : CORPORATE FINANCIAL REPORTING
SUGGESTED ANSWERS
SECTION – A

1.
(i) (D)
(ii) (D)
(iii) (D)
(iv) (A)
(v) (D)
(vi) (A)
(vii) (D)
(viii) (C)
(ix) (C)
(x) (D)
(xi) (A)
(xii) (B)
(xiii) (D)
(xiv) (A)
(xv) (A)

SECTION - B

2. (a)

Allocation of the Consideration to the Lease component and non-lease components

X Ltd. identifies that the contract contains the lease component of premises and non-lease component of facilities to be availed of. Because X Ltd. has not elected to apply the practical expedient in paragraph 15 of Ind AS 116, it will separate the lease component and non-lease component and shall allocate the total consideration of ₹ 3,40,000 to the lease component and non-lease component in the ratio of their relative stand-alone selling prices as under:

Particulars	Stand-alone prices (₹)	% of total stand-alone price	Allocation of consideration
Building rent	2,40,000	60%	2,04,000
Service charges	1,60,000	40%	1,36,000
Total	4,00,000	100%	3,40,000

Statement showing Computation of the lease liability at the commencement date

Year	Lease payment (₹)	Present value factor @ 10% p.a.	Present value (₹)
Year 1	2,04,000	.909	1,85,436
Year 2	2,04,000	.826	1,68,504
Year 3	2,04,000	.751	1,53,204
Year 4	2,04,000	.683	1,39,332
Year 5	2,04,000	.621	1,26,684
Year 6	2,04,000	.564	1,15,056
Year 7	2,04,000	.513	1,04,652
Year 8	2,04,000	.467	95,268
Year 9	2,04,000	.424	86,496
Lease liability at the commencement date			11,74,632

2. (b)

(i) **The amount chargeable as expense:**

Research phase expenses of ₹ 16 lakh in 2019-20 and ₹ 20 lakh in 2020-21 should be charged to the Statement of Profit and Loss for the respective financial years.

(ii) **The amount to be capitalized as an intangible asset up to 31.04.2024:**

Development phase expenses from 2021-22 to 2023-24 should be capitalized at the end of each year. Since amortization will start after the asset is implemented on 01.04.2024, total expense to be capitalized till 31.03.2024 = ₹ 212 Crore. (Carrying amount of intangibles as on 31.03.2024)

(iii) **Impairment loss to be recognized for 2023-24:**

Now, Recoverable amount = higher of value in use (or NPV) and fair value less cost of disposal.

Here, value in use (or NPV) = PV of future cash flows and cost savings

= ₹ 197.08 Crore.

Fair value less cost of disposal = ₹ 190 Crore

So, recoverable amount = ₹ 197.08 lakh (higher of value in use and fair value less cost of disposal)

Since carrying amount is higher than the recoverable amount, the asset is impaired.

Impairment loss = ₹ 14.92 Crore which is to be charged to the Statement of Profit and Loss for the financial year 2023-24.

(iv) **The Final carrying amount of intangible assets on 31.04.2024 after charging impairment loss:**

Carrying amount of the intangible (after impairment) on 31.03.2024 = ₹ 197.08 Crore.

3. (a)

(i) **Fair value of the machinery if market X is the principal market**

If market X is the principal market for the machinery (i.e., the market with the greatest volume and level of activity for the machinery), the fair value of the machinery would be measured using the price that would be received in that market, after considering the transport costs.

Computation of fair value of the machinery in Market X

Particulars	₹
Price receivable	26,000
Transportation costs	2,000
Fair value of the machinery	24,000

(ii) **Fair value of the machinery if neither of the markets is the principal market**

If neither of the markets is the principal market, the fair value of the machinery would be measured using the price in the most advantageous market. The most advantageous market for the machinery would be the market that would maximize the amount to be received to sell the machinery, after considering the transaction costs and transport costs (i.e., the net amount that would be received).

Computation of the net amount to be received from the sale of the machinery

Particulars	Market X (₹)	Market Y (₹)
Price receivable	26,000	25,000
Transaction costs	3,000	1,000
Transport costs	2,000	2,000
Fair value of the machinery	21,000	22,000

Since Ram Ltd. would maximize the amount that would be received to sell the machinery in market Y, the fair value of the machinery would be measured using the price in the market Y as under:

Computation of fair value of the machinery

Particulars	₹
Price receivable	25,000
Transport costs	2,000
Fair value of the machinery	23,000

3. (b)

(i) Value of goodwill using Three years' purchase of super profit = ₹ 48,000

(ii) Value of each fully paid equity share under asset backing method = ₹ 11.45 (approx.)

Alternatively:

(i) Value of goodwill using 3 years' purchase of super profit =₹ 57,000

(ii) Value of each fully paid equity share under asset backing method = ₹ 11.52 (approx.)

4. (a)

Calculation of the amount at which BEAS Ltd. would recognize the loan

Particulars	₹ in crore
Gross amount of loan received from SINDHU Ltd. in the beginning of year 1	20
Origination fee paid to SINDHU Ltd. in the beginning of year 1	2.3954
The amount at which loan would be recognized	17.6046

Annual interest income to be recognized by SINDHU Ltd.

Year	Amortized Cost (Opening Balance)	Interest income @ 8% to be recognized	Total	Payment received	Amortized cost (closing Balance)
1	17,60,46,000	1,40,83,680	19,01,29,680	1,00,00,000	18,01,29,680
2	18,01,29,680	1,44,10,374	19,45,40,054	1,00,00,000	18,45,40,054
3	18,45,40,054	1,47,63,204	19,93,03,258	1,00,00,000	18,93,03,258
4	18,93,03,258	1,51,44,261	20,44,47,519	1,00,00,000	19,44,47,519
5	19,44,47,519	1,55,52,481	21,00,00,000	21,00,00,000	NIL

4. (b)

Journal entries in the books of MEGHNA Ltd.

Particulars		(Debit) ₹	(Credit) ₹
8% Preference Share Capital A/c	Dr.	2,50,000	
To 8% Preference Share Capital A/c			62,500
To Capital Reduction A/c			1,87,500
Equity Share Capital A/c	Dr.	5,00,000	
To Equity Share Capital A/c			1,00,000
To Capital Reduction A/c			4,00,000
Preference Share Capital A/c	Dr.	62,500	
To Preference share Capital A/c			62,500
Equity Share Capital A/c	Dr.	1,00,000	
To Equity Share Capital A/c			1,00,000
Freehold Property	Dr.	50,000	
To Capital Reduction A./c			50,000
8% Debentures A/c	Dr.	2,50,000	
To Freehold Property			2,50,000
Freehold Property	Dr.	4,00,000	
To Capital Reduction A./c			4,00,000

Director's Loan A/c To Capital Reduction A/c	Dr.	3,00,000	 3,00,000
Capital Reduction A/c To Loans & Advances To Profit and Loss A/c To Provision for Doubtful Debts A/c To Inventories To Goodwill A/c To Trademark To Capital Reserve A/c	Dr.	13,37,500	 25,000 10,00,000 12,500 50,000 1,00,000 50,000 1,00,000

5 .

(a) Determination of the date of acquisition for M Ltd.

The date of which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. In the given case, the acquisition date is 1st April, 2024 i.e., the date on which M Ltd. acquires 100% holdings of N Ltd.

(b) Computation of the gain on previously held interest and the accounting treatment to be adopted on the acquisition date

An entity shall discontinue the use of equity method from the date when its investment ceases to be an associate or joint venture. If the investment in an associate becomes an investment in a subsidiary, the entity shall account for its investment as per Ind AS 103 and Ind AS 110.

Ind AS 103 provides that in a business combination achieved in stages, the acquirer is required to remeasure its previously held equity interest at its acquisition date fair value and recognize any gain or loss in profit or loss, or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

Gain on previously held interest = ₹ 150 crore

(c) Goodwill arising on acquisition of N Ltd. ₹ 4,000 crore

(d) Journal entry on the date of acquisition i.e., on 1st April, 2024

Date	Particulars	L.F.	Dr. (₹ in crore)	Cr. (₹ in crore)
	Net Identifiable Assets Dr. Goodwill Dr. Foreign Currency Translation Reserve Dr. PPE Revaluation Reserve Dr. To Cash To Investment in Associate-N Ltd. To Retained Earnings To Gain on previously held interest recognized in Profit or Loss		30,000 4,000 100 50	 25,000 8,850 50 250

6.

Preparation of Consolidated Balance Sheet

Consolidated Balance Sheet of H Ltd. and its Subsidiary as on 31.03.2024

Particulars	**Amount (₹ in lakh))**
Assets	
Non-current Assets	
PPE	21,070
Goodwill	150
Current Assets	
Inventories	4,580
Trade Receivables – Sundry debtors	5,840
Dividend receivable	---
Cash and cash equivalent	40
Total	31,680
Equity and Liabilities	
Equity	
Share Capital	10,000
Other Equity (Retained Earnings)	18,036
NCI	1,884
Non-current Liabilities	--
Current Liabilities	
Trade Payables – Sundry creditors	1,680
Dividend Payable	80
Total	31,680

7. (a)

Computation of Economic value Added (EVA)

Particulars	**₹ in crore**
Net operating profit after tax (NOPAT)	352.80
Cost of operating capital employed	204.05
Economic Value Added (EVA)	148.75

7. (b)

As per rule 8 of the Companies (CSR Policy) Rules, 2014, the CSR reporting requirements are as under:

(i) The Board's report of a company covered under these rules pertaining to any financial year shall include an annual report on CSR containing particulars specified in annexure I or annexure II, as applicable.

(ii) In case of a foreign company, the balance sheet of the company filed under section 381(1)(b) of the Act shall contain an annual report on CSR containing particulars specified in annexure I or annexure II, as applicable.

(iii) (a) Every company having an average CSR obligation of ₹ 10 crore or more as per section 135(5) of the Companies Act, in the three immediately preceding financial years shall undertake impact assessment, through an independent agency, of their CSR projects having outlays of ₹ 1 crore or more and has been completed not less than 1 year before undertaking the study.

(b) The impact assessment report shall be placed before the Board and shall be annexed to the annual report on CSR.

(c) A company undertaking the impact assessment may book the expenditure towards CSR for that financial year which shall not exceed 2% of the total CSR expenditure for that financial year or ₹ 50 lakhs whichever is higher.

8. (a)

Meaning:

Public Accounts Committee is a committee of the selected members of Parliament of India, constituted by the Parliament of India.

Objectives:

The purpose of the Public Accounts Committee is to examine and ensure that the appropriated money is spent economically, judiciously and for the purpose for which it was sanctioned. Its other objectives are to examine the accounts of the government, to examine the reports of the accounts of the government submitted by the CAG of India etc. Thus, its basic objective is to ensure Parliamentary control over the government expenditure.

Constitution:

The Public Accounts Committee consists of not more than 22 members comprising 15 members elected by Lok Sabah every year from amongst its members according to the principle of proportional representation by means of a single transferrable vote and not more than 7 members of Rajya Sabha elected by that House in the like manner. Thus, the present committee is a joint committee of the two Houses. The Chairman is appointed by the Speaker of Lok Sabha from amongst the members of Lok Sabha. The Chairman of the Committee is selected from the opposition. Any Minister cannot become a member of this committee. If a member of the Committee becomes a Minister, he/she ceases to be the member of this committee.

8. (b)

Introduction of GASAB

The Government Accounting Standards Advisory Board (GASAB) was constituted by the Comptroller and Auditor General of India (C&AG) with the support of Government of India through a notification dated August 12, 2002. The Board was constituted to establish and improve the standards of governmental accounting and financial reporting and enhance the accountability mechanisms. The decision to set-up GASAB was taken in the backdrop of new priorities emerging in the Public Finance Management and to keep pace with international trends. The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending.

Structure of GASAB

An analysis of the structure of GASAB reveals that the Board has high level representation from the important accounting heads in Government, Ministry of Finance, Department of Post, Finance Secretaries of states, RBI and heads of premier accounting & research organizations. The Board consists of the following members:

1. Deputy Comptroller and Auditor General (Government Accounts) as Chairperson
2. Financial Commissioner, Railways
3. Member (Finance) Telecom Commission, Department of Telecom
4. Secretary. Department of Post
5. Controller General of Defence Accounts
6. Controller General of Accounts
7. Additional / Joint Secretary (Budget), Ministry of Finance, Government of India
8. Deputy Governor, Reserve Bank of India, or his nominee

9-12. Principal Secretary (Finance) of four States, by rotation

13. Director General, National Council of Applied Economic Research (NCAER), New Delhi
14. President, Institute of Chartered Accountants of India (ICAI), or his nominee
15. President, Institute of Cost and Works Accountants of India, or his nominee
16. Principal Director in GASAB, as Member secretary.

8. (c)

(All figures are in lakhs)

NCI on the date of acquisition = ₹ 6,500

Goodwill on the date of acquisition = ₹ 7,700

Impairment loss to be shared by H Ltd. and NCI

Share of impairment loss (H Ltd.) = ₹ 1,180

Share of impairment loss (NCI) = ₹ 360