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.

Answer Question No. 1 and 8 are compulsory; Answer any four from Question No. 2, 3, 4, 5, 6 & 7.

SECTION - A

1. (a) Choose the correct alternative. Provide justification in each case. 1 mark is allotted for correct selection and 1 mark for the justification.: [10 × 2 = 20]

(i) A Company showed a net profit of ₹ 7,20,000 for the 3rd quarter of the year 2018 – 19 after incorporating the following:

(a) Bad Debts of ₹ 40,000 incurred during the quarter. 50% of the Bad Debts have been deferred to the next quarter.

(b) Extra Ordinary loss of ₹ 35,000 incurred during the quarter has been fully recognized in the quarter. Correct Quarterly Income as per applicable Ind AS will be

a. ₹ 6,80,000

b. ₹ 7,00,000

c. ₹ 6,35,000

d. None of the above

(ii) In a conglomerate merger of two companies into a new company, the merging companies operate ____________. Provide justification for your selection.

a. in related markets having similar products lines.

b. in unrelated markets having no functional economic relationship.

c. in related markets and merging companies are complimentary to each other.

d. in two countries and one of them use the product of the others as raw materials.

(iii) Details for an Asset are as under: Cost of Assets ₹ 60 lakhs, Useful life period 10 years, Salvage value ₹ 4 lakhs, Useful Life remaining 3 years. Upward revision done in last year by 50%. Current value in use is ₹ 12 lakhs, Current selling price ₹ 11 lakhs, Current disposal cost ₹ 1 lakh. Impairment Loss to be charged to Profit and Loss Account as per applicable Ind AS would be

a. ₹ 18.7 lakhs

b. ₹ 13.2 lakhs
c. ₹ 5.5 lakhs
d. None of the above

(iv) Which of the following is not a feature of Government Accounting? Why?
a. Reporting utilization of public funds
b. Double Entry System
c. Non-fund-based accounting
d. Both (A) and (B)

(v) Cee Ltd. acquired a 60% interest in Jee Ltd. on January 1, 2021. 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 12.03.2022 of USD 1,00,000	78.60
Exchange rate as on 31.03.2022	79.00
Date of actual payment is 12.04.2022	79.50

What will be the gain/loss to be booked in the financial year 2021-22?
a. ₹ 90,000 (loss)
b. ₹ 40,000 (loss)
c. ₹ 1,30,000 (loss)
d. None of the above

(vii) Which of the following is/ are a financial asset (s)? Why?
a. Cash
b. an equity instrument of another entity
c. a contractual right
d. All of the above

(viii) Which of the following criteria is not used in the context of ESG? Why?
a. Environmental test criterion
b. Social test criterion
c. Governance test criterion
d. Competitive test criterion

(ix) As per Ind AS 103, accounting and reporting for business combination transactions is done under ______. Provide justification for your answer.

a. Acquisition Method
b. Purchase method
c. Pooling of interest method
d. None of the above

(x) Net Profits of J Ltd. for the years 2020-2021,2019-2020,2018-2019,2017-2018,2016-2017 are ₹ 25 crore, ₹ 20 crore, ₹ 15 crore, ₹ 10 crore and ₹ 5 crore respectively. During 2020-2021, the company incurred ₹ 7,00,000 and ₹ 3,00,000 on free education and medical treatment of the employees of the company and their families respectively under CSR projects. Calculate the short fall of expenditure on Corporate Social Responsibility as per The Companies Act,2013.

a. ₹ 23,00,000
b. ₹ 20,00,000
c. ₹ 30,00,000
d. None of these

SECTION – B

2. (a) (i) P Ltd. began construction of a new factory on 01.04.2021 and obtained a special loan of ₹ 8 lakhs to finance the construction. The rate of interest on loan was 10% p.a. The expenditure incurred on the construction were:

	₹
01.04.2021	5,00,000
01.08.2021	12,00,000
01.01.2022	2,00,000

P Ltd.'s other outstanding non-specific loan was ₹23 lakhs at an interest rate of 12% p.a. The construction of the plant was completed on 31.03.2022. Advise on the total expenses (including interest) to be capitalised as per the provision of Ind AS 23.

(ii) "Change in the depreciation method for an item of property, plant and equipment is a change in accounting estimate and not a change in accounting policy". Do you agree? Critically assess the given statement as per the provisions of applicable Ind AS.

(b) Define business combination under common control. Briefly explain the concept of reverse acquisition. **[(6 + 4) + (3 + 3) = 16]**

3. (a) C Ltd. has acquired 100% of the equity of W Ltd. on March 31, 2021. The purchase consideration comprises of an immediate payment of ₹15 lakhs and two further payments of ₹3.63 lakhs if the Return on Equity exceeds 18% in each of the subsequent two financial years. A discount rate of 10% is used. Analyse the above information in the light of Ind AS 103 to determine the value of total consideration at the acquisition date.

(b) M Ltd. and N Ltd. were amalgamated to form a new company MN Ltd. on 31.03.2021 who issued requisite number of equity shares of ₹10 to take over the businesses of M Ltd. and N Ltd. The abstract of balance sheets of the companies on 31.03.2021:

(₹ in Lakhs)

Particulars	M Ltd.	N Ltd.
PPE	15,000	16,000
Financial Assets	1,600	1,000
Current Assets	9,400	13,000
Equity Share Capital	12,000	20,000
Other Equity	6,000	2,000
Borrowings	4,000	6,000
Current Liabilities	4,000	2,000

Fair value of the following items is given:

(₹ in Lakhs)

Particulars	M Ltd.	N Ltd.
PPE	16,000	12,000
Current Assets	10,000	14,000
Fair Value of Business	15,000	30,000

However, the control of MN Ltd. is taken by the management team of erstwhile N Ltd.

Prepare the balance sheet of MN Ltd. after merger. Workings should form part of your answer. **[4 + 12 = 16]**

4. (a) (i) An enterprise operates through eight segments, namely, A, B, C, D, E, F, G and H. The relevant information about these segments is given in the following table (amounts in ₹'000):

	A	B	C	D	E	F	G	H	Total
1. Segment Revenue									
(a) External Sales	-	1326	74	50	26	250	100	174	2000
(b) Inter Segment Sales	500	300	150	26	-	-	24	-	1000
2. Segment Results Profit/ (Loss)	30	(540)	90	(30)	48	(30)	30	42	
3. Segment Assets	30	10	10	120	6	10	10	4	200

Assume that the management has not identified any segment to be reportable as per their discretion. Analyse the above information in light of Ind AS 108 to determine the reportable segments.

(ii) Q Ltd. has an identifiable asset with a carrying amount of ₹6,00,000. its recoverable amount is ₹3,90,000. The tax base of the asset is ₹4,80,000 and the applicable tax rate is 30%. Impairment losses are not tax deductible. Q Ltd. expects to continue earning profits in future. For the given identifiable asset, calculate the deferred tax asset/ liability for the period as per the provisions of Ind AS 12.

(b) A Ltd. acquires 70% of B Ltd. for ₹12,60,000 and issued equity shares at ₹12 per share (including ₹2 as premium). Fair value of B Ltd.'s identifiable net assets amount to ₹14,40,000. Analyse the above information in the light of the provisions of Ind AS 103 and 110, to determine values of NCI and Goodwill/Gain on bargain purchase and show the treatments in the books of A Ltd. Assume that A Ltd. measures NCI at fair value. Present your answer in the form of a Notes to Annual Accounts. **[(6 + 4) + 6 = 16]**

5. (a) Following balances as on 31st March, 2017, are obtained from the account books of G Ltd.:

	₹ in Lakhs
200 Lakhs Equity Shares of ₹ 10 each	2,000
10 Lakhs, 10% Preference Shares of ₹ 100 each	1,000
General Reserve	1,600
Profit and Loss Account	1,400
12% Debentures	1,000
Creditors	800
Goodwill	1,000
Land and Buildings	2,500
Plant and Machinery	1,500
Investment in 10% Stock	480
Stock-in-trade	1,600
Debtors	400
Cash and Bank	220
Preliminary expenses	100

Additional information is given below:

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

(ii) Following assets are revalued:

	₹ in Lakhs
Land and Building	3200
Plant and Machinery	1800
Stock-in-trade	1450
Debtors	360

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

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

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

Suggest the appropriate value of goodwill to be determined by the company.

(b) Discuss the accounting guidelines to be followed by NBFCs with respect to recognition of income? **[8 + 8 = 16]**

6. R Ltd. acquires 60% shares in S Ltd. on 01.10. 2020 at ₹ 30,000. S Ltd. makes profits ₹20,000 in the year 2020-21 and declared dividend ₹9000. NCI is valued at proportionate net assets. Abstracts of Separate Balance Sheet of R Ltd. (Dividend from subsidiary not accounted) and Individual Balance Sheet of S Ltd. as at 31-03- 2021 are as follows:

(₹ lakhs)

	R Ltd.	S Ltd.
PPE	50,000	30,000
Investment in shares of S at cost	30,000	
Current Assets	20,000	28,000
	1,00,000	58,000
Equity Share Capital (₹10)	60,000	25,000
Other Equity	25,000	15,000
Current Liabilities		
Trade Payables	15,000	9,000
Dividend Payable		9,000
	1,00,000	58,000

Show Consolidated Balance Sheet and Separate Balance Sheet of R Ltd. **[16]**

7. (a) What do you mean by ESG reporting? Discuss its importance.

(b) Compare and contrast Government Accounting and Commercial Accounting.

[(2 + 6) + 8 = 16]

SECTION – C

8. T Ltd. is in negotiation with P Ltd. to acquire its business. For this purpose, it has been decided that the purchase consideration will be discharged by issuing equity shares of T Ltd. to the shareholders of P Ltd. The exchange ratio is to be determined based on the intrinsic value of shares of the two companies calculated under net asset backing method.

Following is the extracted Balance Sheet of P Ltd. as at 31st March, 2021:

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital (₹ 10)	10,00,000	Plant & Machinery	12,30,000
8%, Preference Share Capital (₹ 100)	4,00,000	Goodwill at cost	1,00,000
		Investments (at face value)	2,00,000
General Reserve	3,60,000	Stock	4,20,000
Balance of Profit & Loss	2,50,000	Sundry Debtors	1,00,000
Short- term bank loan	2,00,000	Cash at Bank	7,00,000
Sundry Creditors	5,40,000		
	27,50,000		**27,50,000**

Additional information:

a. Plant & Machinery are worth 25% more than their actual book value.

b. 70% of the Investments are non-trading and the balance is trading. All investments are to be valued at 20% above cost. Dividend at uniform rate of 20% is earned on all investments.

c. For the purpose of valuation of shares, goodwill is to be valued on the basis of 3 years purchase of super profits based on average trading profits of the last three years. Net profits (after tax) are as follows-

Year	₹
2018-2019	1,00,000
2019-2020	95,000
2020-2021	1,05,000

d. Depreciation on appreciated value of Plant & Machinery is not to be considered for valuation of goodwill.

e. In 2018-2019, a new machinery costing ₹40,000 was purchased but wrongly charged as revenue and no effect has been given yet to rectify the same.

f. Depreciation is charged on Plant & Machinery @ 15% p.a. under Straight Line Method.

g. The return on capital employed is 15%. Tax rate is 40%.

Prepare a report to be submitted to the management of T Ltd. showing, in detail the value of each fully paid equity share of P Ltd. under Net Asset Backing Method. **[16]**