FINAL EXAMINATION

GROUP IV

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 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 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 marks for right choice and 1 mark for justification.):** **2×10=20**

   (i) Downsize Ltd. earned ₹ 800 lakhs pre-tax profit in the first quarter ended 30.06.2019 and it expects to incur losses of ₹ 100 lakhs each of the three remaining quarters of 2019-20. Tax rate is 30%. It has carried forward loss of ₹ 300 lakhs for income tax purpose for which deferred tax asset is not recognized. The amount of tax expenses reported in the first and second quarters of 2019-20 are
   (A) ₹ 240 lakhs and ₹ (30) lakhs
   (B) ₹ 150 lakhs and ₹ (30) lakhs
   (C) ₹ 15 lakhs and ₹ 15 lakhs
   (D) ₹ 96 lakhs and ₹ (12) lakhs

   (ii) An engineering goods company provides after sales warranty for 2 years to its customers. Based on past experience the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance of warrantee period:

Less than 1 year: 2% provision, more than 1 year : 3% provision.

The company has raised invoices as under:

Invoice date	Amount (₹)
19th January, 2017	40,000
29th January, 2018	25,000
15th October, 2018	90,000

The amount to be debited to Profit and Loss Account for the year ended 31st March 2018 would be

(A) ₹ 1,650

(B) ₹ 3,200

(C) ₹ 1,550

(D) None of the above

(iii) 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

(iv) In a conglomerate merger of two companies the merging companies operate

(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.

(v) On April 1, 2018 May Ltd. purchased 40% of the shares of June Ltd. for ₹ 10 lakhs. At the time of the purchased June Ltd. reported net assets of ₹ 20 lakhs. The fair value of identifiable assets and liabilities of June Ltd. at the time of purchase was approximate to their book value except for Building which had a fair value of ₹ 2,00,000 more than its book value stock May Ltd. has significant influence over operating and financial policies of June Ltd. The amount of purchase price attributable to Goodwill is

(A) ₹ 0

(B) ₹ 1,20,000

(C) ₹ 2,00,000

(D) ₹ 2,80,000

(vi) On April 1, 2018 Bob Ltd. Purchased a 30% interest in Dad Ltd. for ₹ 2,50,000. On that date Dad's share holders equity was ₹ 5,00,000. The carrying value of Dad's identifiable net assets was equal to book value. Bob correctly reports this significant influence investment using equity methods. Both companies have a March 31 year end. For the year ended 31.03.2019. Dad reported net income of ₹ 1,50,000 and paid total dividends of ₹ 40,000. Which of the following amount that Bob would report as its investment in Dad on March 31, 2019?

(A) ₹ 2,50,000
(B) ₹ 2,83,000
(C) ₹ 2,95,000
(D) ₹ 3,60,000

(vii) On 01.04.2018 MB Ltd. acquired 80% shares of MC Ltd. at ₹ 20,00,000 when the fair value of the identifiable net assets was ₹ 20,00,000. During 2018 – 19, MC Ltd. Reported Net income of ₹ 2,40,000. On that date MB Ltd. sold 20% of its holding to an outsider at ₹ 5,60,000. The amount of gain to be credited to other equity by MB for sale of partial holding retaining control is

(A) ₹ 1,12,000
(B) ₹ 1,60,000
(C) ₹ 1,21,000
(D) None of these

(viii) 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 used 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

(ix) Statement – All NBFCs in India are required to maintain Tier I capital at 10% of risk-weighted assets. Choose correct option:

(A) Statement is correct as per the RBI norms applicable to NBFCs.
(B) Statement is incorrect as certain categories of NBFCs are exempted from such requirement by the RBI.
(C) Statement is incorrect as the Ministry of Finance, Government of India exempt all categories of NBFCs from capital adequacy norms.
(D) Statement is correct as the Ministry of Finance, Government of India by notification has imposed such requirements to overcome liquidity problems.

(x) Which of the following is not a feature of Government Accounting?

(A) Reporting utilization of public funds
(B) Double Entry System
(C) Non-fund based accounting
(D) Both (A) and (B)

Answer:

(i) (D) ₹ 96 lakhs and ₹ (12) lakhs

Explanation:

1. The Estimated payment of Annual Tax @ 30%

	₹ in lakh
Total Income – ₹(800 – 100 × 3) lakh	500
Less: Carried Forward Loss	300
Net Taxable Income	200
Tax Payable	60

2. Average Annual Effective Tax Rate (60/500×100) = 12%

3. The Tax Expenses to be reported:

1st Quarter = ₹ 800 Lakh × 12% = ₹ 96 lakh
2nd Quarter = ₹ (100) lakh × 12% = ₹ (12) lakh

(ii) (D) None of the above

Explanation:

a. Computation of Provision at year – end:

Invoice Date	Last Date of Warranty	Provision as on 31.03.2017	Provision as on 31.03.2018
19.01.2017	19.01.2019	40,000 × 3% = 1,200	40,000 × 2% = 800
29.01.2018	29.01.2020	(Invoice not yet raised) Nil	25,000 × 3% = 750
15.10.2018	15.10.2020	(Invoice not yet raised) Nil	(Invoice not yet raised) Nil
	Total	**1,200**	**1,550**

b. Amount to be debited to Profit & Loss A/c for the year ended 31.03.2018 = Balance of Provision as on 31.03.2018 Less: Balance of Provision as on 31.03.2017 = ₹1,550 - ₹1,200 = ₹ 350.

(iii) (B) ₹ 7,00,000

Explanation:

Bad debts of ₹40,000 have been incurred during current quarter. Out of this, the company has deferred 50% (i.e.) ₹20,000 to the next quarter. Therefore, ₹20,000 should be deducted from ₹7,20,000. Hence the correct quarterly income = ₹(7,20,000 – 20,000) = ₹7,00,000.

(iv) (B) in unrelated markets having no functional economic relationship.

Explanation:

Conglomerate merger involves coming together of two or more comp0anies engaged in the different industry and/or services. Their businesses or services are neither horizontally not vertically related to each other. They lack any commonality either in their product, or in the rendering of any specific type of service to the society.

This is the type of merger of companies which are neither competitors, nor complementaries nor suppliers of a particular raw material nor consumers of a product or consumable. In this, the merging companies operate in unrelated markets having no functional economic relationship. Hence, (B) is the correct.

(v) (A) 0

Explanation:

Since 40% holding entails having significant influence on the investee and not control, Equity Method should be followed for consolidation. No recognition of assets and liabilities of the investee, and no recognition of Goodwill is made as Ind AS 103 is not applicable, rather Ind AS 28 should be applied. Accordingly, Goodwill to be recognized shall be Nil.

(vi) (B) ₹ 2,83,000

Explanation:

Being significant influence investment, equity method is applicable as per Ind AS 28.

Value of Investment

	₹
Amount invested for 30% interest on 01.04.2018 (A)	2,50,000
Profit earned by Dad Ltd. in 2018 – 19 (B)	1,50,000
Less : Dividends paid	40,000
Net increase in Net worth of Dad Ltd	1,10,000
Net increase in Investment value of 30% share (B)	33,000
Carrying amount of Investment in the books of Bob Ltd. (A + B)	2,83,000

(vii) (D) None of these

MB Ltd sold 20% of its holding i.e.20% of 80% =16%.

Explanation:

Gain on sale

	₹
Net Assets on 01.04.2018	20,00,000
Add: Profit	2,40,000

Net Assets on 31.03.2018	22,40,000
Carrying amount of 16% holding sold (NCI recognized)	3,58,400
Gain to be credited to other equity ₹ (5,60,000 – 3,58,400)	2,01,600

(viii) (C) ₹ 5.5 lakhs

Explanation:

Particulars	₹ in lakhs
Carrying Amount in the beginning of 7th year [60 – (60 – 4) × 6/10]	26.40
Add: Upward Revaluation (26.4 × 50%)	13.20
Carrying Amount at the end of 7th year before Dep.	39.60
Less: Depreciation [(39.6 – 4)/4)	(8.90)
Carrying Amount in the beg. of the 8th year (including revaluation amount of 13.2 lakhs)	30.70
Less: Current Recoverable Amount (being Net Selling Price or Value in use whichever is higher)	(12.00)
Impairment Loss	18.70
Less: Impairment Loss Charged to Revaluation Reserve	(13.20)
Impairment Loss charged to Profit and Loss Account	5.50

(ix) (B) Statement is incorrect as certain categories of NBFCs are exempted from such requirement by the RBI.

Explanation:

As per the RBI prudential norms applicable to NBFCs, certain categories of NBFCs are required to maintain capital adequacy i.e., to maintain a required percentage of risk-weighted assets as Tier I and Tier II capital. But certain categories of NBFCs are exempt from such requirements. Hence, 'B' is the correct answer and other options are not correct as those are not based on relevant RBI norms.

(x) (C) Non-fund based accounting

Explanation:

The features of Government Accounting inter alia include Reporting of Utilisation of Funds, Double Entry System and Fund-based Accounting. Hence, 'C' is the correct answer.

Following are the feature of Government Accounting

A. Reporting of utilisation of public funds
B. Double Entry System
C. Fund Based Accounting

Section-B

Answer* any five *questions out of seven questions. **16×5=80**

2. (a) Discuss the applicability of and disclosure requirement of AS 11. **8**

(b) State with reference to accounting standard (AS 2), how you will value the inventories in the following cases: **8**

(i) Raw material was purchased at ₹ 100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10,000 kg of raw material is on stock at the year end. Replacement cost is ₹ 80 per kg.

(ii) In a production process, normal waste is 5% of input 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end.

(iii) Per kg of finished goods consisted of –
Material cost – ₹ 100 per kg
Direct labour cost ₹ 20 per kg
Direct variable production overheads – ₹10 per kg
Fixed production charges for the year on normal capacity of one lakh kg.are₹10 lakhs. 2,000 kg of finished goods are on stock at the year end.

Answer:

(a) AS – 11 deals with effects of changes in Foreign Exchange rates.
It is mandatory in respect of:
(a) Accounting for transactions in foreign currencies
(b) Translating the financial statements of foreign branches for inclusion in the financial statements of the reporting enterprise

Disclosure under AS 11:
(a) The amount of exchange difference included in the net profit or loss for the period
(b) The amount of exchange difference adjusted in the carrying amount of fixed assets during the accounting period
(c) The amount of exchange difference in respect of forward contracts to be recognized in the profit/loss for one or more subsequent periods
(d) Foreign currency risk management policy

(b) (i) As per para24 of AS 2 (Revised) on Valuation of Inventories, materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of

materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. Hence, in the given case, the stock of 10,000 kgs of raw material will be valued at ₹ 80 per kg. The finished goods, if on stock, should be valued at cost or net realizable value whichever is lower.

(ii) As per para 13 of AS 2 (Revised), abnormal amounts of waste materials, labour or other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. In this case, normal waste is 250 MT and abnormal waste is 50 MT. The cost of 250 MT will be included in determining the cost of inventories (finished goods) at the year end.

1. Normal Loss Qty = 5% of 5,000 MT = 250 MT
2. Cost per Good unit = (5000 × ₹ 1,000)/(5000 – 250) = ₹1052.6316
3. Cost of Closing Inventory = (5,000 MT – 250 MT – 50 MT) × ₹1052.6316 = ₹ 49,47,368

(iii) In accordance with para 8 and 9 of AS – 2 (Revised), the cost of conversion include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion is based on the normal capacity of the production facilities. Thus, cost per kg. of finished goods can be computed as follows:

	₹
Material cost	100
Direct labour	20
Direct variable production overhead	10
Fixed production overhead	10
	140

Thus, the value of 2,000 kgs.of finished goods on stock at the year ended will be ₹ 2,80,000 (2,000 kgs × ₹ 140).

3. (a) Describe what is meant by Joint arrangement as per Ind AS 111. 8

(b) Briefly explain how contingent consideration payable in relation to a business combination is accounted for on initial recognition and at the subsequent measurement as per Ind AS in the following case: 8

On 1 April, 2018, Aaa Ltd. acquires 100% interest in Baa Ltd. As per the terms of agreement the purchase consideration was payable in the following 2 tranches:

(i) an immediate issuance of 5 lakhs shares of Aaa Ltd. having face value of ₹ 10 per share.

(ii) a further issuance of 1 lakh shares after one year if the profit before interest and tax of Baa Ltd. for the year following acquisition exceeds ₹ 1 crore.

The fair value of the shares of Aaa Ltd. on the date of acquisition is ₹ 20 per share. Further, the Management has estimated that on the date of acquisition, the fair value of

contingent consideration is ₹ 12.5 lakhs. During the year ended 31 March, 2019, the fair value of shares of Aaa Ltd. was 25 per share.

Answer:

(a) Meaning of Joint Arrangement:

A joint arrangement is an arrangement of which two or more parties have joint control.

[An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement, at least two of all the parties must have joint control.]

Joint arrangements are economic arrangement between two or more parties sharing joint control and make the decision jointly about the business activities.

The purpose of the joint arrangement might be share costs or might be motivated by profit. The investor will be required to either apply the equity method of accounting or recognize, on a line-by-line basis, its share of the underlying assets, liabilities, revenues and expenses. The accounting treatment required will depend on the substance of the arrangement and the nature of the investor's interest in it.

Characteristics of Joint Arrangement: A joint arrangement has the following characteristics:
(a) The parties are bound by a contractual arrangement.
(b) The contractual arrangement gives two or more of those parties joint control of the arrangement.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. [At least two of all the parties must have shared control as joint operators or joint venturers.]

Type of Joint Arrangement:

An entity shall determine the type of joint arrangement in which it is involved.

A joint arrangement is either a joint operation or a joint venture.
The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

(a) A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.
(b) A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

(b) Paragraph 37 of Ind AS 103, inter alia, provides that the consideration transferred in a business combination should be measured at fair value, which should be calculated as the sum of
(a) the acquisition – date fair values of the net assets transferred by the purchaser,
(b) the liabilities incurred by the acquirer to former owners of the acquire company, and

(c) the equity interests issued by the purchaser.

Further, paragraph 39 of Ind AS 103 provides that the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognize the acquisition – date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

With respect to contingent consideration, obligations of an acquirer under contingent consideration arrangements are classified as equity or a liability in accordance with Ind AS 32 or other applicable Ind AS. Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration.

In the given case the amount of purchase consideration to be recognized on initial recognition shall be as follows:

Fair Value of the Share issued	₹ 1,00,00,000
Fair Value of the Contingent Consideration	₹ 12,50,000
	₹ 1,12,50,000

For subsequent measurement the relevant guidelines are as follows:
"The acquirer shall account for changes in the fair value of contingent consideration as follows: (a)Contingent consideration classified as equity shall not beremeasured and its subsequent settlement shall be accountedfor within equity." Para 58 of Ind AS 103.

4. (a) Following are the summarized Balance Sheets of Sun Ltd. and Moon Ltd. as on 31st March, 20109:

Liabilities	Sun Ltd. (₹)	Moon Ltd. (₹)	Assets	Sun Ltd. (₹)	Moon 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 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, 2019 Sun Ltd. decided to takeover Moon Ltd. No Balance Sheet was prepared on that date. For six months period from 1st April, 2019 to 30th September,

2019, Sun Ltd. and Moon Ltd. earned a profit of ₹ 3,36,000 and ₹ 1,98,000 respectively after of Machinery and Furniture for both the companies.

Sun Ltd. and Moon Ltd. paid equity dividend @ 8% on 15th July, 2019. Tax @ 10% on such payments was also paid by each of them. Goodwill of Moon 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 Sun Ltd. and Moon Ltd. would be reduced by 5% and 6% respectively.

Sun Ltd. issued fully paid equity shares of ₹ 10 each to the shareholders' of Moon Ltd., on the basis of comparative intrinsic values of shares on the takeover date.

You are required to calculate Intrinsic value of Shares of the two Companies, Purchase consideration to be paid and Number of Shares to be issued on the basis of Intrinsic value. 12

(b) Explain briefly the 'principle of control' as mentioned Ind AS 110. 4

Answer:

4. (a) Calculation of intrinsic value

	Sun Ltd. (₹)	Moon 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 Sun Ltd. and @ 5% for Moon Ltd.

(i) Purchase consideration = ₹ 11,15,120 to be paid by Sun Ltd.
(ii) No. of Shares to be issued on the basis of intrinsic value = ₹11,15,120/₹21.20 = 52,600

Working Notes:

(1) Bank Balance on 30.09.2019 (before absorption)

		Sun Ltd. (₹)		Moon Ltd. (₹)
Bank Balance as on 31.03.2019		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 01.10.2019		6,69,625		2,66,950

(2) Tangible Assets

		Sun Ltd.		Moon 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) Principle of Control – An investor shall determine whether it is a parent by assessing whether it controls the investee. An investor controls an investee if and only if the investor has all the following:

I. Power over the investee;

II. Exposure or rights, to variable returns from its involvement with the investee; and

III. The ability to use its power over the investee to affect the amount of the investor's returns. An investor has power over an investee when the investor has existing rights that give it the relevant activities, i.e., the activities that significantly affect the investee's returns. An investor shall consider all facts and circumstances when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Two or more investors collectively control in investee when they must act together to direct the investee in such cases, because no investor can direct the activities without the co-operation of the other. Each investor would account for its interest in the investee with the relevant Ind Ass, such as Ind AS 111, Joint Arrangements, Ind AS 28, Investments in Ventures, or Ind AS 109, Financial Instruments.

5. (a) Explain the concept of equity method in the context of Ind AS 28. 4

(b) Ganga Limited purchased 40,000 shares in Yamuna limited on 31st march, 2017, at 505 premium over face value by issue of 8% Debentures at 20% premium. The Balances of Assets, Liabilities, Equity etc. of Ganga Limited and Yamuna Limited as on 31.03.2017, i.e., on the date of purchase were as under:

(in₹)

Liabilities	Ganga Ltd.	Yamuna Ltd.	Assets	Ganga Ltd.	Yamuna Ltd.
Share Capital of ₹ 10 each	10,50,000	6,00,000	Fixed Assets	6,50,000	2,00,000
General Reserve	1,20,000	40,000	Inventory in Trade	3,00,000	1,80,000
Profit & Loss A/c	80,000	---	Trade Receivables	3,40,000	2,10,000
Trade Payables	1,00,000	60,000	Cash in hand	60,000	30,000
			Profit & Loss A/c	---	80,000
	13,50,000	7,00,000		13,50,000	7,00,000

(i) Particulars of Ganga Limited:

(I) Profits made: 2017 – 18 ₹ 1,60,000
2018 – 19 ₹ 2,00,000

(II) The above profit was made after charging depreciation of ₹ 60,000 and ₹ 40,000 respectively.

(III) Out of profit shown above, every year ₹ 20,000 had been transferred to General Reserve.

(IV) 10% Dividend had been paid in both the year.

(V) It has been decided to write down investment to face value of shares in 10 years and to provide for share of loss to subsidiary.

(ii) Particulars of Yamuna Limited:

The company incurred losses of ₹ 40,000 and ₹ 60,000 in 2017 – 2018 and 2018 – 2019 after charging depreciation of 10% p.a. on the book value of Fixed Assets as on 01.04.2017.

Prepare Consolidated Balance Sheet of Ganga Limited and its subsidiary as at 31st March, 2019 as per requirements of Schedule III. **12**

Answer:

5. (a) In equity method initial recognition is made at cost. Carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognized in the investor's Statement of profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Alteration in the Investor's proportionate interest in the associate arising from changes in the Associate's equity is considered through adjustment in the carrying amount through OCI (e.g. Changes arising from the revaluation of property, plant and equipment and from foreign exchange translation differences).

(b) Share of NCI is only 1/3 as parent holds ₹40,000/₹60,000=2/3

CONSOLIDATED BALANCE SHEET OF GANGA LTD. AND ITS SUBSIDIARY S LTD AS AT 31.3.2019

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital (of ` 10 each)		10,50,000
(b) Reserves and Surplus	1	3,43,333
(2) Minority Interest		1,53,333
(3) Non-Current Liabilities (8% Debentures)		5,00,000
(4) Current Liabilities		
Total		20,46,667
II. Assets		
(1) Non-Current Assets		
(a) Fixed Assets		
Tangible Assets	2	7,10,000
Intangible Assets [Goodwill on consolidation]	(ii)	1,86,667
(2) Current Assets (Net)	2	11,50,000
Total		20,46,667

Notes to Accounts:

Particulars	₹
1. Reserves and Surplus	
General Reserve	1,60,000
Profit & Loss Account	83,333
Capital Reserve [Debenture Premium]	1,00,000
	3,43,333

2. CONSOLIDATED BALANCES

Particulars	Tangible Fixed Assets	Net Current Assets
Ganga Ltd.*[6,50,000 -60,000-40,000]	5,50,000*	8,50,000

Yamuna Ltd. * [2,00,000 -20,000-20,000]	1,60,000*	3,00,000
Total	7,10,000	11,50,000

Working Notes:

(I) CALCULATION OF BOOK VALUE OF INVESTMENT IN YAMUNA LTD. AS AT 31.3.2019

Particulars	₹
Face value of Shares	4,00,000
Premium @ 50%	2,00,000
Cost of Investment in shares	6,00,000
8% Debentures (Nominal value = 6,00,000/120 × 100)	5,00,000
Securities Premium @ 20%	1,00,000
Cost of Investment in Debentures	6,00,000
Writing down of Investment	
2017-2018 : [1/10 × 2,00,000]	(20,000)
[2018-2019 : [1/10 × 2,00,000]	(20,000)
Investment as on 31.3.2019	5,60,000

(II) BALANCE OF PROFIT AND LOSS ACCOUNT ON 31ST MARCH, 2019

Particulars	Ganga Ltd. ₹	Yamuna Ltd. ₹
Balance as on 31.3.2017	80,000	(80,000)
Profit/(Loss)		
For 2017-2018	1,60,000	(40,000)
For 2018-2019	2,00,000	(60,000)
Investment written-off		
2017-2018	(20,000)	
2018-2019	(20,000)	
Provision for share of loss in Subsidiary		
2017-2018 : (2/3 × 40,000)	(26,667)	
2018-2019 : (2/3 × 60,000)	(40,000)	
Transfer to General Reserve		

2017-2018	(20,000)	
2018-2019	(20,000)	
Dividend		
2017-2018	(1,05,000)	
2018-2019	(1,05,000)	
	83,333	(1,80,000)

(IV) FIXED ASSETS ON 31ST MARCH, 2019

Particulars	Ganga Ltd. ₹	Yamuna Ltd. ₹
Fixed Assets on 31.3.2017	6,50,000	2,00,000
Less: Depreciation		
2017-2018	(60,000)	(20,000)
2018-2019	(40,000)	(20,000)
	5,50,000	1,60,000

(V) BALANCE SHEETS AS AT 31ST MARCH, 2019

Liabilities	Ganga Ltd. ₹	Yamuna Ltd. ₹	Assets	Ganga Ltd. ₹	Yamuna Ltd. ₹
Share Capital	10,50,000	6,00,000	Fixed Assets*	5,50,000	1,60,000
Capital Reserve	1,00,000	—	Investment		
(Debenture premium)			*Less:* Provision for loss		
General Reserve	1,60,000	40,000	in subsidiary	4,49,333	—
Profit and Loss A/c	83,333	—	Net Current Assets		
8% Debentures	5,00,000	—	*(Balancing figure)*	8,50,000	3,00,000
			Profit and Loss A/c	—	1,80,000
	18,93,333	6,40,000		18,93,333	6,40,000

6. (a) The summarized Balance Sheet of TMI Ltd. for the year ended on 31st March, 2017, 2018 and 2019 are as follows:

₹ in thousand

	2017	2018	2019
1,60,000 equity shares of ₹ 10 each fully paid	1,600	1,600	1,600
General Reserves	1,200	1,400	1,600
Profit and Loss Account	140	160	240
Trade Payable	600	800	1,000
	3,540	3,960	4,440
Assets:			
Goodwill	1,000	800	600
Building and machinery less depreciation	1,400	1,600	1,600
Inventory	1,000	1,200	1,400
Trade Receivable	20	160	440
Bank Balance	120	200	400
	3,540	3,960	4,440

(i) Actual valuations were as under:

	2017	2018	2019
Building and machinery less depreciation	1,800	2,000	2,200
Inventory	1,200	1,400	1,600
Net profit (including opening balance after writing off depreciation, goodwill, tax provision and transfer to general reserve)	420	620	820

(ii) Capital employed in the business at market value at the beginning of 2016 – 2017 was ₹36,60,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by T Ltd. is 12.5%.

(iii) The balance in the general reserve on 1st April, 2016 was ₹ 10 lakhs.

(iv) The goodwill shown on 31st March, 2017 was purchased on 1st April, 2016 for ₹ 10 lakhs on which date the balance in the Profit and Loss Account was ₹ 1,20,000.

You are required to find out the average capital employed in each year. Also compute goodwill to be valued at 5 years purchase of Super Profit (Simple average method). 8

(b) Jal Agni Ltd. provides you the following particulars in respect of stock options grade:

Grant Date	April 1, 2015
Number of Employees covered	1050

Number of Options granted per Employee	50
Vesting Condition: Continuous employment for 3 years	
Nominal Value per share (₹)	100
Exercise Price per share (₹)	125
Market Price per share on Grant Date (₹)	149
Vesting Date	March 1, 2018
Exercise Date	March 31, 2019
Fair Value of Option per share on Grant Date (₹)	30

Position on	31.03.2016	31.03.2017	31.03.2019
Estimated Annual Rate of Departure	2%	3%	
Number of employees left	30	20	16
Number of Employees entitled to exercise option			984

On 31st March, 2019, 960 Employees exercised the option and 24 Employees did not exercise the option.

Required:

Compute Expenses to be recognized in each year and Value of Options Forfeited by Fair Value Method. 8

Answer:

(a) Capital Employed at the end of each year

₹in thousand

	31.03.2017 (₹)	31.03.2018 (₹)	31.03.2019 (₹)
Goodwill *	1,000	800	600
Building and Machinery (Revaluation)	1,800	2,000	2,200
Inventory (Revalued)	1,200	1,400	1,600
Trade Receivables	20	160	440
Bank Balance	120	200	400
Total Assets	4,140	4,560	5,240
Less: Trade Payables	(600)	(800)	(1,000)
Closing Capital	3,540	3,760	4,240
Add: Opening Capital	3,660	3,540	3,760
Total	7,200	7,300	8,000
Average Capital	3,600	3,650	4,000

* Since the goodwill has been purchased, it is taken as a part of Capital employed.

Valuation of Goodwill

	31.03.2017	31.03.2018	31.03.2019

(i) Future Maintainable Profit		2	3
Net Profit as given	420	620	820
Less: Opening Balance	(120)	(140)	(160)
Adjustment for Valuation of Opening Inventory	---	(200)	(200)
Add: Adjustment for Valuation of closing inventory	200	200	200
Goodwill written off	---	200	200
Transferred to General Reserve	200	200	200
Future Maintainable Profit	700	880	1060
Less: 12.50% Normal Return	(450)	(456.25)	(500)
(ii) Super Profit	250	423.75	560

(iii) Average Super Profit = ₹ (250 + 423.75 + 560) ÷ 3 = ₹ 411.25 (thousand).

(iv) Value of Goodwill at five years' purchase = ₹ 411.25 × 5 = ₹ 2,056.25 (thousand).

(b) Calculation of Expenses recognized during the vesting period:

Year	**Calculation**	**Cumulative remuneration expense (₹)**	**Remuneration expense recognized in each year (₹)**
1	980×50×30×1/3 (Note #)	4,90,000	4,90,000
2	970×50×30×2/3 (Note #)	9,70,000	4,80,000
3	984×50×30×3/3 (Note #)	14,76,000	5,06,000
	Total		14,76,000

Note #:

At the end of year 1, 30 left and annual departure 2% for remaining 2 years, estimated no. of employees entitled to option = (1,050 – 30) ×0.98×0.98 = 980 approx.

At the end of year 2, 30 + 20 left and annual departure 3% for remaining 1 year, estimated no. of employees entitled to option = (1,050 – 30 -20) ×0.97 = 970.

At the end of year 3, 30+20+16 left and 1,050-30-20-16 = 984 are entitled to option.

Value of options forfeited = 24×50×30 = 36,000

7. (a) What are the advantages of using XBRL? **9**

(b) Write briefly about Consolidated Fund of India, Contingency Fund and Public Accounts of India. **7**

Answer:

(a) (1) Automated Data Processing: XBRL allows very efficient handling of business data by computer software and supports all the standard tasks involved in compiling,

storing and using business data. XBRL software also facilitates automatic checking of information and thus makes the entire process of data collection and analysis more reliable and accurate.

(2) Cost Saving: Adoption of XBRL for data processing reduces the manpower involved and result in considerable amount of cost saving.

(3) Time Saving: The powerful XBRL software increases the speed of handling the data and completes all aspects of data processing in quick time. This time reduction will allows users to increase their focus on analysis and help in prompt decision making. For example, searches for particular information which might normally take hours can be completed with XBRL in a fraction of a second.

(4) Better Financial Reporting: XBRL also facilitates preparation of quality and timely reports to suit different needs. Once data is gathered in XBRL, different types of reports using varying subsets of the data can be produced with minimum effort.

(5) Multi Language Capability: XBRL can read and understand data in different languages and accounting standards and can be flexibly adapted to meet different needs of various users.

(6) Improved Data Analysis: The XBRL software helps to automatically validate and manipulate data received electronically. XBRL facilitates a deeper and accurate analysis of the automated data to meet the requirements of all types of end users. This thorough analysis of the automated data to meet the requirements of all types of end users. This thorough analysis will equip business leaders with greater confidence to make financial decisions that impact their companies.
For example, banks and other financial institutions can analyse loan applications as well as a borrower's financial records more quickly and more accurately which may increase the approval of good loans and significantly lower the acceptance of loans to high risk borrowers.

(7) Advantages to Individual Stakeholders: All types of organizations can use XBRL to save costs and improve efficiency in handling business and financial information. Due to its flexible nature, XBRL can be adapted to suit a wide variety of requirements of preparers as well as users of financial data.

(b) The Constitution of India provides for the manner in which the accounts of the Government have to be kept. The accounts of Government are kept in three parts namely, Consolidated Fund, Contingency Fund and Public Account. They are discussed as under:

1. Consolidated Funds of India:

The Consolidated Fund is constituted under Article 266 (1) of the Constitution of India. All revenues received by the Government by way of taxes and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament. This is the largest of all the three funds.

2. Contingency Funds of India:

The Contingency Fund of India set by the Government of India under Article 267 of the Constitution of India. It records the transactions connected with Contingency. It is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs. The corpus of this fund is ` 500 crores. Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest account of Government of India.

3. Public Accounts of India:

The Public Accounts of India is constituted under Article 266 (2) of the Constitution. The transactions to be recorded in it relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to 'Remittance' and 'Suspense' shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.

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

(a) Benefits of Integrated Reporting
(b) Responsibilities of GASSB
(c) Meaning and advantages of Sustainability Reporting
(d) Power of C&AG in connection with Audit of Accounts
(e) Non Current Assets held for sale and discontinued operation

Answer:

(a) Benefits of IR

IR is beneficial as it contributes to:

- Incorporate sustainability into its core business
- Communicate the impact of a company's operations on environment and community
- Identify ESG related risk and opportunities
- Provide a competitive edge over its peers in the long term
- Informed decisions and improved overall performance
- Identify cost savings by analyzing financial and non-financial metrics together
- Increase internal collaboration
- Increase engagement with internal and external stakeholders through consistent and balanced reporting
- Address reputational risk.
- Increase brand value and customer loyalty

(b) Responsibilities of GASAB

GASAB, inter alia, has the following responsibilities:

1. To formulate and improve standards of Government accounting and financial reporting in order to enhance accountability mechanisms.
2. To formulate and purpose standards that improve the usefulness of financial reports based on the needs of the users.
3. To keep the standards current and reflect change in the Government environment.
4. To provide guidance on implementation of standards.
5. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
6. To improve the common understanding of the nature and purpose of information contained in the financial reports.

(c) A sustainability report is an organizational report that given 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; and 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 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.

(d) Powers of Comptroller and Auditor General in Connection with audit of accounts may be described as under:

The Comptroller and Auditor General shall in connection with the performance of his duties under this Act, have authority:

- To inspect any office of accounts under the control of the union or of a state, including treasuries, and such offices responsible for keeping of initial or subsidiary accounts, as submit accounts to him;
- To require that any accounts, books, papers and other document which deal with or form the basis of or an otherwise relevant to the transactions to which is duties in respect of audit extend, shall be sent to such place as he may appoint for his inspection;
- To put such questions or make such observations as he may consider necessary, to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which it is his duty to prepare.

(e) Ind AS 105 provides the accounting treatment regarding Non-current Assets Held for Sale and Discontinued Operations. Such Assets are is required to be shown separately in the Balance Sheet from that of other Assets. The value would be recovered from sale and not to be treated as assets which are in use in operation of the entity. The results of discontinued operations (i.e. profit/loss earned during reporting period) to be presented separately in the statement of profit and loss.

The information provided helps the users of financial statements to make projections of an entity's cash flows, income generating capacity and financial position. The Standard requires that the assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying and fair value less costs to sell, and depreciation on such assets to cease.

The classification, presentation and measurement requirements of this Ind AS apply to all recognized non-current assets and disposal groups, except for those assets listed in paragraph 5 of the Standard (e.g., Financial Instruments Deferred Tax Assets, ass ets arising from employee benefits, contractual rights under insurance contract and assets coming under the purview of Standards on Agriculture) and which shall continue to be measured in accordance with the Standard noted.