POSTAL TEST PAPER

FINAL SYLLABUS – 2022

PAPER - 18

CORPORATE FINANCIAL REPORTING

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

The figures in the margin on the right side indicate full marks.

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

SECTION – A

Please answer the following questions with brief justification as directed and/or reference to the relevant legal provision as appropriate.

1. (a) Multiple Choice Question: **[10 × 2 = 20]**

(i) 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.

(ii) C Ltd. acquired a 60% interest in J Ltd. on January 1, 2022. C Ltd. paid ₹700 Lakhs in cash for their interest in J Ltd. The fair value of J 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

(iii) 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

(iv) Net Profits of J Ltd. for the years 2021-2022,2020-2021,2019-2020,2018- 2019,2017 2018 are ₹25 crore, ₹20 crore, ₹15 crore, ₹10 crore and ₹5 crore respectively. During 2021-2022, 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 the above

(v) On 1 January 2023, A Ltd. acquires 80 per cent of the equity interests of B Ltd for ₹560 lakh. The identifiable assets are measured at ₹960 lakh and the liabilities assumed are measured at ₹160 lakh. The non-controlling interest in B Ltd. is measured at fair value. The gain on bargain purchase will be

a. ₹ 90 lakh
b. ₹ 100 lakh
c. ₹ 55 lakh
d. ₹ 75 lakh

(vi) GASAB stands for_. Provide justification for your selection.

a. Government Accounting Standards Advisory Board
b. Government Accounting Standards Applicability Board
c. Government Auditing Standards Advisory Board
d. Government Accounting for States Advisory Board

(vii) A/An _____________ is any contract that evidences a residual interest in the assetsof an entity after deducting all of its liabilities. Justify your selection.

a. equity instrument
b. puttable instrument
c. financial instrument
d. None of the above

(viii) J Ltd. purchased a plant for US $ 50,000 on 31st October, 2022 payable after 6 months. The company entered into a forward contract for 6 months @ ₹64.25 per Dollar. On 31st October, 2022 the exchange rate was ₹61.50 per Dollar. The profit or loss on forward contract for the year ended 31st March,2023 is

a. ₹ 1,14,538
b. ₹ 1,14,583
c. ₹ 1,37,500
d. None of these

(ix) External benefits of sustainability reporting can include_____and why?

a. Mitigating – or reversing – negative environmental, social and governance impacts

b. Improving reputation and brand loyalty
c. Enhanced perception on organisation's value
d. All of the above

(x) 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)

SECTION – B

2. (a) Z Ltd. grants 100 share options to each of its 400 employees conditional on their continuing in service for 3 years. Fair value of share option on the grant date is ₹30. During year 1, 18 employees leave. The entity revises its estimate of total employee departures over the three- year period from 20 per cent to 16 per cent. During year 2, a further 20 employees leave. The entity revises its estimate of total employee departures over the three-year period from 16 per cent to 13 per cent. During year 3, a further 14 employees leave. All the continuing employees exercised the option to subscribe in the equity shares of ₹10 each at ₹50 only, when market price stands at ₹84. Pass Journal Entries of all the years and show the working.

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

3. (a) F Ltd. issued 6% Debenture of total ₹ 10,00,000 on 01.04.2018 repayable on 31. 03.2023. The debenture holders have right to receive equity shares of face value of ₹4,00,000 at maturity as alternative to repayment in cash. The required rate of return is 10%. How the transaction will be recognised, measured and presented in 2018-2019?

(b) **(i)** M Ltd. acquired a 60% interest in N Ltd. on January 1, 2023. M paid ₹960 Lakhs in cash for their interest in N Ltd. The fair value of N Ltd.'s assets is ₹2,400 Lakhs, and the fair value of its liabilities is ₹900 Lakhs. Provide the journal entry for the acquisition using Ind AS, assuming that M Ltd. does not wish to report the NCI at fair value. Show acquisition journal entry under Ind AS 103.
(ii) A Ltd. acquires 100% shares of B Ltd. for ₹12,60,000. Fair Value (FV) of B Ltd.'s net assets at time of acquisition amounts ₹11,80,000. Calculate the value of Goodwill and give the journal entries in the books of A Ltd. **[6+6+4 = 16]**

4. **(a)** Suppose, Entity S acquires 80% shares of Entity T and satisfies the consideration by issue of three shares of Entity S for every share of Entity T. Market price of ₹10 share of Entity S is ₹25.
The summarized Balance Sheets:

Particulars	S (₹)	T (₹)
Net Assets	30,000	20,000
Equity	30,000	20,000
No. of Equity Shares	1000	750

Is it a reverse acquisition?

(b) Following particulars are available in relation to A Ltd.:
Equity share capital: 4,000 Equity shares of ₹100 each, fully paid
1,000, 8% Preference shares of ₹100 each
Reserves and surplus ₹1,25,000
10% Debentures ₹4,00,000
Profit on revaluation of assets ₹92,000
During the last three years the company paid dividend at 20%, 19% and 27% respectively
EBDIT ₹2,74,000; Depreciation ₹50,000; Income Tax rate is 30%
P/E ratio in the industry is 8 and Dividend yield is 16%
Advise the management on what should be the probable market price of each Equity share under Earnings method and under Dividend method. Also state which one the Company should consider under which circumstances for managerial decision.

[6+10 = 16]

5. **(a)** On 01.01.2022 A Ltd. entered into a contract with B to sell 20 TV sets at a price of ₹50,000 per set and the goods were delivered in February, 2022. Determine revenue to be recognised by A in 2021-22 in the following circumstances:

(i) 2 sets found damaged at the time of receiving and returned by B.

(ii) 4 sets found not properly functioning in March, 2022 and they were replaced by A as per terms of warranty.

(iii) It is not a sale but goods sent on consignment and B will sell the TV sets at ₹50,000 per set. 12 sets were sold by B.

(iv) It is a contract of sale or return. The TV sets can be returned by B unconditionally within 3 months. The entity expects (a) full return; (b) 50% return.

(b) **(i)** Entity A acquired 35 % of Entity B on 01.04.2021 for ₹ 35,000. On 31-03-2022, fair value of shares of Entity Bis ₹ 42,000, thus ₹ 7,000 reported under OCI in 2021-22. On 01.07.2022 Entity A further acquired 40% stake in Entity B. Consideration paid is ₹60,000.

Entity A identifies the net assets of Entity B at fair value of ₹120,000 at the acquisition date, value 35% shares at ₹45,000. NCI is valued at proportionate net assets. Show workings and Journal entries.

(ii) P Ltd. acquires 25% stake in S Ltd. having significant influence and purchase consideration is settledby issue of 160000 equity shares. During 2021-22 S Ltd. earns profit ₹ 20,00,000 and Other Comprehensive Income ₹12,00,000. Pass journal entries in the books of P Ltd. at acquisition and on 31.03.2022.

[4+8+4 = 16]

6. (a) D Ltd acquired 60% shares of G Ltd. on 1st October 2022. The Retained Earnings balance of G on 01.04.2022 was ₹5,000. G declared dividend for 2022-2023 ₹ 6,000 (accounted in books of G but not accounted in books of D).

The abstracts from balance sheets of D and G as at 31.03.2023 are: (Amount in ₹)

Particulars	D	G
PPE	60,000	30,000
Investments: Shares in G	24,000	
Current Assets	20,000	16,000
Total Assets	1,04,000	46,000
Equity Shares	50,000	25,000
Other Equity (Retained Earnings)	25,000	11,000
Current Liabilities	29,000	10,000
Total of Equity and Liabilities	1,04,000	46,000

Required: Separate and Consolidated Balance sheet as at 31.03.2023.

(b) List the Importance of ESG Reporting. **[12+4 = 16]**

7. (a) Write a note on:
(i) Market Value Added
(ii) Myths Regarding XBRL

(b) List the objectives of Government Accounting. **[(4+5)+7 = 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 TLtd. 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, 2023:

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital (₹ 10)	10,00,000	Plant & Machinery	12,30,000
8%, Preference Share Capital		Goodwill at cost	1,00,000
(₹ 100)	4,00,000	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	₹
2020-2021	1,00,000
2021-2022	95,000
2022-2023	1,05,000

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

e. In 2020-2021, 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 valueof each fully paid equity share of P Ltd. under Net Asset Backing Method. **[16]**