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) J Ltd. purchased a plant for US $ 50,000 on 31st October, 2020 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 64.25 per Dollar. On 31st October, 2020 the exchange rate was ₹ 61.50 per Dollar. The profit or loss on forward contract for the year ended 31st March, 2021 is

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

(ii) A firm values goodwill under 'Capitalisation of Profits' method. Average profit of the firm for past 4 years has been determined at ₹ 1,00,000 (before tax). Capital employed in the business is ₹ 4,80,000 and its normal rate of return is 12%. Tax rate is 28% on average. Value of Goodwill based on capitalisation of average profit will be:

a. ₹1,20,000
b. ₹6,00,000
c. ₹5,00,000
d. ₹4,80,000

(iii) Kaa Ltd. absorbs Baa Ltd. and shares are issued by Kaa Ltd. using swap ratio 3:7. The face value of each share is ₹ 10 for both the companies. The intrinsic value of each shares of Kaa Ltd. is ₹ 14. Baa Ltd. has 70000 shares. Total purchase consideration is equal to

a. ₹4,20,000
b. ₹6,82,000
c. ₹3,78,000
d. ₹2,70,000

(iv) Peta Ltd. declares the following information:

	Exchange Rate (USD/IND `)
Purchased goods on 12.03.2022 of USD 1,00,000	76.76
Exchange rate as on 31.03.2022	75.91
Date of actual payment is 12.04.2022	75.98

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

(v) On 1 January 2021, 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) 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

(viii) Ind AS 103 states that the acquirer obtaining control over acquiree, recognises and measures in its consolidated financial statements at the acquisition date ____________. Justify your answer.

a. the identifiable assets acquired, the liabilities assumed at Fair Value

b. any non-controlling interest in the acquiree at Fair Value or at Proportionate Value

c. the goodwill acquired in the business combination or a gain on bargain purchase

d. All of the above

(ix) As per Appendix C of Ind AS 103, accounting and reporting for business combination under common control is done under ___________. Justify your selection.

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

(x) A/An _________is any contract that evidences a residual interest in the assets of 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

SECTION – B

2. (a) D Ltd. has incurred the following transactions in respect of acquiring a plant in exchange of an old plant:

(i) The old site was dismantled at a cost of ₹ 16,000, No estimated dismantling cost was capitalized for the old plant. Scrap from the old site sold at ₹ 2,000.

(ii) The new site was constructed at a cost of ₹ 96,000.

(iii) The supplier of the new plant agreed to take away the old plant at fair value of ₹ 3,52,000.

(iv) The new plant price was ₹ 6,40,000. The carrying amount of the old plant was ₹ 2,00,000.

(v) The present value estimate of dismantling the site is ₹ 32,000.

(vi) Wages paid for installation of the plant ₹ 8,000 for trial run ₹ 3,200.

(vii) Freight paid ₹ 16,000.

(viii) GST applies on supply of plant of 18% (Intra state) and on freight at 18% (intra state)

(ix) Loss amounted to ₹ 80,000 for low-capacity utilization of the plant after installation.

(x) ₹ 20,000 was paid as cost of launching the product to be produced from the plant.

Analyse the above information to determine the value to be recognised for the asset. Please write the text for the Note to disclosed in the Annual Report of the Company.

(b) On March 31, 2022, X Ltd and Y Ltd. were amalgamated into Z Ltd., control of the businesses lying with the same parties as before. Z Ltd. issued 40,000 equity shares to X Ltd. and 37,500 equity shares to Y Ltd. at the nominal value of ₹10 per share. The book value of X Ltd.'s net assets was ₹6,00,000 with Equity Share Capital ₹ 2,50,000 and Other Equity ₹ 3,50,000 on March 31, 2022. The fair value of net assets of X Ltd. was assessed at ₹8,00,000. The book value of Y Ltd.'s net assets was ₹5,00,000 with Equity share capital ₹2,00,000 and Other Equity ₹3,00,000 on March 31, 2022. The fair value of net assets of Y Ltd. was assessed at ₹7,50,000. Suggest the management about the method of accounting to be followed in the given situation and determine the goodwill. Also show journal entries complying Ind AS to give effect of the business combination. Please draft a note to be disclosed in the Annual Report of the Company. **[8+8=16]**

3. The following is the Balance Sheet of Titanic Ltd. as on March 31, 2021:

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' funds		
(a) Share capital	1	8,00,000
(b) Reserves and surplus	2	30,000
2. Non-current liabilities		
Long-term borrowings;		
6% Debentures of ₹ 100 each		1,00,000
3. Current liabilities		40,000
Total		9,70,000
II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment		3,00,000
2. Current Assets		
(a) Inventories		3,25,000
(b) Trade receivables: Debtors		2,75,000
(c) Cash and cash equivalents		70,000
Total		9,70,000

Notes to Balance Sheet (includes)

	Amount (₹)
Share Capital:	
2,000, 8% Preference shares of ₹100 each	2,00,000
60,000 Equity shares of ?10 each	6,00,000
	8,00,000
Reserves and surplus:	
General Reserve	1,50,000
Balance in Statement of P/L	(1,20,000)
	30,000

During the last few years the company passed through very bad times. It now puts the following scheme of reconstruction after the approval of the Tribunal:

(i) Each existing equity share to be converted into one equity share of the nominal value of ₹3 per share.

(ii) 8% Preference shares are to be converted into such number of 16% preference shares of ₹100 each as to generate the same amount of dividend as before.

(iii) Each ₹100 debentures are to be exchanged for one ₹50 new 12% Debentures and six new equity shares of ₹3 each.

The reduction of Capital and balance of Reserves are to be utilised for writing off losses, 60% of the inventories and debtors; and the balance, if any, is to be used for writing down Property, Plant and Equipment.

Analyse the proposals specified in the scheme and show the necessary journal entries and draw up the revised Balance Sheet along with a clarificatory note to be disclosed in the Annual Report of the Company. **[16]**

4. (a) (i) Z Ltd. grants 200 share options to each of its 800 employees conditional on their continuing in service for 3 years. Fair value of share option on the grant date is ₹ 60. During year 1, 36 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 40 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 28 employees leave. All the continuing employees exercised the option to subscribe in the equity shares of ₹ 10 each at ₹ 100 only, when market price stands at ₹ 168. Pass Journal Entries of all the years and show the working.

(ii) "If a fraud related to a financial year 20X1-X2 is discovered after the end of the reporting period but before the date of approval of the financial statement for 20X3-X4, it is an adjusting event". Examine this statement in the light of the provisions of applicable Ind AS and provide justification in support of your conclusion.

(b) On 01.04.2020 CC Ltd. acquired 90% share of DM Ltd. at ₹5,40,000, when the fair value of its Net Assets was ₹5,00,000. During 01.04.2020 to 31.03.21 DM Ltd made total comprehensive income of ₹ 1,00,000. On that date CC sold 15% holding to outsiders at ₹1,10,000. Pass journal entries for sale of partial holding retaining control if:

(i) NCI is recognised at proportionate net assets.

[(6+4)+6=16]

5. (a) 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.

(b) X ltd. issued 250000, 6% convertible debentures @ ₹10 each on 01.04.2021. The debentures are due for redemption on 31.03.2025 at a premium of 10%, convertible into equity shares to the extent of 50% and balance to be settled in cash to the debenture holders. The interest rate on equivalent debentures without the conversion rights was 10%. You are required to separate the debt and equity components at the time of issue and show the accounting entries at initial recognition.

[10+6=16]

6. (a) S Ltd. acquired 20% shares of T Ltd. on 01.04.2021. S Ltd. further acquired on 01.04.2022 60% shares of T Ltd. at a consideration of ₹7,20,000 in cash and by issue of 20000 shares of ₹ 10 (market price ₹15). Debentures of T Ltd. were exchanged for 12% Debenture of S Ltd. A contingent consideration was also payable, fair value of which at the date of acquisition was estimated at ₹ 1,20,000. S Ltd. paid transaction cost ₹40,000. The fair value of shares previously held in T Ltd. amounts to ₹ 2,20,000. The fair values of assets and liabilities of T Ltd. are stated below:

	Fair Value (₹)
PPE	6,00,000
Current Assets	8,40,000
Creditors	72,000

The abstracts of consolidated balance sheet of S and individual balance sheet of T on 31-03-2022 are given below: [Amount in ₹]

	S Ltd.	**T Ltd.**		**S Ltd.**	**T Ltd.**
Equity Share Capital	9,20,000	5,00,000	PPE	3,60,000	3,20,000
Other Equity	7,40,000	6,00,000	Investment in 20% shares in T Ltd.	2,00,000	
12% Debenture	1,20,000	20,000	Current Assets	13,20,000	8,80,000
Creditors	1,00,000	80,000			
Total	18,80,000	12,00,000	Total	18,80,000	12,00,000

Prepare summarized Separate and Consolidated balance sheet as at 1-04-2022 and provide text of notes to accounts to be disclosed in Annual Report of the company.

(b) Explain different types of Joint Agreements. **[12 + 4=16]**

7. (a) What do you mean by Integrated Reporting? Discuss its objectives.

(b) Describe the role of Public Accounts Committee. **[8+8=16]**

SECTION – C

8. (a) A Ltd. engaged in the research to develop a new production technology. Expenditure on the new production process in 2021-2022 was as under:

	₹ in lakh
1st April to 31st December	5,400
1st January to 31st March	1,800
	7,200

The production process met the intangible asset recognition criteria for development on 1st January 2022. The amount estimated to be recoverable from the process is ₹ 1,000 lakh.

Expenditure incurred in FY 2022-2023 is ₹ 6,000 lakh.

At 31st March 2023, the amount estimated to be recoverable From the process (including Future cash outflows to complete the process before it is available for use) is ₹ 5,000 Lakh.

You have been hired as an Ind AS expert to guide the accounting team to identify the appropriate treatment of the research and development costs. Formulate a well-articulated detailed report to suggest the accountant on the following:

(i) The carrying amount of the intangible asset at 31st March 2022 and the charge to profit or loss For 2021-2022.

(ii) The carrying amount of the intangible asset at 31st March 20X3 and the charge to profit or loss For 2022-2023.

(b) XYZ Ltd. has two CGUs P and Q. Carrying amount of CGU P and BQ are ₹3000 and ₹1,000 lakhs respectively on 31.03.2020. The company has an administrative building of ₹1,200 lakhs and a R&D center of ₹900 lakhs. Administrative building can be allocated but R&D center cannot be allocated to the CGUs. Due to the spread of corona virus and lockdown, impairment tests have been done on 31.03.2020. Remaining useful life of P is 10 years and of Q 5 years. Fair value less cost of disposal is not realizable. Future expected cash flows from CGU P are ₹ 600 lakhs (5 years) and ₹300 lakhs (5 years), from Q is ₹ 350 lakhs (5 years). Future expected cash flows from XYZ Ltd. as a whole is ₹ 950 lakhs (5 years) and ₹400 lakhs (5 years). Discounting rate 12% p.a. Annuity of 12%: 1-5 = 3.6048, 6-10 = 2.0454.

As an expert on Ind AS, you have been asked by the company to guide the management in calculating impairment loss to be recognized in the financial statement, allocation of impairment loss and revised carrying amount of all CGUs. Submit a detailed report in this regard to the management. **[8+8=16]**