Paper 17- Corporate Financial Reporting

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Full Marks : 100 **Time allowed: 3 hours**

Section A
(Section is compulsory)

1. **Multiple Choice Questions.(1 mark for right choice and 1 mark for justification)**
[10×2=20]

(a) M Ltd., has equity capital of ₹ 50,00,000 consisting of fully paid equity shares of ₹ 10 each. The net profit for the year 2013-14 was ₹ 75,00,000. It has also issued 48,000, 10% convertible debentures of ₹ 50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. The diluted earnings is —
A. ₹76,68,000;
B. ₹50,00,000;
C. ₹2,25,000;
D. None of the above.

Answer: A. — ₹76,68,000.

Computation of Diluted Earnings:

Interest on Debentures @ 10% for the year	$48{,}000 \times ₹50 \times \frac{10}{100}$
	=₹2,40,000
Tax on interest @ 30%	= ₹72,000
Diluted Earnings (adjusted net profit)	= (₹75,00,000 + ₹2,40,000 - ₹72,000)
	= ₹76,68,000

(b) Vishal Construction Ltd. undertook a contract on 1st January, 2016 to construct a building for ₹ 84 lakhs. The company found on 31st March, 2016 that it had already spent ₹ 58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹ 31,50,000. Contract Value to be recognized as turnover in the final accounts for the year ended 31st March, 2016 as per AS 7 (revised) will be:
A. ₹ 84 lakhs
B. ₹ 10 lakhs
C. ₹ 54,60 lakhs
D. None of these

Answer: C. — ₹ 54.60 lakhs.

Contract work in progress (58,50,000/90,00,000) × 100 = 65%.
Proportion of total contract value to be recognized as turnover
= 65% of ₹ 84,00,000 = ₹ 54,60,000.

(c) X Ltd has Purchased Raw Material from ABC Ltd on 10-Jul-2016 by paying Sum of ₹2,40,000 for 100 tonnes. The above paid sum includes 20% VAT also. Company takes VAT Credit on Inputs. The closing stock of Raw Material on 31-Mar-2017 is 8 tonnes. Then what is the value of Closing Stock?
A. 16,000
B. 20,000
C. 14,000
D. 19,200

Answer: A. — 16,000.

Value of Closing Stock is — [(₹2,40,000 × $\frac{100}{120}$)÷ 100]× 8 tonnes = ₹16,000.

(d) Wealth Ltd. aquired 1,50,000 shares of Health Ltd. on August 1, 2016. The Equity Capital of Health Ltd. is ₹ 20 lakh of ₹ 10 per share. The machinery of Health Ltd. is revalued upwards by ₹ 4,00,000. The minority group interest shown in the Consolidated Balance Sheet as at March 31, 2017 was

A. ₹ 6,00,000
B. ₹ 4,00,000
C. ₹ 1,00,000
D. None of (A), (B) and (C)

Answer: A. — ₹ 6,00,000

No. of shares of Health Ltd.	= ₹ 20,00,000/10 = 2,00,000	
Minority interest = 200000 - 150000	= 50,000 = 25%	
Profit on revaluation of Machinery	= ₹ 4,00,000	
Share of Minority Group of Silver Ltd.	= 25% of ₹ 4,00,000	₹1,00,000
Equity Share Capital : (50000 × 10)		₹ 5,00,000
Total minority interest		₹ 6,00,000

(e) Fast Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2016 at ₹1,800 lakh. As at that date value in use is ₹1,350 lakh. If the net selling price is ₹1,275 lakh, recoverable amount of the Asset as per AS-28 will be:

A. ₹ 1,275 lakh
B. ₹ 1,350 lakh
C. ₹ 450 lakh
D. None of the above

Answer: B. — ₹1,350 lakh.

Recoverable amount is higher of Value in use ₹1,350 lakh and net selling price ₹1,275 lakh.
Recoverable amount = ₹1,350 lakh.

(f) The fair value of Plan assets of Tulip Ltd. at beginning and end of the year 2015-2016 were ₹ 4,00,000 and ₹ 5,70,000 respectively. The employer's contribution to the plan during the year was ₹ 1,40,000. If benefit payments to retirees were ₹ 1,00,000 what would be the actual return on plan assets (as per AS- 15) ?

A. ₹ 1,50,000 lakhs
B. ₹ 1,30,000 lakhs
C. ₹ 1,20,000 lakhs
D. Insufficient Information

Answer: B. — ₹ 1,30,000.

Actual Return = Fair value of assets (end of year) - Fair Value of assets (beginning of year) - Employer's contribution + benefit payments = (5,70,000 – 4,00,000 – 1,40,000 + 1,00,000) = ₹ 1,30,000.

(g) White Ltd. has imported $ 100,000 worth of goods from Chicago Traders of USA on 30.2.2016 when exchange rate was ₹ 54.60 per US $. The payment for imports was made

on 30.6.2016 when exchange rate was ₹ 55.50 per US $. If the rate of exchange on 31.3.2016 is ₹ 55.00 per US $, the exchange difference to be charged/debited to Profit & Loss Account for the year 2016-17 as per AS-11 will be –

A. ₹ 50,000 ;
B. ₹ 45,000 ;
C. ₹ 20,000 ;
D. None of the above.

Answer: A. — ₹ 50,000.

As per AS-11, exchange difference on settlement on monetary items should be transferred to Profit & Loss Account as gain or loss. Therefore (₹55.50 - ₹55.00) x $100,000 = ₹ 50,000 will be debited to Profit & Loss Account for the year 2016-17.

(h) V Ltd. acquired 2,000 equity shares of D Ltd. on April, 01,2015 for a price of ₹ 3,00,000. D Ltd. made a net profit of ₹ 80,000 during the year 2015-16. D Ltd. issued bonus shares of one share for every five shares held out of the post acquisition profits earned during the year 2015-16. The Share Capital of D Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the share of V Ltd. in the pre-acquisition profit of D Ltd. is ₹ 56,000, the amount of Goodwill/Capital Reserve to be shown in the Consolidated Balance Sheet as on March 31, 2015 is —

A. ₹ 4,000 (Goodwill)
B. ₹ 4,000 (Capital Reserve)
C. ₹ 44,000 (Goodwill)
D. ₹ 50,000 (Goodwill)

Answer: A. — ₹ 4000 (Goodwill)

Cost of investments	₹ 3,00,000
Less: Share of capital profit	₹ 56,000
	2,44,000
Face value of shares (including bonus shares of 400)	₹2,40,000
Cost of control-Goodwill	₹ 4,000

(i) On 1-1-2016 Vivan Ltd. has 3,600 equity shares outstanding. On 31-6-2016, it issued 1,200 equity shares for cash (without bonus claim). On 1-11-2016 it bought back 600 equity shares. Calculate the weighted average number of shares as on 31-12-2016?

A. 4,100 shares
B. 5,400 shares
C. 4,800 shares
D. None of the above

Answer: A. — 4,100 shares.

Computation of weighted average number of shares as per AS-20 is as follows:

$$(3{,}600\times\frac{6}{12})+(4{,}800\times\frac{4}{12})+(4{,}200\times\frac{2}{12}) = 4{,}100 \text{ shares.}$$

(j)

Super Profit (Computed) :	**₹ 9,00,000**
Normal rate of return :	**12%**
Present value of annuity of ₹1 for 4 years @ 12% :	**3.0374**

Value of Goodwill is —

A. ₹2,96,306
B. ₹1,08,000
C. ₹27,33,660
D. None of the above

Answer: C. — ₹27,33,660

Value of goodwill = Super profit × P.V of Annuity of ₹ 1for 4 years @ 12% = ₹ 9,00,000 × 3.0374 = ₹ 27,33,660.

Section B

(Answer any five questions out of seven questions) [16×5=80]

2. **(a) Rafik Ltd. purchased machinery from Umar Ltd. on 30.09.2016. The price was ₹555.66 lakhs before charging 8% sales tax and giving a trade discount of 2% on the quoted price. Transport charges were 0.25% on the quoted price and installation charges come to 1% on the quoted price.**

A loan of ₹450 lakhs was taken from the bank on which interest at 15% per annum was to bo paid. Expenditure incurred on the trial run was Material ₹52,500, wages ₹37,500 and Overheads ₹22,500.

Machinery was ready for use on 01.12.2016. However it was actually put to use only on 01.05.2017. Find out the cost of the machine and suggest the accounting treatment for the expenses incurred in the interval between the dates 01.12.2016 to 01.05.2017. The entire loan amount remained unpaid on 01.05.2017. [8]

Answer:

Particulars	**₹ in lakhs**
Price of machine	555.66
Less: Trade discount 2%	11.11
	544.55
Add: Sales Tax 8%	43.56
	588.11
Transport Charges 0.25 on ₹555.66	1.39
Installation Charges 1% of ₹ 555.66	5.56
	595.06
Calculation of borrowing cost –	
30.09.2016 – 01.12.2016 4500×15×100×2/×12	11.25
	606.31
Add: Expenses on Trial run	1.13
Total Cost	**607.44**

As per AS-16, the capitalization of interest should cease when substantially all the activities necessary for intended use are completed. Therefore interest for the period 01.12.2016-01.05.2017 should be expensed.

(b)

Particulars	**₹**
Expenditure incurred till 31.03.2016	**5,00,000**
Interest cost capitalized for the financial year 2015-16 @13%	**26,000**
Amount borrowed till 31.03.2016 is	**2,00,000**
Assets transferred to construction during 2016-17	**1,00,000**
Cash payment during 2016-17	**75,000**
Progress payment received	**3,50,000**
New borrowing during 2016-17 @ 13%	**2,00,000**

Calculate the amount of borrowing cost to be capitalized. [8]

Answer:

Total borrowing cost = 4,00,000 × 13/100 = ₹52,000	
Expenditure incurred including previously capitalized borrowing cost (5,00,000+26,000)	₹5,26,000
Cash payment during 2016-17	₹75,000
Asset transferred during 2016-17	₹1,00,000
	₹7,01,000
Less: Progress payment received	₹3,50,000
	₹3,51,000

Money borrowed including previously capitalized interest cost 4,00,000 + 26,000 = ₹4,26,000

Capitalization rate = 351/426 ×100 =82.3%
Borrowing cost to be capitalized = 82.3% × ₹52,000 = ₹42,845.

3. (a) PQ Ltd has got the license to manufacture particular medicines for 10 years at a license fee of ₹ 400 lakhs, given below is the pattern of expected production and expected operating cash inflow.

Year	Production in bottles (In thousands)	Net operating cash flow (₹ in lakhs)
1	300	900
2	600	1800
3	650	2300
4	800	3200
5	800	3200
6	800	3200
7	800	3200
8	800	3200
9	800	3200
10	800	3200

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method. [8]

Answer:

As per Accounting Standard 26 on intangibles, the amortization method used should reflect the pattern in which economic benefits are consumed by the enterprise. If pattern cannot be determined reliably, then straight line method should be used.

In the instant case, the pattern of economic benefit in the form of net operating cash flow *vis-a-vis* production is determined reliably. X Ltd should amortize the license fee of ₹ 400 lakhs as under:

Year	Net operating Cash inflow	Ratio	Amortize amount (₹ in lakhs)
1	900	0.03	12
2	1800	0.06	24
3	2300	0.08	32
4	3200	0.12	48
5	3200	0.12	48
6	3200	0.12	48

7	3200	0.12	48
8	3200	0.12	48
9	3200	0.12	48
10	3200	0.11 (balance)	44
	27400	1.00	400

(b) H Ltd. sold machinery having WDV of ₹ 400 Lakhs to B Ltd. for ₹ 500 Lakhs and the same machinery was leased back by B Ltd. to H Ltd. The Lease back is operating lease. Comment if –
(a) Sale price of ₹ 500 lakhs is equal to fair value
(b) Fair value is ₹ 600 lakhs
(c) Fair value is ₹ 450 lakhs and sale price is ₹ 380 lakhs
(d) Fair value is ₹ 400 lakhs and sale price is ₹ 500 lakhs
(e) Fair value is ₹ 460 lakhs and sale price is ₹ 500 lakhs
(f) Fair value is ₹ 350 lakhs and sale price is ₹ 390 lakhs **[8]**

Answer:

(a) H Ltd. should immediately recognize the profit of ₹ 100 lakhs in its books.
(b) Profit ₹ 100 lakhs should be immediately recognized by H Ltd.
(c) Loss of ₹ 20 lakhs to be immediately recognized by H Ltd. in its books provided loss is not compensated by future lease payment.
(d) Profit of ₹ 100 lakhs is to be amortized over the lease period.
(e) Profit of ₹ 60 lakhs (460 - 400) to be immediately recognized in its books and balance profit of ₹ 40 lakhs (500 - 460) is to be amortized / deferred over lease period.
(f) Loss of ₹ 50 lakhs (400 - 350) to be immediately recognized by H Ltd. in its books and profit of ₹ 40 lakhs (390 - 350) should be amortized / deferred over lease period.

4. Anu Ltd. and Minu Ltd. decided to amalgamate and to form a new company Amuin Ltd. The following are their summarized Balance Sheets as on March 31, 2016.

(Amount in ₹ lakhs)

		Anu Ltd.	Minu Ltd.
	Equity and Liabilities:		
1.	**Shareholders' funds:**		
	(a) Share Capital:		
	Equity shares of ₹ 100/- each	**1,760**	**1,650**
	12% Preference shares of ₹ 100 each	**660**	**440**
	(b) Reserves and Surplus:		
	Profit and Loss Account	**110**	**66**
	General Reserve	**374**	**330**
	Revaluation Reserve	**330**	**220**
	Investment Allowance Reserve	**110**	**110**
2.	**Non-current Liabilities:**		
	10% Debentures (₹ 100 each)	**132**	**66**
3.	**Current Liabilities:**		
	Trade payables	**924**	**418**
	Total	**4,400**	**3,300**
	Assets:		
1.	**Non-current assets**		
	(a) Fixed Assets:		
	Land and Building	**1,210**	**880**
	Plant and Machinery	**770**	**550**

	(b) Non-current Investments		
	Investments	**330**	**110**
2.	**Current Assets:**		
	(a) Inventories	**770**	**550**
	(b) Trade Receivables	**660**	**770**
	(c) Cash and Cash equivalents	**660**	**440**
	Total	**4,400**	**3,300**

Additional Information:

(i) Amuin Ltd. will issue 5 equity shares for each equity share of Anu Ltd. and 4 equity shares for each equity share of Minu Ltd. The shares are to be issued @ ₹30 each, having a face value of ₹ 10 per share.

(ii) 10% debenture holders of Anu Ltd. and Minu Ltd. are discharged by Amuin Ltd. issuing such numbers of its 15% Debentures of ₹ 100 each, so as to maintain the same amount of interest.

(iii) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of Amuin Ltd. at a price of ₹ 150 per share (face value ₹ 100).

(iv) Investment allowance reserve is to be maintained for 4 more years.

Required:

Prepare the Balance Sheet of Amuin Ltd. as on 1st April, 2016 as per Schedule-III of the Companies Act, 2013, after the amalgamation has been carried out on the basis of amalgamation in the nature of purchase.

[16]

Answer :

Balance Sheet of Amuin Ltd. as at April, 2016

(Amount in ₹ Lakh)

	Particulars	Note	Amount (₹)
I.	Equity and Liabilities		
	1. Shareholders' Funds:		
	(a) Share Capital	1	2640
	(b) Reserves and Surplus	2	3850
	2. Non-current liabilities		
	15% debentures **[W.N. 4]**		132
	3. Current Liabilities		
	(a) Trade payables		1342
	Total		7964
II.	Assets:		
	1. Non-current assets		
	(a) Tangible Fixed Assets		3410
	(b) Intangible Fixed Assets		44
	(c) Non-current investment		440
	(d) Amalgamation adjustment Account		220
	2. Current assets		
	(a) Inventories (770 + 550)		1320
	(b) Trade Receivables		1430
	(c) Cash and Cash equivalents		1100
	Total		7964

Notes to Balance Sheet:

1. Share Capital	
Particulars	**Amount (₹)**
(+)Equity Shares of ₹10 each (880 + 660)	1,540
(+) Preference Shares of ₹100 each (660+440)	1,100
Total	2,640

2. Reserves and Surplus	
Particulars	**Amount (₹)**
Securities Premium (330+220+1,760+1,320)	3,630
Add: Investment Allowance Reserve (110+110)	220
Total	3,850

Working Notes:

1. Computation of Purchase Consideration

(Amount in ₹ Lakh)

Particulars	Anu Ltd.	Minu Ltd.
(a) Preference Shareholders		
6,60,000 × 1 × ₹150 each	990	
4,40,000 × 1 × ₹150 each		660
(b) Equity Shareholders		
17,60,000 × 5 × ₹30 each	2,640	
16,50,000 × 4 × ₹30 each		1,980
Amount of Purchase Consideration	3,630	2,640

2. Computation of Net Assets Value:

(Amount in ₹ Lakh)

Particulars	Anu Ltd.	Minu Ltd.
Total Assets	4,400	3,300
Less: 10% Debentures [Face Value / 0.15]	(88)	(44)
Trade Payables	(924)	(418)
Net Assets	3,388	2,838

3. Net Assets less Purchase Consideration:

(Amount in ₹ Lakh)

Particulars	Anu Ltd.	Minu Ltd.
Net Assets	3,388	2,838
Purchase Consideration	3,630	2,640
Goodwill / Capital Reserve	(242)	198
Goodwill	(242 – 198) =44	

4. Discharge of Debentures

(Amount in ₹ Lakh)

Particulars	Anu Ltd.	Minu Ltd.
Issue of 15% Debentures:		
$\frac{132 \times 10\%}{15\%}$	88	

$\frac{66 \times 10\%}{15\%}$		44

5. **BLU LTD. is a holding company and ANU LTD. and TINU LTD. are subsidiaries of BLU LTD., their Balance Sheets (drafted) as on 31.03.2016 are given below:**

(Amount in ₹)

	BLU LTD.	ANU LTD.	TINU LTD.		BLU LTD.	ANU LTD.	TINU LTD.
Share Capital	6,00,000	6,00,000	3,60,000	Fixed Assets	1,20.000	3,60,000	2,58,000
Reserves	2,88,000	60,000	54,000	Investments:			
Profit & Loss Account	96,000	72,000	54,000	Shares in ANU Ltd.	5,70,000	—	—
TINU Ltd. Balance	18,000			Shares in TINU Ltd.	78,000	3,18,000	__
Trade payables	42,000	30,000		Inventories in Trade	72,000		
BLU Ltd. Balance		42,000		ANU Ltd. Balance	48,000		
				Trade receivables	1,56,000	1,26,000	1,92,000
				BLU Ltd. Balance			18,000
	10,44,000	8,04,000	4,68,000		10,44,000	8,04,000	4,68,000

The following particulars are given:

(a) The share capital of all companies is divided into shares of ₹10 each.

(b) BLU Ltd. held 48,000 shares of ANU LTD. and 6,000 shares of TINU LTD.

(c) ANU Ltd. held 24,000 shares of TINU LTD.

(d) All these investments were made on 30.09.2015

(e) On 31.03.2015 the position was as shown below: (Amount in ₹)

	ANU LTD.	TINU LTD.
Reserve	48,000	45,000
Profit and Loss Account	24,000	18,000
Trade payables	30,000	6,000
Fixed Assets	3,60,000	2,58,000
Inventories in trade	24,000	2,13,000
Trade receivables	2,88,000	1,98,000

(f) 10% dividend is proposed by each company.

(g) The whole of inventories in trade of ANU LTD. as on 30.09.2015 (₹24,000) was later sold to BLU Ltd. for ₹26,400 and remained unsold by BLU LTD. as on 31.03.2016.

(h) Cash-in-transit from ANU LTD. to BLU LTD. was ₹ 6,000 as at the close of business.

Required:

Prepare the consolidated Balance Sheet of BLU GROUP as on 31.03.2016 as per requirements of schedule-III of the Companies Act, 2013 with Notes to Accounts.

[16]

Answer:

Balance Sheet of Blu Ltd. and its Subsidiaries as at 31.03.2016

	Equity and Liabilities	Note	Amount (₹)	Amount (₹)
1	**Shareholders' Funds**			
	(a) Share capital		6,00,000	
	(b) Reserve and Surplus	1	3,61,830	
2	**Minority Interest (W. N. 4)**		2,26,920	
3	**Current Liabilities**			
	(a) Trade payables		72,000	
	(b) Short term Provisions	2	60,000	
	Total		**13,20,750**	
1	**Non- Current Assets**			
	(a) Fixed Assets			
	(i) Tangible Assets		7,38,000	
	(ii) Intangible Assets	3	33,150	
2	**Current Assets**			
	(a) Inventories	4	69,600	
	(b) Trade receivables		4,74,000	
	(c) Cash and cash equivalents	5	6,000	
	Total		**13,20,750**	

Notes to Accounts:

		₹	₹
1.	**Reserves and Surplus**		
	Reserves of Blu Ltd. as on 31.03.2016	2,88,000	
	Share in Anu Ltd.	7,200	
	Share in Tinu Ltd.	750	2,95,950
	Profit and Loss A/c		
	Blu Ltd's balance as on 31.3.2016	96,000	
	Share in Anu Ltd.	28,800	
	Share in Tinu Ltd.	3,000	
	Less: Dividend payable by Blu Ltd. [10% of ₹6,00,000]	(60,000)	
	Less: Unrealised profit on inventory [80% of ₹2,400]	(1,920)	65,880
	Total		**3,61,830**
2.	**Short term Provision**		
	Proposed Dividend		60,000
3.	**Intangible Assets**		
	Goodwill		33,150
4.	**Inventories**		
	Inventories less unrealized profit		69,600
5.	**Cash and Cash equivalents**		
	Cash in transit (48,000 - 42,000)		6,000

Working Notes:

Shareholding Pattern

	Anu Ltd.	Tinu Ltd.
Total shares	60,000	36,000
Held by Blu Ltd.	48,000 (80%)	6,000 [1/6 th]
Held Anu Ltd.	NA	24,000 [4/6 th]
Minority holding	20%	1/6 th

(i) Analysis of Reserves & Profit of Tinu Ltd.

				Pre-acquisition	Post-acquisition	
					Reserves	P&L
Reserves	31/3/16		54,000			
	31/3/15		45,000	45,000		
	Increase		9,000	4,500	4,500	
P & L Account	31/3/16 31/3/15		54,000 18,000	18,000		
	Increase		36,000	18,000		18,000
			Total	85,500	4,500	18,000
Shares	Blu	1/6		14,250	750	3,000
	Anu	4/6		57,000	3,000	12,000
	Minority	1/6		14,250	750	3,000

(ii) Analysis of reserves & Profit of Anu Ltd.

ANU- ANALYSIS OF PROFITS				Pre-acquisition	Post-acquisition	
					Reserves	P&L
Reserves	31/3/16		60,000			
	31/3/15		48,000	48,000		
	Increase		12,000	6,000	6,000	
P & L Account	31/3/16 31/3/15		72,000 24,000	24,000		
	Increase		48,000	24,000		24,000
			Sub- Total	1,02,000	6,000	24,000
Anu'S Share in Tinu					3,000	12,000
			Total	1,02,000	9,000	36,000
Shares	Blu	0.8		81,600	7,200	28,800
	Minority	0.2		20,400	1,800	7,200

(iii) Computation of Cost of Control:

Investment in Anu Tinu	 5,70,000 3,96,000	 9,66,000
Less: Paid up value of Investment Anu Tinu	 4,80,000 3,00,000	 (7,80,000)
Less: Pre-acquisition capital profits Anu Tinu	 81,600 71,250	 (1,52,850)
Total Goodwill		33,150

(iv)Computation of Minority interest

	ANU	TINU
Share Capital	1,20,000	60,000
Share in pre-acquisition Profit	20,400	14,250
Share in post-acquisition Reserves	1,800	750
Share in post-acquisition Profits	7,200	3,000
Less: provision for unrealized profit	(480)	
	1,48,920	78,000
Total Minority Interests		**2,26,920**

6. (a) A company Amrit Ltd. announced a Stock Appreciation Right on 01/04/14 for each of its 525 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹ 125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31/03/17 but before 30/06/17. The fair value of SAR was ₹ 21 in 2014-15, ₹ 23 in 2015-16 and ₹ 24 in 2016-17. In 2014-15 the company estimates that 2% of the employees shall leave the company annually. This was revised to 3% in 2015-16. Actually, 10 employees left the company in 2014-15, 5 left in 2015-16 and 3 left in 2016-17. The SAR therefore actually vested to 482 employees. On 30/06/17, when the SAR was exercised, the intrinsic value was ₹ 25 per share.
Show Provision for SAR A/c by fair value method. [8]

Answer:

Dr. Provision of SARs Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2014-15	To Balance c/d	3,29,700	2014-15	By Employees Compensation Expenses A/c	3,29,700
2015-16	To Balance c/d	7,06,867	2015-16	By Balance b/d	3,29,700
				By Employee Compensation Expenses A/c	3,77,167
		7,06,867			7,06,867
2016-17	To Balance c/d	11,56,800	2016-17	By Balance b/d	7,06,867
				By Employee Compensation Expenses A/c	4,49,933
		11,56,800			11,56,800
2017-18	To Bank(48,200×25)	12,05,000	2017-18	By Balance b/d	11,56,800
				By Employee Expenses A/c	48,200
		12,05,000			12,05,000

The Provision for SAR is a liability as settlement of SAR is through cash payment equivalent to an excess of market price of company's shares on exercise date over the exercise price.

Working Notes:

<u>Year 2014-15</u>

Number of employees to whom SARs were announced (482+10+5+3) = 500 employees.
Total number of employees after three years, on the basis of the estimation in 2014-15 = (500

x 0.98 x 0.98 × 0.98) = 471employees.
No. of SARs expected to vest = 471employees ×100 = 47,100 SAR
Fair value of SARs = 47,100SARs × ₹ 21= ₹ 9,89,100
Vesting period = 3 years
Recognized as expense in 2014-15 = ₹ 9,89,100/3 years = ₹ 3,29,700

<u>Year 2015-16</u>
Total number of employees after three years, on the basis of the estimation in 2015-16 = [(500-10) × 0.97 × 0.97) = 461employees
No. of SARs expected to vest = 461employees ×100 = 46,100 SARs
Fair value of SARs =46,100 SARs × ₹ 23 = ₹ 10,60,300
Vesting period = 3 years
No. of years expired = 2 years
Cumulative value of SARs to be recognized as expense =10,60,300/3 × 2 = ₹ 7,06,867
SARs recognize as expense in 2015-16 = ₹ 7,06,867- ₹ 3,29,700 = ₹ 3,77,167

<u>Year 2016-17</u>
Fair value of SARs = ₹ 24
SARs actually vested = 482 employees x 100 = 48,200 SARs
Fair value = 48,200 SARs × ₹ 24 = ₹ 11,56,800
Cumulative value to be recognized = ₹ 11,56,800
Value of SARs to be recognized as an expense = ₹ 11,56,800 – ₹ 7,06,867 = ₹ 4,49,933

<u>Year 2017-18</u>
Cash payment of SARs = 48,200 SARs ×₹ 25 = ₹ 12,05,000

Value of SARs to be recognized as an expense in 2017-18 = ₹12,05,000 – ₹ 11,56,800 = ₹ 48,200

(b) A firm values goodwill under 'Capitalisation of profits' method. Its average profits for past 4 years has been determined at ₹ 72,000. Net Assets and Capital employed in the business is ₹4,80,000 and ₹ 5,00,000 respectively; and its normal rate of return is 12%.
Determine value of goodwill based on:
(a) Capitalisation of Average Profits
(b) Capitalisation of Super Profits **[4+4=8]**

Answer:

(a) Capitalisation of Average Profits

In this case, Capitalised Value of the Business $= \frac{\text{Expected Average Profit}}{\text{Normal Rate of Return}} = \frac{₹72,000}{12\%}$

= ₹ 6,00,000

∴ Value of Goodwill = Capitalised Value of the Business ***Less*** Net Assets
= ₹ 6,00,000 – ₹4,80,000 = ₹ 1,20,000

(b) Capitalisation of Super Profits

In this case, Value of Goodwill = $\frac{\text{Super Profit}}{\text{Normal rate of return (\%)}}$

Super profit = Average profit – Normal Profit = Average profit – (Capital employed × Normal rate of return)
= ₹ 72,000 – (₹ 5,00,000 × 12%)
= ₹ 72,000 – 60,000
= ₹ 12,000

$\therefore$ Value of Goodwill = $\frac{\text{Super Profit}}{\text{Normal rate of return (\%)}} = \frac{12{,}000}{12\%}$ = ₹ 1,00,000

7. (a) Discuss the objectives of Government Accounting. **[8]**

Answer:

Objectives of Government Accounting:

The objectives of government accounting are the financial administration of the activities of the government to promote maximization of welfare in the form of various services. The specific objectives can be stated as under:

1. To record financial transactions of revenues and expenditure relating to the government organizations.
2. To provide reliable financial data and information about the operation of public fund.
3. To record the expenditures as per the appropriate Act, Rules, and legal provisions as set by the government.
4. To avoid the excess expenditures beyond the limit of the budget approved by the government.
5. To help in the preparation of various financial statements and reports.
6. To facilitate the auditing by the concerned government department.
7. To prevent misappropriation of government properties by maintaining the systematic records of cash and store items.
8. To facilitate for estimating the annual budget by providing historical financial data of government and expenditures.

(b) Discuss the structure of Government Accounting Standards Advisory Board. **[8]**

Answer:

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. Answer the following (any four out of five) **[4×4=16]**

(a) A Factory started activities on 1st April. From the following data, obtain the Value of Closing Stock on 30th April.

- **Raw Materials purchased during April = 80,000 kg at ₹12 (out of which Excise Duty = ₹2 per kg). Stock on hand as on 30th April = 5,000 kg.**
- **Production during April = 14,000 units (of which 10,000 units were sold). In addition to**

the production, 1,000 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).

- **Wages and Production Overheads =₹30 per completed unit.**
- **Selling Price=₹110 per unit(of which Excise Duty is ₹10 per unit).**

Answer:

Particulars	Computation	₹
1. Raw Material Valuation (net of Input Excise Duty)	5,000 kg x ₹10 per kg.	50,000
2. WIP Valuation (net of RM input duty)	(₹50 + 60% of ₹30) x 1,000 units	68,000
3. Finished Goods Valuation (including ED on SP)	(RM 50 + Lab & OH 30 + ED 10) =	
	₹90 × (14,000 units - 10,000 units)	3,60,000
Total		**4,78,000**

Computation of Cost per unit of production:

- Raw Materials: (80,000 - 5,000) = 75,000 kg for 15,000 units total = 5 kg x ₹10 (net of ED)=₹50
- Wages and Production Overhead =₹30 per completed unit (given)

(b) Write a note on — Myths regarding XBRL.

Answer:

This section clarifies certain myths regarding XBRL. In other words, it is discussed what XBRL is not:

(a) XBRL is not a set of Accounting Standards: It needs to be clearly understood that XBRL does not represent a set of accounting standards, which remain the prerogative of the regulatory standards bodies. XBRL is merely a platform on which reporting standards content will reside and be represented.

(b) XBRL is not a chart of accounts: It is not a detailed universal chart of accounts. Formulation of a company's chart of accounts is an exercise conducted by its management with regard to its specific business intricacies. XBRL can facilitate the implementation of such structures through its ability to transport data between disparate software applications that might be used within an organization's operational structures.

(c) XBRL is not a GAAP translator: It does not provide a mechanism for facilitating a drilldown of existing GAAP information into lower levels of information that would be necessary for translating financial statements from one GAAP to another. The business-reporting document contains the same GAAP information, be it in an XBRL format or an MS word or PDF format.

(d) XBRL is not a proprietary technology: XBRL is freely licensed and available to the public.

(e) XBRL is not a Transaction Protocol: XBRL deals with business reporting information, not with data capture at the transaction level. It is designated to address issues related to generation and usage of information contained within business reports and begin at the accounting classification level.

(c) Discuss the prerequisites of implementation of TBL Reporting.

Answer:

Prerequisites of implementation of TBL Reporting —

TBL reporting would be of little relevance to the reporting company or its stakeholders if it is not **aligned to the company's overall business strategy**. A decision to move to full TBL reporting should not be taken lightly. It must have **senior management endorsement and commitment**, as it may have major resource implications, and a half-hearted approach is likely to be worse than not adopting it all.

<u>Strategy for implementation</u>
Critical issues for consideration in the development and implementation of TBL reporting include:

- clear definition of the role of TBL reporting in driving strategic business objectives;
- establishment of the resource and cost requirements;
- awareness of associated legal implications; and
- understanding the risks involved in publishing TBL information.

<u>Key Challenges for Implementation</u>
The key challenges for implementation of TBL reporting framework are:

- Awareness of relevant issues associated with TBL reporting;
- Understanding stakeholder requirements;
- Aligning TBL reporting with objectives and risks; and
- Determining and measuring performance indicators.

(d) Write a note on — Classification of Financial Assets.

Answer:

Classification of Financial Assets:

Financial asset has been classified as under:

- **Held for trading:** Financial assets at fair value through Profit & Loss. They are held for trading or they are designated as such. It includes derivatives also.
- **Held to maturity:** Assets with fixed maturity and the entity has a positive intention and ability to hold till maturity.
- **Loans & receivables:** Assets with fixed payments (determinable and which are not quoted in the market.
- **Available for sale:** These are those assets which are not classified under any of the above categories. (residual)

(e) List the factors affecting valuation of shares.

Answer:

Factors affecting valuation of shares:

The different factors that affect the valuation of shares are:

1. Nature of the industry to which the company belongs
2. The companies past performance
3. Economic conditions of the country
4. Other political and economic factors (e.g., possibility of nationalization, excise duty on goods produced, etc.)
5. Demand and supply of shares

6. Income yielding capacity of the company
7. The availability of sufficient assets over liabilities
8. Proportion of liabilities and capital
9. Rate of proposed dividend and past profit of the company
10. Yield of other related shares of the Stock Exchange.