Paper 17- Corporate Financial Reporting

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

Section – A

Answer the following questions.

1. **Choose the most appropriate answer from the four alternatives given: (1 Mark for right choice & 1 Mark for justification): [2x10=20]**

(i) D Ltd. incurred costs to modify its building and to rearrange its production line. As a result, an overall reduction in production costs is expected. However, the modifications did not increase the building's market value, and the rearrangement did not extend the production line's life.
Should the building modification costs and the production line rearrangement costs be capitalized?

	Building modification costs	Production line rearrangement costs
A.	Yes	No
B.	Yes	Yes
C.	No	No
D.	No	Yes

(ii) On 1-1-2016 Vivan Ltd. has 3,600 equity shares outstanding. On 31-5-2016, 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. 4,200 shares
B. 5,400 shares
C. 4,800 shares
D. None of the above

(iii) Vamsi Ltd. presents interim financial report quarterly, earns ₹1,200 lakhs pre-tax profit in the first quarter ending 30.06.2016 but except to incur losses of ₹400 lakhs in each of the three remaining quarters. Which will result zero income during the financial year effective income-tax rate is expected to be 35%. Quarterly income – tax will be:

A. ₹105, ₹105, ₹105, ₹105
B. ₹420,0,0,0
C. ₹420, (₹140), (₹140), (₹140)
D. None of the above

(iv) Best Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2017 at ₹ 1,000 lakh. As at that date value in use is ₹ 800 lakh. If the net selling price is ₹ 750 lakh, Impairment Loss of the asset as per AS-28 will be
A. ₹ 200 lakh
B. ₹ 1,000 lakh
C. ₹ 50 lakh
D. None of the above

(v) The fair value of Plan assets of Upkar Ltd. at beginning and end of the year 2015-2016 were ₹ 6,00,000 and ₹ 8,55,000 respectively. The employer's contribution to the plan during the year was ₹ 2,10,000. If benefit payments to retirees were ₹ 1,50,000 what would be the actual return on plan assets?
A. ₹ 1,50,000 lakhs
B. ₹ 2,55,000 lakhs

C. ₹ 1,95,000 lakhs
D. Insufficient Information

(vi) 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

(vii) Viplab Ltd. acquires 100% of B Ltd. for ₹9,60,000. Fair Value (FV) of B's net assets at time of acquisition amounts ₹ 8,00,000. Calculate Goodwill as per Ind AS 103.
A.₹9,60,000
B. ₹1,60,000
C.₹17,60,000
D.₹8,00,000

(viii) X Ltd. holds 69% of Y Ltd., Y Ltd. holds 51% of W Ltd., Z Ltd. holds 49% of W. Ltd. As per AS 18, Related Parties are :
A. X Ltd., Y Ltd. & W Ltd;
B. X Ltd. & Z Ltd;
C. Y Ltd. & Z Ltd;
D. X Ltd. & Y Ltd. only.

(ix) At the time of absorption of Akash Ltd. by Vikash Ltd., trade receivable of both companies shown in their Balance Sheets were ₹ 70 Lakhs and ₹ 36 Lakhs. On that date trade payable of Vikash Ltd. includes payable to Akash Ltd. ₹ 9 Lakhs. After absorption, the amount of trade receivables will be shown in the Akash Ltd.'s Balance Sheet as
A. ₹ 70 Lakhs
B. ₹ 34 Lakhs
C. ₹ 97 Lakhs
D. None of the above

(x) While closing its books of accounts on 31st March 2017, a NBFC has ₹20,000 as Standard Assets. Calculate the amount of provision required on advances as on 31st March, 2017 as per the Non-Banking Financial Co.- Systemically Important Non-deposit taking Co. and Deposit taking Co. (reserve bank) Direction,2016.
A. ₹5,000
B. ₹7,000
C. ₹2,000
D. ₹70

Section – B
Answer any five questions out of seven questions.

[16x5=80]

2. (a) (i) D Ltd. grants 10 share appreciation rights to Q, an employee, entitling him to receive cash payment for the increase in quoted price of D's shares from the exercise price of ₹ 500 per share after 3 years. How the transaction should be recognized if it is assumed for a) for his past service, b) for his service in future 3 years?[Ind AS 102] **[3]**

(ii) ZooZoo Ltd. Produces four joint products A,B, C and D from a joint process. It incurred ₹8,56,800. Allocate the Joint Costs with the following information:

Particulars	A	B	C	D
Quantity Produced (in'000s)	10,000 kgs	12,000 kgs	14,000 kgs	16,000 kgs
Sales Price per kg	₹13	₹17	₹19	₹22
Stock Quantity at the end of year	1,625 kgs	400 kgs	Nil	1,550 kgs

Also determine the value of Closing Stock in respect of the above products. [Ind AS 2] **[6]**

(b) An amount of ₹9,90,000 was incurred on a contract work upto 31.03.2015. Certificates have been received to date to the value of ₹12,00,000 against which ₹10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹22,500. It is estimated that by spending an additional amount of ₹60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS – 7. **[7]**

3. (a) Prasad Ltd. had the following borrowing during a year in respect of capital expansion.

Plant	Cost of Asset	Remarks
Plant A	100 Lakhs	No specific Borrowings
Plant B	125 Lakhs	Bank loan of ₹ 65 Lakhs at 10%
Plant C	175 Lakhs	9% Debenture of ₹ 125 Lakhs were issued

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (i) ₹ 100 lakhs at 10% from Corporation Bank and (ii) ₹ 110 lakhs at 11.5% from State Bank of India, to meet its capital expansion requirements. Determine the borrowing costs to be capitalized in each of the above plants, as per AS-16. **[9]**

(b) S Ltd. acquired a patent at a cost of ₹60 lacs for a period of 5 years and the product-life cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹10 lacs per annum. After two years it was found that the product life-cycle may continue for another 4 years from then. the net cash flows from the product during these 4 years were expected to be ₹45,00,000; ₹54,00,000; ₹58,50,000 and ₹63,00,000. Find out the amortization cost of the patent for each of the year. **[7]**

4. (a) The Balance Sheet (drafted) of X Ltd. before reconstruction is:

Liabilities	₹	**Assets**	₹
		Building at cost	
12,000 7% Preference		Less: Depreciation	4,00,000
shares of ₹ 50 each	6,00,000	Plant at cost	
7,500 Equity shares of ₹ 100		Less: Depreciation	2,68,000
each	7,50,000	Trade Marks and Goodwill	
		at Cost	3,18,000
(Note : Preference dividend is		Stock	4,00,000
in arrear for five years)		Debtors	3,28,000
Loan	5,73,000	Profit and Loss A/c	4,51,000
Sundry creditors	2,07,000		
Other liabilities	35,000		
Total	21,65,000	Total	21,65,000

Note: Loan is assumed to be of less than 12 months, hence treated as short term borrowings (ignoring interest)

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both classes of shareholders. A summary of the scheme is as follows:

a. The Equity Shareholders have agreed that their ₹ 100 shares should be reduced to ₹ 5 by cancellation of ₹ 95 per share. They have also agreed to subscribe in each for the six new Equity Shares of ₹ 5 each for two Equity Share held.

b. The Preference Shareholders have agreed to cancel the arrears of dividends and to accept for each ₹50 share, 4 new 5% Preference Shares of ₹10 each, plus 3 new Equity Shares of ₹ 5 each, all credited as fully paid.

c. Lenders to the Company of ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹10 each and 6,000 new equity share of ₹ 5 each.

d. The Directors have agreed to subscribe in cash for 20,000, new Equity Shares of ₹ 5 each in addition to any shares to be subscribed by them under (a) above.

e. Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the Company.

f. The equity Share capital cancelled is to be applied:
   i. to write off the preliminary expenses;
   ii. to write off the debit balance in the Profit and Loss A/c ; and
   iii. to write off ₹ 35,000 from the value of Plant.

Any balance remaining is to be used to write down the value of Trade Marks and Goodwill.

Show by journal entries and prepare the reconstruction account. **[12]**

(b) On 1 January 20X5 Momo Ltd. acquires 80 per cent of the equity interests of Popo Ltd in exchange of cash of ₹750. The identifiable assets are measured at ₹1,050 and the liabilities assumed are measured at ₹150. The fair value of the 20 per cent non controlling interest in P is ₹129. Compute the gain on purchase of 80% interest. **[4]**

5. R Ltd. owns 80% of S and 40% of T and 40% of Q. T is jointly controlled entity and Q is an associate. Balance Sheet of four companies as on 31.03.2017 are:

Assets	R Ltd. ₹	S Ltd. ₹	T Ltd. ₹	Q Ltd. ₹
Investment in S	1,200	-	-	-
Investment in T	1,800	-	-	-
Investment in Q	1,800	-	-	-
Fixed Assets	1,500	1,200	2,100	1,500
Current Assets	3,300	4,950	4,875	5,475
Total	7,800	6,150	6,975	6,975
Liabilities				
Share capital ₹1 Equity Share	1,500	600	1,200	1,200
Retained Earnings	6,000	5,100	5,400	5,400
Creditors	300	450	375	375
Total	7,800	6,150	6,975	6,975

R Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were ₹ 780 lakhs. R Ltd. acquired its shares in 'T' at the beginning of the year when 'T" retained earnings were ₹ 600 lakhs. R Ltd. acquired its shares in 'Q' on 01.04.2013 when 'Q' retained earnings were ₹ 600 Lakhs.

The balance of goodwill relating to 'S' had been written off three years ago. The value of goodwill in 'T' remains unchanged.

Prepare the Consolidated Balance Sheet of R Ltd. as on 31.03.2014 as per AS 21, 23 and 27.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III. **[16]**

6. **(a)** Pink Ltd. grants 50 stock options to each of its 1,000 employees on 01.04.2015 for ₹20, depending upon the employees at the time of vesting options. The market price of the share is ₹ 50. These options will vest at the end of year 1, if the earning of Pink Ltd. is 16% or it will vest at the end of the year 2, if the average earning of two years is 13%, or lastly it will vest at the end of the third year, if the average earning of 3 years will be 10%. 2,500 unvested options lapsed on 31.03.2016. 2,000 unvested options lapsed on 31.03.2017 and finally 1,750 unvested options lapsed on 31.03.2018.
Following is earning of Diamond Ltd.:

Year ended on	Earr
31.03.2016	14%
31.03.2017	10%
31.03.2018	7%

850 employees exercised their vested options within a year and remaining options were un-exercised at the end of the contractual life. Pass journal entries with proper narrations for the above transactions. **[8]**

(b) Future maintainable profit before interest is ₹154 lakhs, normal rate of return on long term fund is 20% and on equity fund is 25%. Long term fund is of the company is ₹640 lakhs and equity fund is ₹420 lakhs. Interest on long term fund is 18%. Find out leverage effect of goodwill. **[8]**

7. **(a)** Discuss the structure of GASAB. **[8]**

(b) Accounts of the Government – discuss. **[8]**

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

(a) Myths regarding XBRL ;
(b) Complete set of Financial Statement as per Ind AS 1;
(c) Objectives of Government Accounting;
(d) Strategies and key challenges for implementation of Triple Bottom Line Reporting;
(e) Bearer plant.