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) On 1st December, 2012, VC Ltd. undertook a contract to construct a building for ₹ 85 lakhs. ON 31st March, 2013 the company found that it had already spent ₹ 64,99,000 on the construction. Prudent estimate of additional cost for completion was ₹ 32,01,000. What is the additional provision for foreseeable loss, which must be made in the final accounts for the year ended 31st March, 2013 as per provisions of AS-7 on "Accounting for Construction Contracts".

A. ₹64,99,000
B. ₹ 32,01,000
C. ₹ 3,96,000
D. ₹ 8,04,000

Answer:— C. ₹ 3,96,000

		₹
	Contract Price	85 lakhs
	Cost incurred	64.99 lakhs
	Estimated cost to completion	20.01 lakhs
Loss to be provided for the year ending 2012-13		
As per AS-7 – 31-3-2013		
₹(97 – 85) lakhs		= 12 lakhs
Loss to be recognized 64.99/97 × 100 = 67/100 × 12		= 8.04 lakhs
Additional provision to be made for foreseeable loss		3.96 lakhs

(b) M Ltd., has equity capital of ₹ 40,00,000 consisting of fully paid equity shares of ₹ 10 each. The net profit for the year 2013-14 was ₹ 60,00,000. It has also issued 36,000, 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. ₹61,26,000;

B. ₹40,00,000;

C. ₹18,00,000;

D. None of the above.

Answer: A. — ₹61,26,000.

Computation of Diluted Earnings:

Interest on Debentures @ 10% for the year	$36,000 \times ₹50 \times \frac{10}{100}$
	=₹1,80,000
Tax on interest @ 30%	= ₹54,000

Diluted Earnings (adjusted net profit)	= (₹60,00,000 + ₹1,80,000 - ₹54,000)
	= ₹61,26,000

(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) X Ltd Acquired, Y Ltd by paying the Purchase consideration of ₹ 2000 lakhs. The fair market value of assets of Y Ltd ₹1280 lakhs. Compute the value of Good will or Capital Reserve value

A. Goodwill 400 Lakhs & Capital Reserve 320Lakhs
B. Goodwill 720 Lakhs & Capital Reserve 0
C. Goodwill 680 Lakhs & Capital Reserve 40 Lakhs s
D. Goodwill 700 Lakhs & Capital Reserve 20Lakhs

Answer: B. — Goodwill 720 Lakhs & Capital Reserve 0

Computation of Goodwill = ₹(2,000 – 1,280) Lakhs = ₹720 Lakhs

(e) WEALTH Ltd. aquired 75,000 shares of SILVER Ltd. on August 1, 2014. The Equity Capital of Silver Ltd. is ₹ 10 lakh of ₹ 10 per share. The machinery of Silver Ltd. is revalued upwards by ₹ 2,00,000. The minority group interest shown in the Consolidated Balance Sheet as at March 31, 2015 was

A. ₹ 3,00,000
B. ₹ 2,00,000
C. ₹ 50,000
D. None of (A), (B) and (C)

Answer: A. — ₹ 3,00,000

No. of shares of Silver Ltd.	= ₹ 10,00,000/10 = 1,00,000	
Minority interest = 100000 - 75000	= 25,000 = 25%	
Profit on revaluation of Machinery	= ₹ 2,00,000	
Share of Minority Group of Silver Ltd.	= 25% of ₹ 2,00,000	₹50,000
Equity Share Capital : (25000 × 10)		₹ 2,50,000
Total minority interest		₹ 3,00,000

(f) Fast Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2014 at ₹1,200 lakh. As at that date value in use is ₹ 900 lakh. If the net selling price is ₹850 lakh, recoverable amount of the Asset as per AS-28 will be:

A. ₹ 850 lakh
B. ₹ 900 lakh

C. ₹ 300 lakh
D. None of the above

Answer: B — ₹900 lakh.

Recoverable amount is higher of Value in use ₹900 lakh and net selling price ₹850 lakh.
Recoverable amount = ₹900 lakh.

(g) B & T Ltd. obtained a Loan from a bank for ₹ 480 lakhs on 30.04.2015. It was utilized for : Construction of a shed ₹ 210 lakhs, Purchase of a machinery ₹ 150 lakhs, Working Capital ₹ 80 lakhs, Advance for purchase of truck ₹ 40 lakhs, Construction of shed was completed in March 2016. The machinery was installed on the same date. Delivery truck was not received. Total interest charged by the bank for the year ending 31.03.2016 was ₹ 72 lakhs. As per AS 16, Interest to be debited to Profit & Loss account will be :
A. ₹ 31.50 lakhs;
B. ₹ 40.50 lakhs;
C. ₹ 210 lakhs;
D. None of the above.

Answer: B — ₹40.50 lakhs.

Qualifying Asset as per AS-16	= ₹ 210 lakhs (construction of a shed).
Borrowing cost to be capitalized = 72 × 210/480	= ₹31.50 lakhs
Interest to be debited to Profit or Loss account	= ₹ (72 – 31.50) lakhs
	= ₹ 40.50 lakhs.

(h) White Ltd. has imported $ 100,000 worth of goods from Chicago Traders of USA on 30.2.2014 when exchange rate was ₹ 54.60 per US $. The payment for imports was made on 30.6.2014 when exchange rate was ₹ 55.50 per US $. If the rate of exchange on 31.3.2014 is ₹ 55.00 per US $, the exchange difference to be charged/debited to Profit & Loss Account for the year 2014-15 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 2014-15.

(i) 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%.
Value of goodwill based on capitalisation of Average Profits will be —
A. ₹1,20,000
B. ₹6,00,000
C. ₹5,00,000
D. ₹4,80,000

Answer: A. ₹1,20,000.

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.

(j) Ramayana Ltd. presents interim financial report quarterly. On 01-04-2015. Ramayana Ltd. has carried forward loss of ₹ 800 lakhs for income-tax purpose for which deferred tax asset has not been recognized. The Ramayana Ltd. earns ₹1,000 lakhs in each for quarter ending on 30.06.2015, 30.09.2015, 31.12.2015 and 31.03.2016 excluding the loss carried forward. Income-tax rate is expected to be 40%. The amount of tax expense to be reported in each quarter will be:

A. ₹1,000 lakhs;
B. ₹1,280 lakhs;
C. ₹320 lakhs;
D. ₹4,000 lakhs.

Answer:

B — ₹ 320 lakhs.

The estimated payment of the annual tax on ₹ 4,000 lakhs earnings for the current year.
(4,000 lakhs - ₹ 800 lakhs) = ₹ 3,200 lakhs

₹ 3,200 × 40/100 = ₹ 1,280 lakhs.

Average annual effective tax rate = (1,280/4,000) ×100 = 32%
Tax expense to be shown each quarter will be 1,000 × 32/ 100 = ₹ 320 lakhs.

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

2. (a) Advise D Ltd. about the treatment of the following in the final statement of accounts for the year ended 31st March, 2017. A claim lodged with the Railways in March, 2015 for loss of goods of ₹ 5 lakhs had been passed for payment in March, 2017 for ₹ 4 lakhs. No entry was passed in the books of the company, when the claim was lodged. [8]

Answer:

The financial statements of the company are prepared for the year ended 31.3.17.
There was a loss of goods of ₹ 5 lakhs in 2014-15 and the claim was lodged in March 2015 with the Railway authorities. No entry was passed in the books of the company when the claim was lodged and the said treatment was correct in view of AS-9, which states that if uncertainty exists as to collectability, the revenue recognition should be postponed.
Since, the claim is passed for payment of ₹ 4 lakhs in March, 2017, it should be recognized as revenue in the financial statements prepared for the year ended 31.3.17.
As per AS-5 Revised, the claim amount received will not be treated as extraordinary item. AS-5 Revised further states that when items of income and expense within profit or loss from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Accordingly, the nature and amount of this item should be disclosed separately.

(b) The following details are given for Troma Ltd. for the year ended March 31, 2016:

	(Amount in ₹ lakhs)
MP Division: **Sales to PQ Division** **Other Domestic Sales** **Export Sales**	 **916** **18** **1,226**
	2,160
PQ Division: **Sales to HN Division** **Export Sales to Europe**	 **10** **60**
	70
HN Division: **Export Sales to USA**	 **54**

Amount in ₹ Lakh

Particulars	Head Office	MP Division	PQ Division	HN Division
Pre-tax Operating Result	**—**	**48**	**6**	**(2)**
Head Office Cost Reallocated	**—**	**14**	**8**	**6**
Interest Costs	**—**	**2**	**2**	**2**
Fixed Assets	**16**	**60**	**12**	**36**
Net Current Assets	**14**	**36**	**12**	**26**
Long-term Liabilities	**12**	**6**	**4**	**36**

Require:

Prepare a Segmental Report of Troma Ltd. for publication for the year ended March 31, 2016, keeping in view the relevant Accounting Standard (AS-17). [8]

Answer:

TROMA LTD.
SEGMENT REPORTING

(Amount in ₹ Lakh)

Particulars	MP Division	PQ Division	HN Division	Inter Segment elimination	Consolidated total
Segment Sales Revenue					
Domestic	18	---	---	---	18
Export	1226	60	54	---	1340
Total external sales	1244	60	54	---	1358
Inter Segment Sales	916	10	---	926	---
Total revenue	2160	70	54	(926)	1358
Segment result (given)	48	6	(2)	---	52
Head Office Expenses					(28)
Operating profit					24
Interest expenses					6
Profit before tax					18
Information in relation to assets and Liabilities:					
Fixed assets	60	12	36		108
Net current assets	36	12	26		74
Segment assets	96	24	62		182
Unallocated corporate assets					30
Total assets					212
Segment liabilities	6	4	36	---	46
Unallocated corporate liabilities					12
Total liabilities	---	---			58

SALES REVENUE BY GEOGRAPHICAL MARKET

	Domestic sales	Export sales (by MP division)	Export to Europe	Export to USA	Consolidated total
External sales	18	1226	60	54	1358

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) N Ltd has 80% shares in a joint venture with Suzuki Ltd. N Ltd. sold a plant WDV ₹20 lakhs for ₹30 lakhs. calculate how much profit N Ltd. should recognize in its book in case joint venture is: (a) jointly controlled operation; (b) jointly controlled asset; (c) jointly controlled entity. [8]

Answer:

As per AS-27, in case of jointly controlled operation and jointly controlled assets joint venture, the venture should recognize the profit to the extent of other venturer's interest.

In the given case, N Ltd. should recognize profit of:

= ₹(30 – 20)lakhs = ₹10 x 20%= ₹2 lakhs only.

However, in case of jointly controlled entities N Ltd. should recognize full profit of ₹10 lakhs in its separate financial statement. However, while preparing consolidated financial statement it should recognize the profit only to the extent of 20% i.e. ₹ 2 lakhs only.

4. AB Ltd. has 2 divisions-A and B. Division A has been making constant profit, while Division B has been suffering losses. The Division wise Balance Sheet as on 31st March, 2014 are as follows:

	(₹ in lakhs)		
	Division A	**Division B**	**Total**
Fixed assets: cost (Tangible)	**500**	**1000**	**1500**
Less: Depreciation	**450**	**800**	**1250**
Written Down Value (i)	**50**	**200**	**250**
Current Assets:	**400**	**1000**	**1400**
Less: Current Liabilities	**50**	**800**	**850**
Net Current Assets (ii)	**350**	**200**	**550**
Total (i) + (ii)	**400**	**400**	**800**
Financed by:			
Loan	**-**	**600**	**600**
Capital : Equity Shares of ₹ 10 each	**50**	**-**	**50**
Reserves and Surplus	**350**	**(200)**	**150**
Total	**400**	**400**	**800**

Division B along with its assets and liabilities was sold for ₹ 50 lakhs to X Ltd., a new company which issued 2 lakhs equity shares of ₹ 10 each at a premium of ₹ 15 per share to the members of B Division in full settlement of the consideration in proportion to their shareholding in the company. Assuming that there are no other transactions,

You are required to:

(i) Show journal entries in the books of AB Ltd.

(ii) Prepare the Balance Sheet of AB Ltd. after the entries made in (i) above.

(iii) Show journal entries in the books of X Ltd.

(iv) Prepare the balance Sheet of X Ltd.

In both the cases, Balance Sheets to be prepared in the Scheduled III format. [16]

Answer:

In the Books of AB Ltd.
Journal Entries

Sl. No.	Particulars		Dr. ₹in lakhs	Cr. ₹ in lakhs
(i)	X Ltd. A/c.	Dr.	50	
	Loan A/c	Dr.	600	
	Current Liabilities A/c	Dr.	800	
	Provision for Depreciation A/c	Dr.	800	
	To Fixed Assets A/c			1000
	To Current Assets A/c			1000

	To Capital Reserve A/c (Bal. Fig.) (Being Sale of assets and liabilities to X Ltd.)		250
(ii)	Equity Shares in X Ltd. A/c Dr. To X Ltd. A/c (Receipt of consideration)	50	50

Note: Division B was sold to X Ltd. The consideration received for transfer was equity share of X Ltd. of ₹10 each fully paid, issued at a premium of ₹15.
The value of consideration = 2,00,000 shares× (10+15) = ₹50,00,000.

Balance Sheet of AB Ltd.
as on 31.03.2014

Particulars	Note No.	Amount (₹in lakhs)
1. Equity and Liabilities		
1. Shareholders Fund		
(a) Share Capital	1	50
(b) Reserve & Surplus	2	430
2. Current Liabilities		50
Total		500
2. Assets		
1. Non current assets		
(a) Fixed Assets		
(i) Tangible assets	3	50
(b) Non current Investment	4	50
2. Current assets		400
Total		500

Note No:-1. Share Capital (₹ in lakhs)

Authorised, issued, subscribed and paid up:- 5,00,000 Equity Shares of ₹10 each fully paid	50

Note No:-2. Reserve and Surplus.

Capital Reserve	250
Profit and loss (existing)	150
Total	430

Note No:-3.Tangible Assets.

Fixed Assets	500
Less: Provision for depreciaiton	450
Total	50

Note No:-4. Non current Investment

Investment in equity share of X Ltd. (face value of ₹. 10: subscribed at a premium of ₹15 each)	50

In the Books of X Ltd.
Journal Entries

Sl. No.	Particulars	Dr. ₹ in lakhs	Cr. ₹ in lakhs
(i)	Business purchase A/c. Dr. To AB Ltd. A/c (Being entries for business purchase.)	50	50
(ii)	Fixed Assets A/c Dr. Current Assets A/c Dr. Goodwill A/c (Bal. Fig.) Dr. To Loan A/c	200 1000 250	600

	To Current Liabilities A/c To Business Purchase A/c (Being assets and liabilities taken over)		800 50
(iii)	AB Ltd. A/c. Dr. To Equity share capital A/c To Securities premium A/c (Being discharge of purchase consideration.)	50	 20 30

Balance Sheet of X Ltd.
as on 31.03.2014

Particulars	Note No.	Amount (₹ in lakhs)
1. Liabilities		
Equity and Liabilities		
1. Shareholders Fund		
(a) Share Capital	1	20
(b) Reserve & Surplus	2	30
2. Non Current Liabilities (Loan fund)		600
3. Current liabilities and Provision		800
Total		1,450
2. Assets		
1. Non current assets		
(a) Fixed Assets		
(i) Tangible assets		200
(ii) Intangible assets (Goodwill)		250
2. Other Current assets		1,000
Total		1,450

Note No:-1. (₹in lakhs)

Fresh issue of 2,00,000 equity shares of ₹10 each	20

Note No:-2. Reserve and Surplus.

Securities premium (2,00,000 shares × ₹15)	30

5. A Ltd. owned 80% of B Ltd, 35% of C Ltd. and 30% of D Ltd. C Ltd. is jointly controlled entity and D Ltd. is an associate. Balance Sheet of all four companies as on 31.03.2014 are:

(₹ in lakhs)

Particulars	A Ltd.	B Ltd.	C Ltd.	D Ltd.
Liabilities				
Equity share of ₹ 1/- each fully paid-up	**1,500**	**600**	**1,200**	**1,200**
Retained Earnings	**6,000**	**5,100**	**5,400**	**5,400**
Creditors	**300**	**450**	**380**	**375**
Total	**7,800**	**6,150**	**6,980**	**6,975**
Assets				
Fixed Assets	**1,500**	**1,200**	**2,100**	**1,500**
Investment in B Ltd.	**1,200**			
Investment in C Ltd.	**900**			
Investment in D Ltd.	**900**			
Current Assets	**3,300**	**4,950**	**4,880**	**5,475**
Total	**7,800**	**6,150**	**6,980**	**6,975**

A Ltd. acquired shares in

(i) B Ltd. many years ago, when the company had retained earnings of ₹ 780 lakhs.

(ii) C Ltd. at the beginning of the year, when the company had retained earnings of ₹ 600 lakhs.
(iii) D Ltd. on 01.04.2013, when the company had retained earnings of ₹ 600 lakhs.
The balance of goodwill relating to B Ltd. had been written off three years ago. The value of goodwill in C Ltd. remains unchanged.

Prepare the Consolidated Balance Sheet of A Ltd. as on 31.03.2014 as per AS-21, AS-23 and AS-27. [16]

Answer:

Consolidated Balance Sheet of A Ltd. as at 31st March, 2014

Particulars	Note No	Amount
A. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	1,500
(b) Reserves and Surplus	2	12,480
total		13,980
2. Minority Interest		1,140
3. Current Liabilities		
Trade Payables	3	883
Total (1+2+3)		16,003
B. ASSETS		
1. Non-current Assets		
(a) Fixed Assets		
(i) Tangible assets	4	3,435
(ii) Intangible assets	5	270
(b) Non-current investments	6	2,340
Total		6,045
2. Current Assets		
Other current assets	7	9,958
Total (1+2)		16,003

Notes to Accounts:

Note No:-1. Share Capital (₹ in lakhs)

Share capital in equity shares	1,500
Total	1,500

Note No:-2. Reserve and Surplus.

Retained Earnings (W.N.-2)	12,480
Total	12,480

Note No:-3. Trade Payables.

Creditors[300+450+133(35% of 380)]	883
Total	883

Note No:-4.Tangible Assets.

Fixed Assets [1,500+1,200+735(35% of 2,100)]	3,435
Total	3,435

Note No:- 5. Intangible Assets.

Goodwill (W.N. 2)	270
Total	270

Note No:-6. Non-current Investments.

Investments in Associates (W.N. 4)	2,340
Total	2,340

Note No:-7. Other current assets

Other current assets [3,300+4,950+1,708(35% of 4,880)]	9,958
Total	9,958

WORKING NOTES:-

1. Computation of Goodwill

B Ltd. (subsidiary)		
Cost of investment		1,200
Less: Paid up value of shares acquired	480	
Share in pre-acquisition profits of B Ltd.(780×80%)	624	1,104
Goodwill		96
C Ltd.(Jointly Controlled Entity)		
Cost of investment		900
Less: Paid up value of shares acquired(35% of 1,200)	420	
Share in pre-acquisition profits of C Ltd.(35% of 600)	210	630
Goodwill		270
Note: Jointly controlled entity C Ltd to be consolidated on proportionate basis i.e.35% as per AS-27.		
D Ltd.(Associate as per AS-23)		
Cost of investment		900
Less: Paid up value of shares acquired(30% of 1,200)	360	
Share in pre-acquisition profits of C Ltd.(30% of 600)	180	540
Goodwill		360
Goodwill to be shown in the consolidated		
Goodwill of C Ltd.		270
Goodwill of B Ltd		96
Less: Goodwill written off of B Ltd.		96
Goodwill		270

2. Consolidated Retained Earnings:-

A Ltd.	6,000
Share in post acquisition profits of B Ltd - 80% (5,100 - 780)	3,456
Share in post acquisition profits of C Ltd - 35% (5,400 - 600)	1,680
Share in post acquisition profits of D Ltd - 30% (5,400 - 600)	1,440
Less: Goodwill written off	(96)
	12,480

3. Minority Interest-B Ltd.

Share Capital (20% of 600)	120
Share in Retained Earnings (20% of 5,100)	1,020
	1,140

4. Investment in Associates

Cost of Investments (including goodwill ₹360 lakhs)	900
Share of post acquisition profits	1,440
Carrying amount of investment (including goodwill ₹360 lakhs)	2,340

6. (a) X Ltd. granted 500 stock options to its employees on 01.04.2013 at ₹ 50 per share. The vesting period is 2 ½ years and the maximum exercise period is one year. Market price on that date is ₹ 140 per share. All the options were exercised on 30.06.2016. Pass journal entries giving suitable narrations, if the face value of equity share is ₹ 10 per share. Also show the impact of the above items in the Balance Sheet for the year Mar. 31, 2014 to 2016. [8]

Answer:

X Ltd.
Journal

Date	Particulars	Dr. ₹	Cr. ₹
31.3.14	Employees Stock Option Expenses A/c Dr.	18,000	
	To Employees Stock Option Outstanding A/c		18,000
	(Being expenses on 500 stock options recognised)		
31.3.14	P/L A/c Dr.	18,000	
	To Employees Stock Option Expenses A/c		18,000
	(Being Employees Stock Options expenses transferred)		
31.3.15	Employees Stock Option Expenses A/c Dr.	18,000	
	To Employees Stock Option Outstanding A/c		18,000
	(Being expenses on 500 stock options recognised)		
31.3.15	P/L A/c Dr.	18,000	
	To Employees Stock Option Expenses A/c		18,000
	(Being Employees Stock Options expenses transferred)		
31.3.16	Employees Stock Option Expenses A/c Dr.	9,000	
	To Employees Stock Option Outstanding A/c		9,000
	(Being expenses on 500 stock options recognised)		
31.3.16	P/L A/c Dr.	9,000	
	To Employees Stock Option Expenses A/c		9,000
	(Being Employees Stock Options expenses transferred)		
30.6.16	Bank A/c [500 × ₹ 50] Dr.	25,000	
	To Employees Stock Option Outstanding A/c		25,000
	(Being money received on 500 options exercised)		
30.6.16	Employees Stock Option Outstanding A/c [500 × ₹ 140] Dr.	70,000	
	To Equity Share Capital A/c		5,000
	To Securities Premium Reserve A/c [500 × ₹ 130]		65,000
	(Being Employees Stock Option Outstanding Account transferred to equity share capital and Securities Premium Reserve Account)		

Balance Sheet as at 31.03.14 (includes)

Balance Sheet as at 31.3.14 (includes)

Particulars	Note No.	₹
Reserves & Surplus	1	18,000

Balance Sheet as at 31.3.15 (includes)

Particulars	Note No.	₹
Reserves & Surplus	1	18,000

Balance Sheet as at 31.3.16 (includes)

Particulars	Note No.	₹
Reserves & Surplus	1	18,000

Notes to Accounts:	
1. Reserves & Surplus	
Employees Stock Option Outstanding	18,000

Notes to Accounts:	
1. Reserves & Surplus	
Employees Stock Option Outstanding	36,000

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1. Reserves & Surplus	
Employees Stock Option Outstanding	36,000

Workings:

Calculation of intrinsic value of option = Market price per share – Exercisable price per share = 140 – 50 = ₹ 90

Employee Compensation Expenses to be recognised:

	13-14 (₹)	14-15 (₹)	15-16 (₹)
Gross Value of employee compensation expenses	18,000	36,000	45,000
$GV = \text{No.of Options expected to vest X Intrinsic Value} \times \frac{\text{Expired Period}}{\text{Vesting Period}}$	[500 × 90 × 1/2.5]	[500 × 90 × 2/2.5]	[500 × 90 × 2.5/2.5]
Less: Expenses already recognised upto preceding accounting period	-	18,000	36,000
∴ Expenses to be recognised	18,000	18,000	9,000

(b) XY Ltd, a partnership firm, earned profits during the past 5 years as follows:

Year	2011	2012	2013	2014	2015
Profits (₹)	27,000	36,000	37,200	42,000	46,800

Determine the value of goodwill in each of the following independent cases:

Case (a): It was decided to value the Goodwill on the basis of 3½ years' purchase of average profit of last five years after giving weights of 1, 2, 3, 6 and 8 to the profits chronologically.

Case (b): It was decided to value the Goodwill on the basis of 2½ years' purchase of simple average profit of last five years. In this regard the following were observed:

(i) an abnormal loss of ₹ 1,800 was charged against the profit of 2013;

(ii) Profit of 2014 included a non-recurring receipt of ₹ 2,500;

(iii) closing stock of 2015 was over-valued by ₹ 2,400. [4+4=8]

Answer:

Case (a):

Weighted average profit $= \frac{(₹27{,}000 \times 1) + (₹36{,}000 \times 2) + (₹37{,}200 \times 3) + (₹42{,}000 \times 6) + (₹46{,}800 \times 8)}{1 + 2 + 3 + 6 + 8}$

= ₹ 41,850

∴ Value of Goodwill = ₹ 41,850 × 3½ years' purchase = ₹ 1,46,475

Case (b):

Profit of 2013 = Profit (as given) + Abnormal loss sustained in 2013 (which cannot be expected to occur in future)

= ₹ 37,200 + ₹ 1,800 = ₹ 39,000

Profit of 2014 = Profit (as given) – Non-recurring receipt of 2014 (which cannot be expected to occur in future)

= ₹ 42,000 – ₹ 2,500 = ₹ 39,500

Profit of 2015 = Profit (as given) – Overvaluation of closing stock (rectification of profit)

= ₹ 46,800 – ₹ 2,400 = ₹ 44,400

Simple Average profit $= \frac{₹27{,}000 + ₹36{,}000 + ₹39{,}000 + ₹39{,}500 + ₹44{,}400}{5}$ = ₹ 37,180

∴ Value of Goodwill = ₹ 37,180 × 2½ years' purchase = ₹ 92,950

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 maximisation 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 — Types of Share based payment transactions.

Types of Share Based Payment Transactions

There are three types of share-based payment transactions:

- **Equity-settled share-based payment transactions:** Under this type of Share-based Payment transaction, an entity receives services, as consideration for its own equity instruments or it has no obligation to settle the transaction with the supplier.
- **Cash-settled share-based payment transactions:** Under this type of Share-based Payment transaction, the entity acquires services by incurring liabilities for amounts that are based on the price (or value) of equity instruments of the entity or another group entity.

- **Share-based payment transactions with cash alternatives:** Here an entity has a choice of issuing shares or paying cash then the entity shall recognise a liability if it determines that it has an obligation to settle the liability in cash. If on settlement the entity issues shares rather than paying cash then the value of the liability should be transferred to equity.

(c) Write a note on — Users of XBRL.

XBRL is the international standard for digital reporting. It offers benefits to all those who have to create, transmit, use or analyse such information. XBRL is used in many different ways, for many different purposes. The significant users of XBRL include:

1. **Companies:** Companies are required to provide relevant information to various stakeholders, and to accurately move information amongst them.
2. **Not-for-profit Organisations**: Several not-for-profit organisations, like universities, municipalities etc. opt for reporting under XBRL format.
3. **Accountants:** Accountants use XBRL in support of clients reporting requirements and are required to prepare and present financial statements using XBRL.
4. **Analysts:** Analysts that need to understand relative risk and performance.
5. **Investors:** Investors that need to compare potential investments and understand the underlying performance of existing investments.
6. **Regulatory Authorities:** The different regulatory authorities that use XBRL include:
   - Financial regulators that need significant amounts of complex performance and risk information about the institutions that they regulate.

(d) Write a note on — Relationship between financial Reporting and triple bottom line reporting.

Origin: The origination of financial reporting precedes that of Triple bottom line reporting, the latter being just a few decades old.
Nature: It is mandatory for corporates to prepare and present their financial reports; while preparation of full TBL reports including social and environmental dimension is voluntary in nature.
Scope: Triple bottom line reporting is broader in scope than financial reporting, as the former includes the reporting of social and environmental performances in addition to the financial performance of an organisation.
Contents: The information contained within a TBL report is of a different nature to that included in a financial report. Thus, TBL reporting enables environmental and social risks that have the capacity to materially affect long-term financial performance to be identified and, therefore, taken into consideration when preparing financial reports.

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

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)