Paper 17- Corporate Financial Reporting

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

Question No.1 which is compulsory and carries 20 Marks and answer any 5 Question from Q. No 2 to Q No 8

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

(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.

(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

(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

(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)

(f) Chandra Ltd. acquired a machine for ₹ 65 Lakhs on 1st July, 2014. It has a life of 5 years with a salvage value of ₹ 7 Lakhs. As on 31st March, 2017, if present value of future cash flows is ₹28 Lakhs and net selling price is ₹25 Lakhs, impairment loss will be

A. ₹ 3 Lakhs
B. ₹ 30 Lakhs
C. ₹ 18.15 Lakhs
D. ₹5.10 Lakhs

(g) 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.

(h) 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

(i) 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.

(j) SS Ltd. can sell its products in the open market for ₹2,000 per unit. However, it has entered into an agreement with KK Ltd. to sell its product for ₹2,400 per unit. The cost to sell is ₹100 per unit. The Fair value less cost to sell is equal to — [Ind AS 2]

A. ₹1,900
B. ₹2,230
C. ₹2,000

D. ₹2,400

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]**

(b) Compute Basic and Adjusted Earnings per share from the following information: [8]

Net Profit for 2015-16	₹ 44 Lakhs
Net Profit For 2016-17	₹ 65 Lakhs
No. of shares before Rights Issue	110000
Right Issue Ratio	Two for every four held
Right Issue Price	₹ 180
Date of exercising Rights Option	31st July 2016
Fair Value of shares before Right Issue	₹ 270

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]**

(b)(i) A Ltd was using Cost Model for its Fixed Assets till 31st March 2017. On 1st April 2017, i.e. the date of its transition to Ind ASs, it used Fair Values as the Deemed Cost in respect of its Fixed Assets. Answer the following questions -

(i) Will the use of Fair Value on the date of transition as Deemed Cost, mean a Change in Accounting Policy?

(ii) In addition to the above, suppose A Ltd wants to follow Fair Value Model as its accounting policy in respect of its Fixed Assets for the First Annual Ind AS Financial Statements. Is this a Change in Accounting Policy? [Ind AS 101] **[4]**

(ii) G Ltd prepares its Financial Statements that contain an explicit and unreserved statement of compliance with Ind ASs. However, the Auditors' Report on those Financial Statements contain a qualification because of disagreement on application of one of the Ind AS. In such case, is it possible for the Entity to make an explicit and unreserved statement of compliance with Ind ASs? [Ind AS 1] **[4]**

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]**

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]**

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]**

(b) Given below is the Balance Sheet of M Ltd as on 31.12.2014 —

Equity and Liabilities	₹ (Lakhs)
(1) Shareholders' Funds:	
(a) Share Capital	50.00
(b) Reserves & Surplus (i) Reserve	32.00
(ii) P&L A/c	3.00
(2) Current Liabilities:	
(a) Trade payables – Sundry Creditors	8.20
(b) Other Current Liabilities – Proposed Dividend	10.00
Total	103.20
Assets	
(1) Non-Current Assets:	
(a) Fixed Assets (Sundry):	72.00
(b) Non-Current Investments (Non-Trade)	12.00
(2) Current Assets:	
(a) Inventories	7.80
(b) Trade Receivables – Sundry Debtors	6.20
(c) Cash & Cash Equivalents	5.20
Total	103.20

Other Information –

- Profit Before Tax and other relevant information: (₹ lakhs)

Year	Profit Before Tax	Provision for Gratuity required	Gratuity Paid	Loss of uninsured stock
2010	42.00	2.20	--	--
2011	39.00	2.30	1.67	0.62
2012	44.00	2.50	0.32	--
2013	42.00	2.60	1.42	--
2014	37.00	2.70	0.12	--

- Past Tax rate is 51% while Expected Tax Rate is 45%
- The Company wants to switch over towards maintaining gratuity provision on actuarial calculation rather than accounting on payment basis. The company's non-Trade investments fetched 11%.

Find out value of Goodwill as per Super profit method. It may be assumed that Super Profit. If any, is maintainable for 5 years. 20% should be the appropriate discount factor. Normal Rate of return may be taken as 16%. **[8]**

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

(b) Discuss the role of Public Accounts Committee (P.A.C). **[8]**

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

(a) Write a note on — Types of Share based payment transactions;

(b) Write a note on — Scope of Ind AS-102;

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

(d) Write a note on — Responsibilities of GASAB;

(e) Write a note on — Cost of convertion as per Ind AS 2.