Paper 17- Corporate Financial Reporting

Paper 17- Corporate Financial Reporting

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

Answer:— C. ₹ 3,96,000

	₹
Contract Price	85.00 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) 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

Answer: — (D) ₹5.10 Lakhs

Carrying amount on 31st March 2017 = 65 - [(65 - 7)×33/60]
= 65-31.90 = ₹ 33.10 Lakhs
Recoverable amount (Present value) = ₹ 28 Lakhs i.e. higher of ₹28 Lakhs and ₹25 Lakhs
Hence, Impairment loss = ₹ 33.10 – ₹ 28 = ₹ 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.

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.

(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

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.

(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.

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.

(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

Answer: — A. ₹1,900

Fair Value = ₹2,000 per unit.

So, Fair Value less Costs to sell = ₹2,000 - ₹100 =₹1,900.

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) 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**

Answer:

EPS of the year 2015 – 2016 (originally reported) $= \frac{₹44,00,000}{1,10,000} = ₹\ 40$

EPS for the year 2015 – 2016 (Restated for the Right Issue) $= \frac{₹44,00,000}{1,10,000 \times 1.125}$

$$= \frac{₹44,00,000}{1,23,750} = ₹\ 35.56$$

EPS of the year 2016 – 2017 including effect of Right issue

$$= \frac{₹65,00,000}{(1,10,000 \times 1.125 \times \frac{4}{12}) + (1,65,000 \times \frac{8}{12})} = \frac{₹65,00,000}{1,51,250} = ₹\ 42.98$$

Working Notes:

(1) Calculation of Theoretical Ex – rights Fair Value per Share

$$\frac{Fair\ Value\ of\ all\ outstanding\ Shares\ Immediately\ prior\ to\ right\ issue + Total\ amount\ received\ from\ execise\ of\ rights}{Number\ of\ Shares\ outstanding\ before\ exercise\ of\ rights + Shares\ issued\ in\ the\ exercise\ of\ rights}$$

$$\frac{(1,10,000 \times ₹270) + (1,10,000 \times \frac{2}{4} \times 180)}{1,10,000 + 55,000} = \frac{₹2,97,00,000 + ₹99,00,000}{1,65,000} = ₹\ 240$$

(2) Calculation of Adjustment Factor

$$= \frac{Fair\ Value\ per\ share\ before\ exercise\ of\ rights}{Theoretical\ Ex{-}rights\ Fair\ Value\ per\ share} = \frac{₹270}{₹240} = 1.125$$

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. PQ 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)(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]

Answer:

Use of Fair Values on the date of transition will not tantamount to a Change in Accounting Policy.
Fair Values of the Fixed Assets on the date of transition will be considered as Deemed Cost without this being considered as a change in accounting policy.

The use of Fair Value Model for the First Annual Ind AS Financial Statements will be considered as; Change in the Accounting Policy.
There is change in method from Previous GAAP (Cost Model) to Ind AS (Fair Value Model) in this case.

(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]

Answer:

Preparation of Financial Statements is the prerogative of the Entity's Management. If the Management has a bonafide reason to believe that it has complied with the applicable Ind ASs, it can make the explicit and unreserved statement of compliance with Ind ASs.

The Auditor expresses his opinion on the Financial Statements provided to him for audit. Hence, he can qualify his report due to disagreement with the application of one of the Ind AS.

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.)			250
	(Being Sale of assets and liabilities to X Ltd.)			
(ii)	Equity Shares in X Ltd. A/c	Dr.	50	

	To X Ltd. A/c (Receipt of consideration)		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	400
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	400

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 To Current Liabilities A/c To Business Purchase A/c (Being assets and liabilities taken over)	200 1000 250	 600 800 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 31.3.14	Balance Sheet as at 31.3.15	Balance Sheet as at 31.3.16

(includes)

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

(includes)

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

(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

Notes to Accounts:	
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
$\text{GV} = \text{No. of Options expected to vest X Intrinsic Value} \times \frac{\text{Expired Period}}{\text{Vesting Period}}$	[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) 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]

Answer:

A. Computation of Future Maintainable Profits (₹ lakhs)

Particulars	2010	2011	2012	2013	2014
Profit Before Tax	42.00	39.00	44.00	42.00	37.00
Less: Provision for Gratuity	(2.20)	(2.30)	(2.50)	(2.60)	(2.70)
Add: Gratuity Paid	---	1.67	0.32	1.42	0.12
Add: Abnormal Loss	---	0.62	---	---	---
Adjusted Profits	39.80	38.99	41.82	40.82	34.42
Simple Average Profit (See Note Below)	$\frac{39.80+38.99+41.82+40.82+34.42}{5}$				39.17
Less: Non-Trade Investments at 11% of ₹ 12 lakhs					(1.32)
Adjusted profit Before Tax = Future Maintainable PBT					37.85
Less: Tax Expense at 45%					(17.03)
Adjusted Profit After Tax = Future Maintainable PAT					20.82

Note: Since Profits show an oscillation trend, Simple Average Profit shall be more appropriate than Weighted Average or Trend Equation Methods.

B. Computation of Average Capital Employed

Particulars	₹ lakhs
Total of Assets as per Balance Sheet	103.20
Less: Non-Trade Investments and Sundry Creditors (12.00 + 8.20)	(20.20)
Closing Capital Employed	83.00
Less: 50% of Profit After Tax earned in 2014 as per Books (Revised Profits after adjustments)	
50% of PAT = 50% × (PBT less Tax at 51%) = 50% × (34.42 Less 51% thereon) =	(8.44)
50% × (₹ 16.87 lakhs) = 8.44	

Average Capital Employed	74.56

C. Computation of Goodwill (₹ lakhs)

Super Profit Method:

Particulars	₹ lakhs
Future Maintainable Profit	20.82
Less: Normal Profit at 16% Average Capital Employed (16% of ₹ 74.56 lakhs)	11.93
Super Profits	8.89
Goodwill at 5 years' purchase of super profits	44.45

Note: Alternatively Normal Profit can be computed based on Closing Capital Employed.

Note and Assumptions:

- under Super Profits method, Average Capital Employed is considered for calculating Normal Profits.
- Discount Rate and Normal Rate of Return given above are after tax rates.

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 role of Public Accounts Committee (P.A.C):

1. Role regarding examination of the C&AG report: The chief function of P.A.C. is to examine the audit report of Comptroller and Auditor General (C&AG) after it is laid in the Parliament. C&AG assists the Committee during the course of investigation.
2. Role regarding unauthorized expenditures or excess expenditures: In examining the report of the Comptroller and Auditor General of India (C&AG), the committee has to satisfy itself that:
   - the expenditures made by the government, were authorized by the Parliament; and
   - the expenditures under any head has not crossed the limits of parliamentary authorization.

It is to be noted that, every expenditure made by the government must be sanctioned by the Parliament. Thus, it is the role of the committee to bring to the notice of the Parliament instances of unauthorized expenditures or expenditures beyond sanctioned limits.

3. Role regarding spending of money by ministries: The committee not only ensures that ministries spend money in accordance with parliamentary grants, it also brings to the notice of the Parliament instances of extravagance, loss, in fructuous expenditure and lack of financial integrity in public services. However, the committee cannot question the polices of the government. It only concerns itself with the execution of policy on its financial aspects.

4. Scrutinizing the audit reports of public corporations: A new dimension has been added to the function of the P.A.C. by entrusting it with the responsibility of scrutinizing the audit report of public corporations.

5. Scrutinising the working process of ministries and public corporations: In examining the accounts and audits of the ministries and public corporations, the Committee gets the opportunity to scrutinize the process of their working. It points out the weakness and shortcomings of the administration of ministries and public corporations criticisms of the P.A.C. to draw national attention. This keeps the ministries and public corporations sensitive to the criticisms of the P.A.C. Thus, it is wrong to suppose that the P.A.C. is only an instrument of financial control, it is as well an instrument of administrative control.

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

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

Answer:

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.

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

Answer:

An entity shall apply this Standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

(a) equity-settled share-based payment transactions,
(b) cash-settled share-based payment transactions, and
(c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods

or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.

(d) A share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving or acquiring the goods or services. Paragraph 2 also applies to an entity that:
   (i) receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction, or
   (ii) has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them.

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

Answer:

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.

(d) Write a note on — Responsibilities of GASAB

Answer:

GASAB, inter alia, has the following responsibilities:

1. To formulate and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
2. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
3. To keep the standards current and reflect change in the Governmental environment.
4. To provide guidance on implementation of standards.
5. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
6. To improve the common understanding of the nature and purpose of information contained in the financial reports.

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

Answer:

Costs of conversion of inventories include

- costs directly related to the units of production, such as direct material, direct labour and other direct expenses; and

- systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods
- **Fixed production overheads** are those indirect costs of production that remain relatively constant regardless of the volume of production.
- **Variable production overheads** are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.
- The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities.
  Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance.
  The actual level of production may be used if it approximates normal capacity.
- The amount of fixed overhead allocated to each unit of production is not increased as a consequence of **low production or idle plant**. Unallocated overheads are recognised as an expense in the period in which they are incurred.
- In periods of **abnormally high production**, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost.