Paper 17- Corporate Financial Reporting

Paper 17- Corporate Financial Reporting

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) Good Wishes Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2017 at ₹ 4,000 lakh. As at that date value in use is ₹ 3,200 lakh. If the net selling price is ₹ 3,000 lakh, Impairment Loss of the asset as per AS-28 will be

A. ₹ 800 lakh
B. ₹ 4,000 lakh
C. ₹ 200 lakh
D. None of the above

Answer:

A — ₹800 lakh

Recoverable amount is higher of value in use ₹3,200 lakh and net selling price ₹3,000 lakh.
Recoverable amount = ₹3,200 lakh.

Impairment loss is (₹4,000 - ₹3,200)Lakhs = ₹800 Lakhs

(ii) Ind AS 112 — "Disclosure of Interests in Other Entities" applies to an entity that has an interest in __________________.

A. Subsidiaries;
B. Joint arrangements;
C. Associates;
D. All of the above.

Answer:

D — All of the above.

Ind AS 112 — "Disclosure of Interests in Other Entities" shall be applied by an entity that has an interest in any of the following:

(a) Subsidiaries;
(b) joint arrangements (i.e. joint operations or joint ventures);
(c) associates;
(d) Unconsolidated structured entities.

(iii) AS per Ind AS 7 __________ activities are the principal revenue-producing activities.

A. Operating
B. Financing
C. Investing
D. None of the above

Answer:

A — Operating Activity

As per Ind AS 7 **Operating activities** are the principal revenue-producing activities.

(iv) High-Rise Construction Ltd. undertook a contract on 1st January, 2018 to construct a building for ₹ 84 lakhs. The company found on 31st March, 2018 that it had already spent ₹58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹31,50,000. Contract Value to be recognized as turnover in the final accounts for the year ended 31st March, 2018 as per AS 7 (revised) will be:
A. ₹ 84 lakhs
B. ₹ 10 lakhs
C. ₹ 54,60 lakhs
D. None of these

Answer: C. — ₹ 54.60 lakhs.

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

(v) Himmat Ltd., has equity capital of ₹ 50,00,000 consisting of fully paid equity shares of ₹ 10 each. The net profit for the year 2016-17 was ₹ 75,00,000. It has also issued 48,000, 10% convertible debentures of ₹ 100 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. The diluted earnings is —
A. ₹78,36,000;
B. ₹50,00,000;
C. ₹7,50,000;
D. None of the above.

Answer: A. — ₹78,36,000.

Computation of Diluted Earnings:

Interest on Debentures @ 10% for the year	$48{,}000 \times ₹100 \times \frac{10}{100}$
	=₹4,80,000
Tax on interest @ 30%	= ₹1,44,000
Diluted Earnings (adjusted net profit)	= (₹75,00,000 + ₹4,80,000 - ₹1,44,000)
	= ₹78,36,000

(vi) Ind AS 113 does not apply to which of the following
A. Share-based payment transactions
B. Leasing transactions
C. Both (a) and (b)
D. None of the above

Answer:

C — Both (a) and (b)

Ind AS 113 does not apply to the measurement and disclosure requirements of the following:
(a) Share-based payment transactions;
(b) Leasing transactions;
(c) Measurements that have some similarities to fair value but are not fair value.

(vii) At the time of absorption of B Ltd. by A Ltd., trade receivable of both companies shown in their Balance Sheets were ₹ 35 Lakhs and ₹ 18 Lakhs. On that date trade payable of B Ltd. includes payable to A Ltd. ₹ 4.5 Lakhs. After absorption, the amount of trade receivables will be shown in the A Ltd.'s Balance Sheet as

A. ₹35 Lakhs
B. ₹ 53 Lakhs
C. ₹ 48.50 Lakhs
D. ₹ 44 Lakhs

Answer:

C — ₹ 48.50 Lakhs

₹ 35 Lakhs + ₹ 18 Lakhs – ₹ 4.50 Lakhs = ₹ 48.50 Lakhs.

(viii) Quick Ltd. has three segments with their assets inclusive of Deferred Tax Assets as shown below:

Segment	Total Assets (₹ in lakh)	Deferred Tax Assets (₹ in lakh)
M	20	10
N	60	8
P	120	6

Reportable segments as per AS-17 are

A. M, N and P
B. M and N only
C. M and P only
D. P and N only

Answer:

D — P and N are reportable segments.
According to AS-17 "Segment Reporting", segment Assets do not include income tax assets.
Therefore, the revised total assets are ₹ 176 lakh [200 lakh - (10+8+6)]
Segment M holds total assets of ₹ 10 lakh (20-10)
Segment N holds total assets of ₹ 52 lakh (60-8)
Segment P holds total assets of ₹ 114 lakh (120-6)
Thus P and N hold more than 10% of total assets and hence P and N are reportable segments.

(ix) Ind AS 32 provides rules for classification of a financial instrument into the following:

(a) Financial asset, Financial liability & Equity instrument;
(b) Financial lease, Financial liability & Equity instrument;
(c) Financial asset, Non-financial Liability & Equity instrument;
(d) None of the above.

[Need not give any explanation]

Answer:

A — Financial asset, Financial liability & Equity instrument

(x) A Ltd. acquires 100% of B Ltd. for ₹4,80,000. Fair Value (FV) of B's net assets at time of acquisition amounts ₹ 4,00,000. Goodwill is ____________

(a) ₹4,00,000
(b) ₹4,80,000
(c) ₹80,000

(d)None of the above

Answer:

C — ₹80,000

Purchase consideration ₹ 4,80,000
FV of Net Assets ₹ 4,00,000
Goodwill = Consideration – Net Assets = ₹ (4,80,000 – 4,00,000) = ₹ 80,000

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

16x5=80

2. (a) (i) Discuss the application of Equity Method as per Ind AS 28. [4]

Answer:

Application of equity method:

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method.
An entity shall discontinue the use of the equity method from the date when its investee is no more an associate or a joint venture.

(ii) A firm (dealer of T.V) has purchased 100 T.Vs on deferred payment basis for ₹5,000 per month per T.V. The amount is to be paid in twelve monthly equal instalments. The cash cost per unit of T.V. is ₹56,000. At the end of year, 25 T.Vs were in the stock. What should be the Cost of Inventories? [4]

Answer:

Interest Expense = Deferred Payment Price (-) Cash Cost = (5,000 × 12 Months) – 56,000 = ₹4,000.

Inventory should be valued only at Cash ₹56,000 p.u. Interest Expense ₹4,000 should not be included in Valuation of Inventory.

Conclusion:

Value of Inventory = ₹56,000 × 25 units = ₹14,00,000

(b) Rose Ltd. entered into agreement with Tulip Ltd. for sale of goods of ₹8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2018. On the same day Tulip Ltd. entered into another agreement with Rose Ltd. to resell the same goods at ₹10.80 lakhs on 1st August, 2018. State the treatment of this transaction in the financial statements of Rose Ltd. as on 31.03.18. The pre-determined re-selling price covers the holding cost of Tulip Ltd. Give the Journal Entries as on 31.03.18 in the books of Rose Ltd. [8]

Answer:

In the given case, Rose Ltd. concurrently agreed to repurchase the same goods from Tulip Ltd. on 1st February, 2018. Also the re-selling price is pre-determined and covers purchasing and holding costs of Tulip Ltd. Hence, the transaction between Rose Ltd. and Tulip Ltd. on 1st Febuary,2018 should be accounted for as financing rather than sale. The resulting cash flow of ₹9.60 lakhs received by Rose Ltd., cannot be considered as revenue as per AS 9 "Revenue Recognition".

Journal Entries in the books of Rose Ltd.

Date	Particulars	Debit (₹)	Credit (₹)
01.02.18	Bank A/c Dr. To, Advance from Tulip Ltd. (Being advance received from Tulip Ltd. amounting [₹8 lakhs + 20% of ₹8 lakhs = 9.60 lakhs] under sale and re-purchase agreement)	9.60	 9.60
31.03.18	Financing Charges A/c Dr. To, Tulip Ltd. (Financing charges for 2 months at ₹1.20 lakhs i.e. ₹[10.80-9.60] × $\frac{2}{6}$)i.e.(₹1.2 lakhs × $\frac{2}{6}$)	0.40	 0.40
31.03.18	Profit and Loss A/c Dr. To, Financing Charges A/c (Being amount of finance charges transferred to P& L A/c)	0.40	 0.40

3. (a) Hi-Fi Ltd. imported a machine on 04.01.2011 for Euros 12,000, on deferred payment basis, payment in six equal annual instilments at every financial year end, commencing from 31.03.2011 onwards. Use AS – 11 provisions and determine the exchange differences carrying amounts of the liability as the end of each financial year, if the following exchange rates are given. One Euro equals Indian Rupees on —

04.01.2010	31.03.2011	31.03.2012	31.03.2013	31.03.2014	31.03.2015	31.03.2016
₹50.4872	₹45.5208	₹41.8463	₹41.0175	₹42.6400	₹51.4400	₹53.1000

[8]

Answer:

A. Computation of Carrying Amounts of Liability

Financial Year ending	EURO Amount due	Closing Rate	Carrying Amount in ₹
31st March 2011	10,000	45.5208	4,52,208
31st March 2012	8,000	41.8463	3,34,770
31st March 2013	6,000	41.0175	2.46,105
31st March 2014	4,000	42.6400	1,70,560
31st March 2015	2,000	51.4400	1,02,880
31st March 2016	Nil	53.1000	Nil

B. Computation of Exchange Differences

Financial Year ending	Due to settlement	Due to Reporting
31st March 2011	2,000 × (50.4872 – 45.5208) = 9,933 Gain	10,000 × (50.4872 - 45.5208) = 49,664 Gain
31st March 2012	2,000 × (45.5208 – 41.8463) = 7,349 Gain	8,000 × (45.5208 – 41.8463) = 29,396 Gain
31st March 2013	2,000 × (41.8463 – 41.0175) = 1,658 Gain	6,000 × (41.8463 – 41.0175) = 4,973 Gain

31st March 2014	2,000 × (41.0175 – 42.6400) = 3,245 Loss	4,000 × (41.0175 – 42.6400) = 6,490 Loss
31st March 2015	2,000 × (42.6400 – 51.4400) = 17,600 Loss	2,000 × (42.6400 – 51.4400) = 17,600 Loss
31st March 2016	2,000 × (51.4400 – 53.1000) = 3,320 Loss	Nil

(b) Tick-Tock Industries Ltd. gives the following estimates of cash flows relating to fixed asset on 31.12.2013. The discount rate is 15%.

Year	**Cash flow (₹ in lakhs)**
2014	**2,000**
2015	**3,000**
2016	**3,000**
2017	**4,000**
2018	**2,000**
Residual value at the end of 2018	**500**

Fixed Asset purchased on 1.1.2011 for ₹ 20,000 lakhs
Useful life 8 years
Residual value estimated ₹ 500 lakhs at the end of 8 years. Net selling price ₹ 11,000 lakhs.
Calculate on 31.12.2013:
- **(a) Carrying amount at the end of 2013.**
- **(b) Value in use on 31.12.2013.**
- **(c) Recoverable amount on 31.12.2013.**
- **(d) Impairment loss to be recognized for the year ended 31.12.2013.**
- **(e) Revised carrying amount. [8]**

Answer:

Computation of value in use (₹ in lakhs)

Year	Cash flow ₹		Discount as per 15%	Discounted cash flow ₹
2014	2,000		0.870	1,740
2015	3,000		0.756	2,268
2016	3,000		0.658	1,974
2017	4,000		0.572	2,288
2018	2,000	+ 500 (residual value)	0.497	1,243
				9,513

Value in use is ₹ 9,513 lakhs

Carrying amount -	
Original cost	₹20,000
Depreciation for 3 years [₹(20,000 - 500) × 3/8] (for 2011, 2012 & 2013 on straight-line basis)	₹7,313
Carrying amount on 31-12-2013	₹12,687
Net selling price (as given)	₹11,000
Recoverable amount (higher of ₹9,513 and ₹11,000)	₹11,000

Impairment loss = Carrying amount - Recoverable Amount

=₹12,687 - ₹11,000 = ₹1,687

Revised carrying amount = ₹12,687 - ₹1,687 = ₹11,000

4. (a) The following are the Balance Sheets of Andrew Ltd. and Barry Ltd., as at 31.12.2017:
(in ₹ '000s)

Andrew Ltd.

Liabilities		**Assets**	
Share Capital		**Fixed assets**	**3,400**
3,00,000 Equity shares of ₹10 each	**3,000**	**Stock (pledged with secured Loan creditors)**	**18,400**
10,000 Preference shares of ₹10 each	**1,000**	**Other Current assets**	**3,600**
		Profit and Loss account	**16,600**
General reserve	**400**		
Secured loans (secured against Pledge of stocks)	**16,000**		
Unsecured loans	**8,600**		
Current liabilities	**13,000**		
	42,000		**42,000**

Barry Ltd.

Liabilities		**Assets**	
Share Capital		**Fixed assets**	**6,800**
10,00,000 Equity shares of ₹10 each	**1,0000**	**Current assets**	**9,600**
General reserve	**2,800**		
Secured loans	**8,000**		
Current liabilities	**4,600**		
	16,400		**16,400**

Both the companies go into liquidation and Charlie Ltd., is formed to take over their businesses. The following information is given:

(a) All Current assets of two companies, except pledged stock are taken over by Charlie Ltd. The realizable value of all Current assets are 80% of book values in case of Andrew Ltd. and 70% for Barry Ltd. Fixed assets are taken over at book value.

(b) The break up of Current liabilities is as follows:

	Andrew Ltd.	**Barry Ltd.**
	₹	**₹**
Statutory liabilities (including ₹ 22 lakhs in case of Andrew Ltd. in case of a claim not having been Admitted shown as contingent liability)	**72,00,000**	**10,00,000**
Liabilities to employees	**30,00,000**	**18,00,000**

The balance of Current liability is miscellaneous creditors.

(c) Secured loans include ₹16,00,000 accrued interest in case of Barry Ltd.

(d) 2,00,000 equity shares of ₹10 each are allotted by Charlie Ltd. at par against cash payment of entire face value to the shareholders of Andrew Ltd. and Barry Ltd. in the ratio of shares held by them in Andrew Ltd. and Barry Ltd.

(e) Preference shareholders are issued Equity shares worth ₹2,00,000 in lieu of present holdings.

(f) Secured loan creditors agree to continue the balance amount of their loans to Charlie Ltd. after adjusting value of pledged security in case of Andrew Ltd. and after waiving 50% of interest due in the case of Barry Ltd.

(g) Unsecured loans are taken over by Charlie Ltd. at 25% of Loan amounts.

(h) Employees are issued fully paid Equity shares in Charlie Ltd. in full settlement of their dues.

(i) Statutory liabilities are taken over by Charlie Ltd. at full values and miscellaneous creditors are taken over at 80% of book value.

Calculate the amount of goodwill/capital reserve that has been realized. [8]

Answer:

1. Value of miscellaneous creditors taken over by Charlie Ltd.

(in ₹ '000s)

	Andrew Ltd.	Barry Ltd.
	₹	₹
Given in balance sheet	13,000	4,600
Less : Statutory liabilities	5,000	1,000
Liabilities to employees	3,000	1,800
Miscellaneous creditors	5,000	1,800
80% thereof	4,000	1,440

2. Value of total liabilities taken over by Charlie Ltd.

	Andrew Ltd.		Barry Ltd.	
	₹	₹	₹	₹
Current liabilities				
Statutory liabilities	7,200		1,000	
Liabilities to employees	3,000		1,800	
Miscellaneous creditors (W.N.1)	4,000	14,200	1,440	4,240
Secured loans				
Given in Balance sheet	16,000		8,000	
Interest waived	-		800	7,200
Value Stock	14,720			
(80% of ₹ 184 lakhs)		1,280		
Unsecured Loans				
(25% of ₹86 lakhs)		2,150		-
		17,630		11,440

3.Assets taken over by Charlie Ltd.

	Andrew Ltd.	Barry Ltd.
	₹	₹
Fixed Assets (Assumed on book value basis)	3,400	6,800
Current Assets 80% and 70% respectively of book value	2,880	6,720
	6,280	13,520

4.Goodwill / Capital Reserve on amalgamation

Liabilities taken over (W.N. 2)		17,630	11,440
Equity shares to be issued to Preference Shareholders		200	-
	A	17,830	11,440
Less: total assets taken over (W.N.3)	B	6,280	13,520
	A-B	11,550	(2,080)
		Goodwill	Capital Reserve
	Net Goodwill	9,470	

(b) (i) On 1 January 20X8 Enjoy Ltd. acquires 80 per cent of the equity interests of Healthy Ltd. in exchange of cash of ₹500. The identifiable assets are measured at ₹700 and the liabilities assumed are measured at ₹100. The fair value of the 20 per cent non controlling interest in Healthy Ltd. is ₹86. [2]

Answer:

Amount of the identifiable net assets acquired (₹700 – ₹100)		₹600
Less: Consideration	₹500	
+ Fair value of non-controlling interest	₹86	₹586
Gain on bargain purchase of 80 per cent interest		₹14

(ii) List the information an acquirer should disclose to help users of financial statement to evaluate the nature and financial effect of a business combination. [6]

Answer:

Following are the information an acquirer should disclose which the users can use to evaluate the nature and financial effect of a business combination:

(a) the name and a description of the acquire;
(b) the acquisition date;
(c) the percentage of voting equity interests acquired;
(d) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquire;
(e) a qualitative description of the factors that make up the goodwill recognized;
(f) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
- cash;
- other tangible or intangible assets, including a business or subsidiary of the acquirer;
- liabilities incurred; and
- equity interests of the acquirer.

(g) information for contingent consideration arrangements;
(h) information for each contingent liability recognized;
(i) The amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period, unless impracticable. If impracticable, fact must be disclosed.

5. (a) BLU LTD. is a holding company and ANU LTD. and TINU LTD. are subsidiaries of BLU LTD., their Balance Sheets (drafted) as on 31.03.2017 are given below:

(Amount in ₹)

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

The following particulars are given:

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

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

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

(d) All these investments were made on 30.09.2016

(e) On 31.03.2016 the position was as shown below: (Amount in ₹)

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

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

(g) The whole of inventories in trade of ANU LTD. as on 30.09.2016 (₹24,000) was later sold to BLU Ltd. for ₹26,400 and remained unsold by BLU LTD. as on 31.03.2017.

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

Required:
Compute the Cost of Control and Minority Interest.

[10]

Answer:

Shareholding Pattern

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

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

				Pre-acquisition	Post-acquisition	
					Reserves	P&L
Reserves	31/3/17		54,000			
	31/3/16		45,000	45,000		
	Increase		9,000	4,500	4,500	
P & L Account	31/3/17		54,000			
	31/3/16		18,000	18,000		
	Increase		36,000	18,000		18,000
			Total	85,500	4,500	18,000
Shares	Blu	1/6		14,250	750	3,000
	Anu	4/6		57,000	3,000	12,000
	Minority	1/6		14,250	750	3,000

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

ANU- ANALYSIS OF PROFITS				Pre-acquisition	Post-acquisition	
					Reserves	P&L
Reserves	31/3/17		60,000			
	31/3/16		48,000	48,000		
	Increase		12,000	6,000	6,000	
P & L Account	31/3/17		72,000			
	31/3/16		24,000	24,000		
	Increase		48,000	24,000		24,000
			Sub- Total	1,02,000	6,000	24,000
Anu'S Share in Tinu					3,000	12,000
			Total	1,02,000	9,000	36,000
Shares	Blu	0.8		81,600	7,200	28,800
	Minority	0.2		20,400	1,800	7,200

(iii) Computation of Cost of Control:

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

(iv) Computation of Minority interest

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

(b) Discuss the types of Joint Arrangement. [6]

Answer:

Type of Joint Arrangement:

An entity shall determine the type of joint arrangement in which it is involved. A joint arrangement is either a joint operation or a joint venture.

The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

A **joint operation** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A **joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

6. (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? [4]

(ii) State the objective of Ind AS 32. [4]

Answer:

(i) The transaction should be recognized as cash settled share based payment transaction. a) For past service, the entity shall recognise immediately the services received and a liability to pay for them at fair value of the rights on the grant date. b) For future service transaction will be recognized in the financial statements at fair value of the rights on the grant date proportionate to the period expired to total vesting period.

(ii) Objective of Ind AS 32:

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

(b) Future maintainable profit before interest is ₹308 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 ₹1,280 lakhs and equity fund is ₹840 lakhs. Interest on long term fund is 18% . Find out leverage effect of goodwill. [4+4=8]

Answer:

Valuation of Goodwill **(₹ in lakhs)**

Particulars	Shareholders fund approach	Long term funds approach

a.	Future maintainable profits (WN#2)	228.80	308
b.	Normal rate of return	25%	20%
c.	Normal capital employed	915.20	1,540
d.	Actual capital employed	840.00	1,280
e.	Goodwill	75.20	260.00
f. Leverage effect of Goodwill		184.80	

WN # 1: Ascertainment of Long Term Fund (interest thereon)

(₹ in lakhs)

	Particulars	**Amount**
a.	Total long term funds	1,280.00
b.	Less: Equity funds	(840.00)
c.	Long term fund (excluding Equity)	440.00
d.	Interest @ 18%	79.20

WN # 2: Future Maintainable Profit **(₹ in lakhs)**

	Particulars	**Shareholders fund approach**	**Long term funds approach**
a.	Profit before interest	308.00	308.00
b.	Less: Interest	79.20	N.A.
c.	Future maintainable profits	228.80	308.00

7. (a) List the disclosure requirement of IGAS 3 - Loans and Advances . [8]

Answer:

Disclosure requirement of IGAS 3 - Loans and Advances

- The Financial Statements of the Union and State Governments shall disclose the Carrying Amount of loans and advances at the beginning and end of the accounting period showing additional disbursements and repayments or write-offs.
- An additional column in the relevant Financial Statements shall also reflect the amount of interest in arrears and this amount shall not be added to the closing balance of the loan which shall be in nature of an additional disclosure.
- The Financial Statements of the Union Government shall disclose the following details under 'Loans and Advances made by the Union Government' in the Annual Finance Accounts of the Union Government:
  - ✓ the summary of Loans and Advances showing Loanee group-wise details;
  - ✓ the summary of Loans and Advances showing Sector-wise details;
  - ✓ The summary of repayments in arrears from Governments and other loanee entities.
- The Financial Statements of the Union Government shall disclose the following details under 'Detailed Statement of Loans and Advances made by the Union Government in the Annual Finance Accounts of the Union Government -
  - ✓ the detailed statement of Loans and Advances showing the Major Head;
  - ✓ the detailed Statement of repayments in arrears from State or Union territory Governments;
  - ✓ the detailed Statement of repayments in arrears from other Loanee entities.

- The Financial Statements of the Union Government shall disclose the following details under 'Additional Disclosures' in the Annual Finance Accounts of the Union Government:
- The fresh Loans and Advances made during the year.
- the Financial Statements of the State Governments shall disclose the following details under 'Statement of Loans and Advances made by the State Governments' in the Annual Finance Accounts of the State Government
  - ✓ the summary of Loans and Advances showing Loanee group-wise details;
  - ✓ the summary of Loans and Advances showing Sector-wise details;
  - ✓ the summary of repayments in arrears from Loanee entities.
- The Financial Statements of the State Governments shall disclose the following details under 'Detailed Statement of Loans and Advances made by the State Government in the Annual Finance Accounts of the State Government:
  - ✓ the detailed statement of Loans and Advances showing the Major Head and Minor Head-wise details;
  - ✓ the detailed Statement of repayments in arrears from Loanee entities.
- The Financial Statements of the State Governments shall disclose the details relating to fresh Loans and Advances made during the year under 'Additional Disclosures' in the Annual Finance Accounts of the State Government.

Effective Date: This Indian Government Accounting Standard becomes effective for the Financial Statements covering periods beginning from 1.4.2011.

(b) Discuss the general principles of government accounting. [8]

Answer:

The general principles of government accounting are highlighted hereunder:

1. **Classification of expenditures**: The Government Expenditures are classified under Sectors, major heads, minor heads, sub-heads and detailed heads of account. The method of budgeting and accounting under the service heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates.
2. **Based on budget**: government accounting is based on the annual budget of the government. In its budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the later.
   Similarly, in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts, Government determines:
   (a) whether it will be justified in curtailing or expanding its activities; and
   (b) whether it can and should increase or decrease taxation accordingly.
3. **End products of government accounting**: In the field of Government accounting, the end products are the monthly accounts and the annual accounts. The monthly accounts serve the needs of the day-to-day administration, while the annual accounts present a fair and correct view of the financial stewardship of the Government during the year.
4. **Period of Accounts**: The annual accounts of the central, state and union territory government shall record transactions, which take place during financial year running from 1st April to 31st March.
5. **Cash basis of accounting**: With the exception of such book adjustments as may be authorized by these rules on the advice of the Comptroller and Auditor General of India (C&AG),the transactions in government accounts shall represents the actual cash receipt and disbursement during a financial year.
6. **Form of Accounts**: The accounts of Government are kept in three parts namely, Consolidated Fund, Contingency Fund and Public Account.

8. Write short notes on *any four* of the following: [4x4=16]
(a) CSR Reporting ;
(b) Features of XBRL;
(c) Scope of Ind AS 32;
(d) Application of Ind As 113 to Non-financial Assets;
(e) GASAB.

Answer:

(a) CSR Reporting:

Rule 8 of the CSR Rules provides that the companies, upon which the CSR Rules are applicable on or after 1st April, 2014 shall be required to incorporate in its Board's report an annual report on CSR containing the following particulars:

- A brief outline of the company's CSR Policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs;
- The composition of the CSR Committee;
- Average net profit of the company for last three financial years;
- Prescribed CSR Expenditure (2% of the amount of the net profit for the last 3 financial years);
- Details of CSR Spent during the financial year;
- In case the company has failed to spend the 2% of the average net profit of the last three financial year, reasons thereof;
- A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company.

The disclosure of contents of Corporate Social Responsibility Policy in the Board's report and on the company's website, if any, shall be as per annexure attached to the CSR Rules.

(b) Features of XBRL:

1. Clear Definitions

XBRL allows the creation of reusable, authoritative definitions, called taxonomies, which capture the meaning contained in all of the reporting terms used in a business report, as well as the relationships between all of the terms. Taxonomies are developed by regulators, accounting standards setters, government agencies and other groups that need to clearly define information that needs to be reported upon. XBRL doesn't limit what kind of information is defined: it's a language that can be used and extended as needed.

2. Testable Business Rules

XBRL allows the creation of business rules that constrain what can be reported. Business rules can be logical or mathematical, or both. These business rules can be used to:

- stop poor quality information being sent to a regulator or third party, by being run by the preparer while the report is in draft.
- stop poor quality information being accepted by a regulator or third party, by being run at the point that the information is being received. Business reports that fail critical rules can be bounced back to the preparer for review and resubmission.
- flagging or highlighting questionable information, allowing prompt follow up, correction or explanation.

- create ratios, aggregations and other kinds of value-added information, based on the fundamental data provided.

3. Multi-lingual Support

XBRL allows concept definitions to be prepared in as many languages as necessary. Translations of definitions can also be added by third parties. This means that it's possible to display a range of reports in a different language to the one that they were prepared in, without any additional work. The XBRL community makes extensive use of this capability as it can automatically open up reports to different communities.

4. Strong Software Support

XBRL is supported by a very wide range of software from vendors large and small, allowing a very wide range of stakeholders to work with the standard.

(c) Scope of Ind AS 32:

This Standard shall be applied by all entities to all types of financial instruments except:
- Share based payments
- Insurance contracts
- employers' rights and obligations under employee benefit plans, to which Ind AS 19 Employee Benefits applies
- Interests in subsidiaries, associates and joint ventures

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(d) Application of Ind AS 113 to Non-financial Assets

(i) A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

(ii) Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

(iii) If the highest and best use of the asset is to use the asset **in combination** with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the market participant already holds the complementary assets and the associated liabilities.

(iv) If the highest and best use of the asset is to use it on a **stand-alone basis**, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.

(e) GASAB:

The mission of the Government Accounting Standards Advisory Board (GASAB) is to formulate and recommend Indian Government Accounting Standards (IGASs) for cash system of accounting and Indian Government Financial Reporting Standards (IGFRS) for accrual system of accounting, with a view to improving standards of Governmental accounting and financial reporting which will enhance the quality of decision-making and public accountability.

GASAB has been developing two types of Accounting Standards, namely Indian Government Accounting Standards (IGAS) and Indian Government Financial Reporting Standards (IGFRS)for the Government. These standards have been developed to address the issues related with the existing cash system of accounting and its migration to the accrual system of accounting in future.