Final
Group IV
Paper 17 : CORPORATE FINANCIAL REPORTING
(SYLLABUS – 2016)

Objectives

1. Multiple Choice Questions:

(i) Mittal Ltd. has provided the following information:
Depreciation as per accounting records ₹ 30,00,000, Depreciation as per income tax records ₹ 75,00,000. Unamortized preliminary expenses as per income tax records ₹ 4,50,000, Tax rate 35%. There is adequate evidence of future profit sufficiency. As per AS 22 Deferred Tax Asset/ Liability to be recognized will be
A. ₹ 15,75,000 (DTL)
B. ₹ 14,17,500 (Net DTL)
C. ₹ 72,000 (Net DTA)
D. None of these

Answer:

B — ₹14,17,500 (Net DTL).

Deferred tax liability = 35% (75,00,000 – 30,00,000)	= ₹15,75,000
Deferred tax asset = 35% of 4,50,000	= ₹1,57,500
Net Deferred tax liability	= ₹14,17,500

(ii) PRAKASH LTD. ***declares the following information:***
Exchange Rate (₹/US$)

Purchased goods on 12.3.2016 of US $ 1,00,000	**60.60**
Exchange rate as on 31.3.2016	**61.00**
Date of actual payment is 12.4.2016	**61.50**

What will be the gain/loss to be booked in the financial year 2013-14?
A. ₹ 90,000 (loss)
B. ₹ 40,000 (loss)
C. ₹1,30,000 (loss)
D. None of the above

Answer:

D — None of the above

As per AS-11, exchange difference on settlement of monitory items should be transferred to Profit & Loss A/c. Here loss to be debited to Profit & Loss A/C as: ₹ (1, 00,000 x 61.50) - (1, 00,000 x 61.00) = ₹50,000.

(iii) During 2016, Mangal Ltd. incurred costs to develop and produce a routine, low-risk computer software product, as follows:

Completion of detailed program design	**₹23,000**
Cost incurred for coding and testing to establish technological feasibility	**₹20,000**
Other coding costs after establishing technological feasibility	**₹39,000**
Other testing costs after establishing technological feasibility	**₹31,000**
Cost of producing product masters for training materials	**₹30,000**

What amount should be capitalized as software cost?

A. ₹43,000
B. ₹70,000
C. ₹23,000
D. ₹1,00,000

Answer:

D — ₹1,00,000.

Costs incurred after establishing technological feasibility should be capitalized i.e. (₹39,000+₹31,000+₹30,000)=₹1,00,000 is to capilised and costs incurred before establishing technological feasibility is to be expensed as and when it is incurred.

(iv) Miss Tulip purchased 1,000 shares in Tip-Top Ltd. at ₹ 600 per share in 2014. There was a rights issue in 2016 at one share for every two held at price of ₹150 per share. If Miss Tulip subscribed to the rights, what would be carrying cost of 1,500 shares as per AS-13.

A. ₹ 6,00,000
B. ₹ 6,75,000
C. ₹ 75,000
D. Data insufficient

Answer:

***B* — ₹ 6,75,000.**

Cost of original holding (Purchase) (1,000 x 600)	= ₹6,00,000
Amount paid for Rights (500 x 150)	= ₹75,000
Total carrying cost of 1500 shares:	**₹6,75,000**

(v) ANKITA 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)
A	400	200
B	1,200	160
C	2,400	120

Reportable segments as per AS-17 are

A. A, B and C
B. A and B only
C. A and C only
D. B and C only

Answer:

D — B and C are reportable segments.

According to AS-17 "Segment Reporting", segment Assets do not include income tax assets.
Therefore, the revised total assets are ₹ 3,520 lakh [4,000 lakh - (200+160+120)]
Segment A holds total assets of ₹ 200 lakh (400 -200)
Segment B holds total assets of ₹ 1,040 lakh (1,200 - 160)
Segment C holds total assets of ₹ 2,280 lakh (2,400 - 120)
Thus B and C hold more than 10% of total assets and hence B and C are reportable segments.

(vi) A&B Ltd. obtained a Loan from a bank for ₹ 240 lakhs on 30.04.2014. It was utilized for: Construction of a shed ₹ 120 lakhs, Purchase of a machinery ₹ 80 lakhs, Working Capital ₹ 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 ended 31.03.2016 was ₹ 36 lakhs. As per AS 16, Interest to be debited to Profit & Loss Account will be :

A. ₹ 36 lakhs
B. ₹ 18 lakhs
C. ₹ 9 lakhs
D. None of these

Answer:

B — ₹18 lakhs

Qualifying Asset as per AS-16 = ₹ 120 lakhs (construction of a shed)
Borrowing cost to be capitalized = 36 × 120/240 = ₹ 18 lakhs
Interest to be debited to Profit or Loss Account = ₹ (36 – 18) lakhs = ₹ 18 lakhs

(vii) Super Profit of ABC Ltd. (Computed) : ₹18,00,000

Normal rate of return : 12%
Present value of annuity of ₹1 for 4 years @ 12% : 3.0374
Vathe of goodwill is —
A. ₹54,67,320
B. ₹2,16,000
C. ₹18,00,000
D. ₹5,92,612

Answer:

A — ₹54,67,320

Value of goodwill = Super profit × P.V of Annuity of ₹ 1for 4 years @ 12% = ₹ 18,00,000 × 3.0374 = ₹ 54,67,320.

(viii) 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.

(ix) Wealth Ltd. aquired 1,50,000 shares of Health Ltd. on August 1, 2016. The Equity Capital of Health Ltd. is ₹ 20 lakh of ₹ 10 per share. The machinery of Health Ltd. is revalued upwards by ₹ 4,00,000. The minority group interest shown in the Consolidated Balance Sheet as at March 31, 2017 was

A. ₹ 6,00,000
B. ₹ 4,00,000
C. ₹ 1,00,000
D. None of A, B and C

Answer: A — ₹ 6,00,000

No. of shares of Health Ltd.	= ₹ 20,00,000/10 = 2,00,000	
Minority interest = 200000 - 150000	= 50,000 = 25%	
Profit on revaluation of Machinery	= ₹ 4,00,000	
Share of Minority Group of Silver Ltd.	= 25% of ₹ 4,00,000	₹1,00,000
Equity Share Capital : (50000 × 10)		₹ 5,00,000
Total minority interest		₹ 6,00,000

(x) Z Ltd. acquired a 60% interest in P Ltd. on January 1, 2017. Z Ltd. paid ₹700 Lakhs in cash for their interest in P Ltd. The fair value of P Ltd.'s assets is ₹1,800 Lakhs, and the fair value of its liabilities is ₹900 Lakhs. Compute the Non-controlling Interest (NCI) at fair value.

A. ₹360 Lakhs
B. ₹700 Lakhs
C. ₹280 Lakhs
D. None of the above

Answer:

A — ₹360 Lakhs

NCI = 40% x ₹(1,800 – 900)= ₹360 Lakhs

Study Note 1 – Accounting Standards

2. (a) Discuss the objectives and scopes of Ind AS 102 Share Based Payments.

Answer:

Objective and scopes of Ind AS 102 Share Based Payments:

Objective

To specify the financial reporting by an entity when it undertakes a share-based payment transaction. It requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted.

Scopes

An entity shall apply it to all share-based payment transactions, in which an entity acquires or receives goods or services. There are following three types of Share – based payments:

(a) equity-settled share-based payment transactions;
(b) cash-settled share-based payment transactions; and
(c) share based payment transaction with cash alternatives

Non-applicability of Ind AS 102:

(i) Share issued as consideration in a business combination
(ii) Certain contract transactions falling within Ind AS 32 or Ind AS 109 relating to Financial Instruments

(b) A Ltd. acquires 75% of B Ltd. for ₹7,20,000 paid by equity at par. Fair Value (FV) of B Ltd.'s net assets at time of acquisition amounts ₹ 6,00,000.

Required:
1. Calculate Non-Controlling-Interest (NCI) and Goodwill.
2. Journal Entries in the books of A. [Ind AS 103]

Answer:

Purchase consideration ₹ 7,20,000
FV of NCI = ₹7,20,000× (25%/75%) = ₹ 2,40,000
FV of Net Assets ₹6,00,000

Goodwill = Consideration + NCI – Net Assets = ₹ (7,20,000 + 2,40,000 – 6,00,000) = 3,60,000

Journal Entry

Particulars		Dr. (₹)	Cr. (₹)
Net assets A/c	Dr.	6,00,000	
Goodwill A/c	Dr.	3,60,000	
To, Consideration A/c			7,20,000
To NCI A/c			2,40,000
Consideration A/c	Dr.	7,20,000	
To, Equity Share Capital A/c			7,20,000

3. (a) List the objectives of Consolidated Financial Statements [Ind AS 110].

Answer:

The objective of this Indian Accounting Standard (Ind AS) is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. For the purpose of meeting the above stated objective, this Ind AS:

(a) requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements;
(b) defines the principle of control, and establishes control as the basis for consolidation;
(c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee;
(d) sets out the accounting requirements for the preparation of consolidated financial statements; and
(e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

(b) Assets P is a contractual right to receive ₹2,000 after one year. Asset Q is a contractual right to received ₹2,400 in one year and has a market price of ₹2,240. How should the discount rate adjustment technique be applied to Asset P? [Ind AS – 113]

Answer:

The implied annual rate of return [one-year market rate of return is 7.14% [(2,400/2,240)-1] for Asset Q which is applied to Asset P. Fair value of Asset P is ₹2,000/1.0714 = ₹1,866.72.

4. (a) Give examples of Financial Liabilities as per Ind AS.

Answer:

Following are the examples of Financial Liabilities as per Ind AS:

- Trade payable - Contractual obligation to pay cash
- Bank loans - Contractual obligation to pay cash
- Finance lease obligation
- Operating lease rent payable
- Debentures and Bonds payable
- Financial guarantee
- Financial derivatives
- Redeemable preference share capital

(b) In a production process, normal waste is 5% of input. 10000 MT of input were put in process resulting in a wastage of 600 MT. Cost per MT of input is ₹2,000. The entire quantity of waste is on stock at the year end. If waste has Nil realizable value. What is the cost per unit? [Ind AS 2]

Answer:

As per Ind AS- 2, abnormal amounts of waste materials, labour or other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.

In this case, normal waste is 500 MT and abnormal waste is 100 MT.

The cost of 500 MT will be included in determining the cost of inventories (finished goods) at the year-end. The cost of abnormal waste amounting to ₹2,15,026 (100 MT × ₹2,150.26) will be charged in the profit and loss statement.

Cost per unit = 10,000 × 2,000/9,500 = 2,105.26.

5. (a) As on 1st April, 2015 the Fair Value of Plan Assets was ₹ 1,00,000 in respect of a pension plan of X Ltd. On 30th September, 2015 the plan paid out benefits of ₹ 20,000 and received inward contributions of ₹ 50,000. On 31st March, 2016 the fair value of plan assets was ₹ 1,50,000 and present value of the defined benefit obligation was ₹ 1,48,000. Actuarial losses on the obligations for the year 2015-16 were ₹ 1,000. On 1st April, 2015 the company made the following estimates, based on its market studies, understanding and prevailing prices :

Interest & Dividend Income, after tax payable by the fund	**9.50%**
Realized and unrealized gains on Plan Assets (after tax)	**2.00%**
Fund Administrative Costs	**(1.25%)**
Expected Rate of Return	**10.25%**

Required: Find the Expected & Actual Returns on Plan Assets for the year 2015-16.

Answer:

A. Closing Balance of Fair Value of Plan Assets B. Add : Benefit Paid C. Less : Contributions Received D. Less : Opening Balance of Fair Value of Plan Assets	₹ 1,50,000 ₹ 20,000 (₹ 50,000) (₹1,00,000)
E : Actual Return on Plan Assets	**₹ 20,000**
A. Return on Opening Balance of Fair Value of Plan Assets [₹ 1,00,000 × 10.25% × 12/12] B. Return on Net Contributions Received [Contributions - Benefits Paid] [(₹ 50,000 - ₹ 20,000) × 5%]	 ₹ 10,250 ₹ 1,500
C : Expected Return on Plan Assets	**₹ 11,750**
Note : Equivalent Half Yearly Compounding Interest Rate — $\sqrt{1+\text{ Expected Rate of Return}}-1=\sqrt{(1+0.1025)}-1=0.05 \text{ or } 5\%$	

(b) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2015, when the exchange rate was ₹53 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2015 when the exchange rate was ₹57 per US Dollar. However, on 31st March, 2015, the rate of exchange was ₹58 per US Dollar. The company passed an entry on 31st March, 2015 adjusting the cost of raw materials consumed for the difference between ₹57 and ₹53 per US

Dollar. In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

Answer:

As per AS 11, 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Sundry creditors is a monetary item, hence should be valued at the closing rate i.e., ₹58 at 31st March, 2015 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of ₹5 (58-53) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2015 and is not to be adjusted against the cost of raw- materials. In the subsequent year, the company would record an exchange gain of ₹1 per US dollar, i.e., the difference between ₹58 and ₹57 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

6. (a) Beautiful Ltd. acquired 30% of Ugly Ltd. Shares for ₹4,00,000 on 01.06.2016. By such an acquisition Beautiful Ltd. can exercise significant influence over Ugly Ltd. During the financial year ending on 31.03.2016 Ugly Ltd. earned profits ₹1,60,000 and Declared a dividend of ₹1,00,000 on 12.08.2016. Ugly Ltd. reported earnings of ₹6,00,000 for the financial year on 31.03.2017 and declared dividends of ₹1,20,000 on 12.06.2017.

Calculate the carrying amount of investment in:
(i) Separate financial statements of Beautiful Ltd. as on 31.03.2017
(ii) Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2017
(iii) What will be the carrying amount as on 30.06.2014 in consolidated financial Statements?

Answer:

(i) Carrying Amount of Investment in Separate Financial Statement of Beautiful Ltd. as on 31.03.2017

	₹
Amount paid for investment in Associate (on 1.06.2013)	4,00,000
Less: Pre- acquisition dividend (₹ 1,00,000 X 30%)	30,000
Carrying Amount as on 31.03.2017 as per AS 13	3,70,000

(ii) Carrying Amount of Investment in Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2017 as per AS 23

	₹
Carrying amount as on 31.03.2017	3,70,000
Add: Proportionate Share of Profit of investee as per equity method (30% of ₹ 6,00,000)	1,80,000
Carrying Amount as on 31.03.2017	5,50,000

(iii) Carrying Amount of Investment in Consolidated Financial Statement of Beautiful Ltd. as on 30.06.2017 as per AS 23

	₹
Carrying amount as on 31.03.2017	5,50,000

Less: Dividend Received (₹1,20,000 X 30%)	36,000
Carrying amount as on 30.06.2017	5,14,000

7. A Ltd. leased a machinery to B Ltd. on the following terms:

	(₹ in Lakhs)
Fair value of the machinery	**20.00**
Lease term	**5 years**
Lease Rental per annum	**5.00**
Guaranteed Residual value	**1.00**
Expected Residual value	**2.00**
Internal Rate of Return	**15%**

Depreciation is provided on straight line method @ 10% per annum. Ascertain unearned financial income and necessary entries may be passed in the books of the Lessee in the First year.

Answer:

Computation of Unearned Finance Income

As per AS 19 on Leases, **unearned finance income** is the difference between (a) the **gross investment** in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

where :

(i) **Gross investment** in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

Gross Investment = Minimum lease payments + Unguaranteed residual value

= (Total lease rent + Guaranteed residual value) + Unguaranteed residual value

= [(₹ 5,00,000 × 5 years) + ₹ 1,00,000] + ₹ 1,00,000 = ₹ 27,00,000

(ii) **Table showing present value of — Minimum lease payments (MLP) and Unguaranteed residual value (URV).**

Year	MLP inclusive of URV	Internal rate of return (Discount factor 15%)	Present Value	
	₹		₹	
1	5,00,000	0.8696	4,34,800	
2	5,00,000	0.7561	3,78,050	
3	5,00,000	0.6575	3,28,750	
4	5,00,000	0.5718	2,85,900	
5	5,00,000	0.4972	2,48,600	
	1,00,000	0.4972	49,720	
	(Guaranteed residual value)			
			17,25,820	
	1,00,000	0.4972	49,720	

	(Unguaranteed residual value)		________	
			17,75,540	

Unearned Finance Income = (i) – (ii)
= ₹ 27,00,000 – ₹ 17,75,540 = ₹ 9,24,460

Journal Entries in the books of B Ltd.

			Debit (₹)	Credit (₹)
At the inception of lease				
	Machinery A/c	Dr.	17,25,820	
	To A Ltd.'s A/c			17,25,820
	(Being lease of machinery recorded at present value of MLP)			
At the end of the first year of lease				
	Finance charges A/c(Refer Working Note)	Dr.	2,58,873	
	To A Ltd.'s A/c			2,58,873
	(Being the finance charges for first year due)			
	A Ltd.'s A/c	Dr.	5 ,00,000	
	To Bank A/c			5,00,000
	(Being the lease rent paid to the lessor which includes outstanding liability of ₹ 2,41,127 and finance charge of ₹ 2,58,873)			
	Depreciation A/c	Dr.	1,72,582	
	To Machinery A/c			1,72,582
	(Being the depreciation provided @ 10% p.a. on straight line method)			
	Profit and loss A/c	Dr.	4,31,455	
	To Depreciation A/c			1,72,582
	To Finance charges A/c			2,58,873
	(Being the depreciation and finance charges transferred to profit and loss account)			

Working Note:

Table showing apportionment of lease payments by B Ltd. between the finance charges and the reduction of outstanding liability.

Year	Outstanding liability (opening balance)	Lease rent	Finance charge	Reduction in outstanding liability	Outstanding liability (closing balance)
	₹	₹	₹	₹	₹
1	17,25,820	5,00,000	2,58,873	2,41,127	14,84,693
2	14,84,693	5,00,000	2,22,704	2,77,296	12,07,397
3	12,07,397	5,00,000	1,81,110	3,18,890	8,88,507
4	8,88,507	5,00,000	1,33,276	3,66,724	5,21,783
5	5,21,783	5,00,000	78,267	5,21,783	1,00,050*
			8,74,230	17,25,820	

The difference between this figure and guaranteed residual value (₹ 1,00,000) is due to approximation in computing the interest rate implicit in the lease.

8. Mr. Sen of Moon Light Limited has collected the following information for the preparation of cash flow statement for the year ended 30.06.2017:

	(₹ in lakhs)
Net Profit	**30,000**
Dividend (including dividend tax) paid	**8,535**
Provision for Income-tax	**6,000**
Income tax paid during the year	**4,248**
Loss on sale of assets (net)	**40**
Book value of the assets sold	**110**
Depreciation charged to Profit & Loss Account	**20,000**
Amortisation of Capital grant	**10**
Profit on sale of Investments	**100**
	(₹ in lakhs)
Carrying amount of Investment sold	**27,765**
Interest income on investments	**2,510**
Interest expenses	**10,000**
Interest paid during the year	**10,520**
Increase in Working Capital (excluding Cash & Bank balance)	**56,000**
Purchase of fixed assets	**14,560**
Investment in joint venture	**3,850**
Expenditure on construction work in progress	**34,740**
Proceeds from calls in arrear	**2**
Receipt of grant for capital projects	**12**
Proceeds from long-term borrowings	**25,980**
Proceeds from short-term borrowings	**20,575**
Opening cash and Bank balance	**5,003**
Closing cash and Bank balance	**12,984**

Required :

Prepare the Cash Flow statements for the year in accordance with AS-3 on Cash Flow statements issued by the Institute of Chartered Accountants of India (Make necessary assumptions).

Answer :

Cash Flow Statement for the year ended 30-06-2017

(₹ in Lakhs)

Cash Flow from Operating Activities		
Net Profit before Taxation (30,000 + 6,000)	36,000	
Adjustments for :		
Depreciation	20,000	

Loss on sale of assets (Net)	40	
Amortisation of capital grant	(10)	
Profit on sale of investments	(100)	
Interest income on investments	(2,510)	
Interest expenses	10,000	
Operating profit before working capital changes	63,420	
Changes in working capital (excluding cash and bank balance)	(56,000)	
Cash generated from operations	7,345	
Income taxes paid	(4,248)	
Net cash used in operating activities		3,097
Cash flows from investing activities		
Sale of assets (110-40)	70	
Sale of investments (27,765 + 100)	27,865	
Investment income on investments	2,510	
Purchase of fixed assets	(14,560)	
Investment in joint venture	(3,850)	
Expenditure on construction work-in-progress	(34,740)	
Net cash used in investing activities		(22,705)
Cash flows from financing Activities		
Proceeds from calls in arrear	2	
Receipts of grant for capital projects	12	
Proceeds from long-term borrowings	25,980	
Proceeds from short-term borrowings	20,575	
Interest paid	(10,520)	
Dividend (including dividend tax) paid	(8,535)	
Net cash provided by financing activities		27,514
Net increase in cash and cash equivalents		7,981
Add : Cash and cash equivalents at the beginning of the period		5,003

Cash and cash equivalents at the end of the period		12,984

Note: It is assumed that interest income on investments ₹ 2,510 has been received during the year.

Study Note 2 – Accounting of Business Combinations and Restructuring

9. The following are the summarized Balance Sheet ZIN Ltd. and VES Ltd. as on March 31,2016.
(Amount in ₹)

Equity and Liability	ZIN Ltd.	VES Ltd.	Assets	ZIN Ltd.	VES Ltd.
1. Shareholders' Funds:			1. Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets	14,00,000	10,00,000
(i) Equity shares of			(b) Non-Current investments		
₹10 each	12,00,000	12,00,000			
(ii) 10%Pref. Shares of			(i) 12,000 equity shares of		
₹10 each	4,00,000	4,00,000	VES Ltd.	1,60,000	
(b) Reserves & Surplus	6,00,000	8,00,000	(ii) 20,000 equity shares of Z in Ltd.		3,20,000
2. Non-Current liabilities:			2. Current Assets:		
Long term Borrowings (12% Debentures)	4,00,000	6,00,000	(a) Inventories	4,80,000	12,80,000
			(b) Trade Receivables		
3. Current Liabilities:					
Trade Payables			(i) Debtors	7,20,000	7,60,000
(i) Sundry Creditors	4,40,000	5,00,000	(ii) Bills Receivable	1,20,000	80,000
(ii) Bills payable	60,000	1,00,000	(c) Cash & Cash Equivalents	2,20,000	1,60,000
Total	**31,00,000**	**36,00,000**	**Total**	**31,00,000**	**36,00,000**

Fixed assets of both the companies are to be revalued at 15% above Book values and stock and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends, preference dividends having been already paid. After the above transactions are given effect to, Zin Ltd. will absorb Ves Ltd. on the following terms:

(a) 8 equity shares of ₹ 10 each will be issued by Zin Ltd. at par against 6 shares of Ves Ltd.
(b) 10% preference share of Ves Ltd. will be paid off at 10% discount, by issue of 10% preference share of ₹100 each in Zin Ltd. at par.
(c) 12% Debenture Holders of Ves Ltd. are to be paid off at a 8% premium by 12% debentures in Zin Ltd. issued at a discount of 10%.
(d) ₹ 60,000 to be paid by Zin Ltd. to Ves Ltd. for liquidation expenses.
(e) Sundry Creditors of Ves Ltd. include ₹40,000 due to Zin Ltd.

You are required to Prepare:
(i) Statement of purchase consideration payable by Zin Ltd.
(ii) Compute the goodwill/capital reserve that will arise.

Answer:

(i) Calculation of Purchase Consideration to be paid to Ves Ltd.

No. of shares of Ves Ltd.	1,20,000
Less: Held by Zin Ltd.	12,000
No. of shares held by outsiders	1,08,000

Exchange Ratio = 8:6 i.e. 4:3

No. of shares to be issued by Zin Ltd.

$$1,08,000 \times \frac{4}{3} = 1,44,000$$

Less: Shares already held by Ves Ltd.	=	20,000
		1,24,000

It can also be calculated on equal footing as:

No. of Shares of Ves Ltd.	$1,20,000 \times \frac{4}{3} = 1,60,000$
(-) Held by Zin Ltd (assuming if it was held by other than Zin Ltd) $12,000 \times \frac{4}{3} = 16,000$	16,000
	1,44,000
	20,000
(-) Held by Ves Ltd. Shares to be issued	1,24,000

Particulars	₹
10% Preference shares @ 10% discount by issue of 10% Preference shares of A Ltd. of ₹100 each i.e. ₹$4,00,000 \times \frac{90}{100}$	3,60,000

Purchase consideration:	
1,24,000 equity shares of ₹10 each	₹12,40,000
3,600 10% Preference shares of ₹100 each	₹3,60,000
	₹16,00,000

Calculation of goodwill/capital reserve

Particulars	₹
Net asset taken over from Ves Ltd.	
Fixed asset (10,00,000 × 115%)	11,50,000
Stock (12,80,000 × 95%)	12,16,000
Debtors (7,60,000 × 95%)	7,22,000
Bills Receivable	80,000
Cash at bank	60,000
	32,28,000
Less: 12% Debenture (₹6,00,000 × 108%]	6,48,000
Sundry creditors and Bills Payable	6,00,000

	19,80,000
Less: Investment cancelled	1,60,000
	18,20,000
Less: Purchase consideration	16,00,000
Capital Reserve	2,20,000

Computation of amount of cash at bank of Ves Ltd.

Particulars	₹
Balance as per Balance Sheet	1,60,000
Add: Dividend from Zin Ltd.	20,000
	1,80,000
Less: Dividend paid by Ves Ltd.	1,20,000
	60,000

10. Write a note on Acquisition Method as per AS 103.

Answer:

Under Acquisition Method the acquirer —

(a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

- Based on Recognition principle:
  - must meet definition of assets or liabilities at acquisition date.
  - must be exchanged as part of acquisition.
  - recognise even those assets or liabilities which were not recognised by the acquiree.
- Based on Measurement principle:

  The acquirer shall measure the —
  - identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.
  - Non-controlling interest at its fair value at the acquisition date or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

(b) recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase;

Acquirer shall recognise —

- Goodwill on the acquisition date as excess of (A) over (B) and
- Gain from bargain purchase as excess of (B) over (A) as stated below :

  (A) The aggregate of
  - Fair value of consideration transferred.
  - Recognised amount of any NCI in acquiree.
  - Fair value of any previously held equity interest in the acquiree (for a business combination achieved in stages).

(B) Net of acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

(c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

When Acquiree Company ceases to exist due to business combination the accounting will be reflected on the stand alone balance sheet of the acquirer company. But when Acquiree Company exists (i.e., Non-Controlling Interest exists) after business combination, accounting for business combination will reflect on consolidated balance sheet.

Applying the acquisition method requires:

(a) identifying the acquirer;
(b) determining the acquisition date;
(c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
(d) recognising and measuring goodwill or a gain from a bargain purchase.

11. Queen Ltd. holds 30% shares in Palace Ltd. which was acquired on 15.7.2014. In separate financial statements, the investment in associate is carried at cost ₹400 million. In the consolidated financial statements as at 31 st March 2017, the investment is recognized applying equity method accounting at ₹600 million (inclusive of goodwill ₹30 million). Accretion to cost was partly recognised as share of profit in the profit and loss amounting to ₹160 million and balance ₹40 million in other comprehensive income.

On 1st April 2017, Queen Ltd. acquired another 30% stake of Palace Ltd. for ₹700 million. As on date of acquisition, fair value of identifiable assets and liabilities of Palace Ltd. were determined as ₹2400 million and ₹400 million respectively. Deferred tax liability has been reassessed based on acquisition date fair value of assets and liabilities at ₹80 million. Market price of previously held 30% interest is ₹660 million. How should Queen Ltd. recognise the acquisition of controlling stake in Palace Ltd.?

Answer:

This is a case of business combination in stages.

In the separate financial statements:

Queen Ltd. shall add the additional acquisition cost of ₹700 million. Derecognising investment in associate and recognise, investment in subsidiary.

Accounting entry:

Particulars		**Dr. (₹ in million)**	**Cr. (₹ in million)**
Investment in Subsidiary A/c	Dr.	1,100	
To Investment in Associate A/c			400
To Bank A/c			700

In the Consolidated financial statements:

Measurement of goodwill	**₹ in million**
Purchase consideration	700
Fair value of previously held equity interest	660
Non-controlling interest (40%)	800
	2,160
Fair value of identifiable net assets	2,000
Difference	160
Plus: Deferred Tax liability	80
Goodwill	240

Particulars		**Dr. (₹ in million)**	**Cr. (₹ in million)**
Assets A/c	Dr.	2,400	
Goodwill A/c	Dr.	240	
To Liabilities A/c			400
To Deferred Tax Liability A/c			80
To Investment in Associates A/c			600
To Fair Value Gain -OCI			60
To Bank A/c			700
To Non-Controlling Interest A/c			800

12. XYZ Ltd. has the following capital structure on of 31st March 2017.

	Particulars	**₹ in Crores**
a.	**Equity Share capital (Shares of ₹ 10 each)**	**300**
b.	**Reserves:**	
	General Reserve	**270**
	Security Premium	**100**
	Profit and Loss A/c	**50**
	Export Reserve (Statutory reserve)	**80**
c.	**Loan Funds**	**800**

The shareholders have on recommendation of Board of Directors approved vide special resolution at their meeting on 10th April 2017 a proposal to buy back maximum permissible equity shares considering the huge cash surplus following A/c of one of its divisions.

The market price was hovering in the range of ₹ 25 and in order to induce existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% above market.

Advice the company on maximum number of shares that can be bought back and record journal entries for the same assuming the buyback has been completed in full within the next 3 months.

If borrowed funds were ₹1200 Lakhs, and 1500 Lakhs respectively would your answer change?

Answer:

Maximum shares that can be bought back

		Situation I	Situation II	Situation III
a.	Shares outstanding test (WN # 1)	7.5	7.5	7.5
b.	Resources test (WN # 2)	6	6	6
c.	Debt Equity ratio test (WN # 3)	10.67	4	—
d.	Maximum number of shares for buy back - LEAST of the above	6	4	—

	Particulars		Situation I		Situation II	
			Debit	Credit	Debit	Credit
a.	Shares bought back A/c	Dr.	180		120	
	To Bank A/c			180		120
	[Being purchase of shares from public]					
b.	Share capital A/c	Dr.	60		40	
	Securities premium A/c	Dr.	100		80	
	General reserve A/c (balancing figure)	Dr.	20		—	
	To Shares bought back A/c			180		120
	[Being cancellation of shares bought on buy back]					
c.	General Reserves A/c	Dr.	60		40	
	To Capital Redemption Reserve A/c			60		40
	[Being transfer of reserves to capital redemption reserve to the extent capital is redeemed]					

Note: Under situation III, the company does not qualify the debt equity ratio test. Therefore the company cannot perform the buyback of shares (Under section 68 of the Companies Act, 2013)

WORKING NOTES:

WN # 1 : Shares outstanding test

Particulars	Amount

a.	No. of shares outstanding	30 crores
b.	25% of shares outstanding	7.5 crores

WN # 2 : Resources test (₹ in Crores)

	Particulars	Amount
a.	Paid up capital	300
b.	Free reserves	420
c.	Shareholders fund (a+b)	720
d.	25% of shareholders fund	180
e.	Buyback price per share	₹ 30
f.	Number of shares that can be bought back	6 Crores

WN # 3 : Debt Equity ratio test: (₹ in Crores)

	Particulars	Situation I	Situation II	Situation III
a.	Borrowed Funds	800	1,200	1,500
b.	Minimum equity to be maintained after buy back in the ratio 2:1	400	600	750
c.	Present equity	720	720	720
d.	Maximum possible dilution in equity	320	120	—
e.	Maximum shares that can be bought back @ ₹ 30/- per share	10.67	4	—

13. Given below summarized balance sheets of X Limited and Y Limited as at 31.3.2017.

	X Ltd. ₹ in Lakhs	Y Ltd. ₹ in Lakhs
Sources of Funds		
Shareholders' funds	**600**	**400**
Equity Shares of ₹ 100 each		
Reserves and surplus		
General Reserve	**300**	**200**
Profit and Loss A/c	**100**	**100**
Loan Funds		
Secured Loans	**300**	**300**
Unsecured Loans	**200**	**200**
	1,500	**1,200**
Applications of Funds:		
Fixed Assets		
Gross block	**1,000**	**900**
Less: Depreciation	**(200)**	**(250)**
Net block	**800**	**650**
Investments - in 2.4 lakhs shares of Y Ltd.	**300**	**–**

Others	**–**	**200**
Current assets, Loans and Advances		
Less: Current liabilities	**600**	**500**
Net Current assets	**(200)**	**(150)**
	400	**350**
	1,500	**1,200**

Note: Secured and unsecured loans are assumed to be of more than 12 months hence treated as long term borrowing . (ignoring interest)

X Ltd. agreed to take over all the assets and liabilities of Y Ltd. at book value and discharge the claims of minority shareholders by issuing its one share for every two shares held. Minorities claims are to be discharged on the basis of intrinsic value per share. For computing intrinsic value per share net Fixed assets of Y Ltd are to be valued at ₹ 850 Lakhs. Prepare post merger Balance Sheet of X Ltd. Show all your workings.

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

Answer:

Part I : Calculation of Purchase Consideration

WN # 1 : Computation of Intrinsic Value

(₹ in Lakhs)

	X Ltd	**Y Ltd**
Fixed assets	800	850
Investments: In Y Ltd. (2.4 x 225)	540	–
Other investments	–	200
Current assets, Loans and Advances	600	500
Less: Current liabilities	(200)	(150)
Less: Unsecured Loans	(200)	(200)
Less: Secured Loans	(300)	(300)
Net Assets	1240	900
Intrinsic Value (Net Assets ÷ No. of shares outstanding)	1240/6	900/4
	= 206.67	= 225

WN # 2 : Purchase Consideration

Particulars	
Total number of shares outstanding (lakhs)	4,00,000
Less: Shares held by X Ltd. (lakhs)	2,40,000
Shares held by Outsiders (lakhs)	1,60,000
Exchange Ratio (lakhs)	1:2
No. of shares to be issued (lakhs)	80,000
Intrinsic Value Per share	206.67

Purchase Consideration (80,000 × ₹ 206.67) ₹ 1,65,33,600

Part II - In the Books of Purchasing Co. X Ltd

- Nature of Amalgamation: Merger
- Method of Accounting : Pooling of interest

(₹ in amount)

	Particulars			Debit	Credit
1.	For Purchase Consideration Due:				
	Business Purchase A/c		Dr.	1,65,33,600	
	To Liquidator of Y Ltd A/c				1,65,33,600
2.	For Assets and Liabilities Takeover:				
	a. Aggregate Consideration				
	i. Already Paid		3,00,00,000		
	ii. Balance Payable		1,65,33,600		
			4,65,33,600		
	b. Less: Paid-up Capital of Vendor Co.		(4,00,00,000)		
	c. Excess				
	(The above excess to be adjusted against:				
	*General Reserves of Y Ltd.	65,33,600			
	d. Balance of General Reserves of Y Ltd. to be incorporated (2,00,00,000 – 65,33,600)	1,34,66,400			
	Fixed Assets A/c		Dr.	9,00,00,000	
	Investments A/c		Dr.	2,00,00,000	
	Current Assets A/c		Dr.	5,00,00,000	
	To Provision for depreciation A/c				2,50,00,000
	To Current liabilities and Provisions A/c				1,50,00,000
	To Secured Loans A/c				3,00,00,000
	To Unsecured Loans A/c				2,00,00,000
	To Business Purchase A/c				1,65,33,600
	To Investments in Y Ltd A/c				3,00,00,000
	To General Reserve A/c				1,34,66,400
	To Profit and Loss A/c				1,00,00,000
3.	For Discharge of Purchase Consideration				
	Liquidator of Y Ltd A/c		Dr.	1,65,33,600	
	To Equity Share Capital A/c				80,00,000
	To Securities Premium A/c				85,33,600

Name of the Company: X Ltd.
Consolidated Balance Sheet as at 31st March,2017

Ref No.		Particulars	Note No.	As at 31st March, 2017	As at 31st March, 2016
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	6,80,00,000	-
		(b) Reserves and surplus	2	7,20,00,000	-
	2	**Non-current Liabilities**			
		Long-term Borrowings	3	10,00,00,000	
	4	**Current liabilities**			
		Other current liabilities	4	3,50,00,000	-
					-
		TOTAL (1+2+3+4)		27,50,00,000	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	5	14,50,00,000	-
		(b) Non-current investments	6	2,00,00,000	
	2	**Current assets**			
		(f) Other current assets	7	11,00,00,000	-
		TOTAL (1+2)		25,70,00,000	-

Notes on accounts

		(₹in Lakhs)
Note 1. Share Capital	**As at 31st March, 2017**	**As at 31st March, 2016**
A. Authorised Capital	-	
B. Issued, Subscribed and paid up Capital of ₹100 each[out of which 30,000 shares were issued for consideration other than for cash)	6,80,00,000	
Total	6,80,00,000	

RECONCILATION OF SHARE CAPITAL

FOR EQUITY SHARE :-	As at 31st March, 2017		As at 31st March, 2016	
	Nos	Amount (₹)	Nos	Amount (₹)
Opening Balance as on 01.04.14	6	6,00,00,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	0.80	80,00,000	NIL	NIL
	6.80	6,80,00,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	6.80	6,80,00,000	NIL	NIL

Note 2. Reserves and Surplus	As at 31st March, 2017	As at 31st March, 2016
General Reserve (3,00,00,000 + 1,34,66,400)	4,34,66,400	
Securities Premium	85,33,600	
Profit and Loss A/c (1,00,00,000 + 1,00,00,000)	2,00,00,000	
Total	7,20,00,000	

Note 3. Long Term Borrowings	As at 31st March, 2017	As at 31st March, 2016
Secured (3,00,00,000 + 3,00,00,000)	6,00,00,000	
Unsecured (2,00,00,000 + 2,00,00,000)	4,00,00,000	
Total	10,00,00,000	

Note 4. Other Current Liabilities	As at 31st March, 2017	As at 31st March, 2016
Current Liabilities (2,00,00,000 + 1,50,00,000)	3,50,00,000	
Total	3,50,00,000	

Note 5. Tangible assets	As at 31st March, 2017	As at 31st March, 2016
Fixed Assets	19,00,00,000	
Less Accumaleted Depreciation	4,50,00,000	
Total	14,50,00,000	

Note 6. Non Current Investment	As at 31st March, 2017	As at 31st March, 2016

Investment	2,00,00,000	
Total	2,00,00,000	

Note 7. Other Current assets	**As at 31st March, 2017**	**As at 31st March, 2016**
Current assets	11,00,00,000	
Total	11,00,00,000	

14. Amar Ltd. purchased from Kumar Ltd. a group of assets comprising of plant and machinery, furniture and equipment at a combined price of ₹500 lakhs. Assets do not constitute business as per Ind AS 103. How would Amar Ltd. measure these assets for the purpose of initial recognition?

The fair value of these assets determined applying Ind AS 113 Fair Value measurement is

Particulars	**Amount (₹)**
Plant and Machinery	**220 Lakhs**
Furniture	**50 Lakhs**
Equipments	**130 Lakhs**
Total	**400 Lakshs**

Answer:

Particulars	**Fair Value**	**Allocation of composite transaction price**
Plant and Machinery	220.00	275.00
Furniture	50.00	62.50
Equipments	130.00	162.50

No goodwill is recognized. Excess of the transaction price over fair value is adjusted in the cost of individual asset.

Study Note 3 – Group Financial Statements

15. Parent acquires 80% of Subsidiary for ₹36,00,000. The fair value of the non-controlling interest's share in subsidiary is ₹8,40,000. The value of non-controlling interest based on the proportionate share of identifiable net assets acquired is ₹7,50,000. The fair value of the subsidiary's net assets on acquisition has been measured as ₹37,50,000. Calculate goodwill based on proportionate asset and fair value of non-controlling interest.

Answer:

Goodwill can be calculated under as either (a) or (b):

	(a)	(b)
	Amt (₹)	Amt. (₹)
Cost of investment	36,00,000	36,00,000
Non-controlling interest	8,40,000	7,50,000
	44,40,000	43,50,000
Fair value of net assets	(37,50,000	(37,50,000)
Goodwill	6,90,000	6,00,000

If non-controlling interest is valued at fair value (a), then the value of goodwill and non-controlling interest will be higher to the extent of the non-controlling interest's share of the fair value of the subsidiary.

The goodwill calculated in (a) means that goodwill attributable to non-controlling interest is ₹90,000. The proportion of goodwill attributable to non-controlling interest of 13% (₹90,000/6,90,000) is unlikely to be the same as the proportion of shares held (20%). This is because the parent is likely to pay a premium for control. Any impairment loss will always be allocated using the shareholding percentages (e.g. 80:20 in the example).

16. The following are the Balance Sheet of Ram Ltd., Shyam Ltd. and Tom Ltd. as on 31.03.2015:

₹ in '000

Particulars	**Ram Ltd.**	**Shyam Ltd.**	**Tom Ltd.**
Liabilities			
Equity Share Capital (₹ 100 each)	**8,000**	**4,000**	**1,600**
General Reserve	**1,600**	**280**	**—**
Profit and Loss Account	**1,360**	**960**	**—**
Current Liabilities	**1,280**	**3,000**	**1,120**
Total	**12,240**	**8,240**	**2,720**
Assets			
Investments:			
32,000 shares in Shyam Ltd.	**4,800**	**—**	**—**
4,000 shares in Tom Ltd.	**200**	**—**	**—**
12,000 shares in Tom Ltd.	**—**	**720**	**—**
Profit and Loss Account	**—**	**—**	**640**
Current assets	**7,240**	**7,520**	**2,080**
Total	**12,240**	**8,240**	**2,720**

From the following information, prepare consolidated Balance Sheet of Ram Ltd. and its subsidiaries as on 31.03.2015:

(i) Shyam Ltd. has advanced ₹ 8,00,000 to Tom Ltd.

(ii) Current Liabilities of Ram Ltd. includes ₹ 4,00,000 due to Tom Ltd.

(iii) Shyam Ltd. and Tom Ltd. have not paid any dividend.

(iv) Ram Ltd. acquired its investments on 01.04.2014 from Shyam Ltd. and then amount standing to credit of General Reserve and Profit & Loss Account were ₹ 2,80,000 and ₹ 5,20,000 respectively.

(v) Ram Ltd. acquired investments in Tom Ltd. on 01.04.2014. when the debit balance in Profit and Loss Account in books of Tom Ltd. was ₹ 4,80,000.

(vi) Shyam Ltd. acquired its investments in Tom Ltd. on 01.04.2012 and then the debit balance in Profit and Loss Account was ₹ 1,60,000.

(vii) Shyam Ltd.'s stock includes stock worth ₹ 4,80,000 which was invoiced by Ram Ltd. at 20% above cost. **15**

Answer:

Consolidated Balance Sheet of Ram Ltd. and its subsidiaries Shyam Ltd and Tom Ltd. as on 31.3.20 15

	Particulars	Note	31.03.2015 ₹ '000	31.03.2014 ₹ '000
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	Share Capital		8,000	
	Reserves & Surplus			
	- General Reserves		1,600	
	- Profit and Loss A/c		1,496	
(2)	**Minority Interest**		952	
(3)	**Current Liabilities**			
	Trade payables [(1,280+3,000+1,120)-1,200]		4,200	
	Total		**16,248**	
II	**ASSETS**			
(1)	**Non-Current Assets:**			
	Intangible Assets - Goodwill		688	
(2)	**Current Assets;**			
	[(7,240+7,520+2,080)-(1,200+80)]		15,560	
	Total		**16,248**	

Analysis of Profits of Tom Ltd.

	Particulars	Capital Profits ₹ '000	Revenue Profits ₹ '000
(i)	**From the view point of Shyam Ltd.**		
	Debit Balance in Profit and Loss Account as on 1.4.2012	(160)	
	Loss incurred between 1.4.2012 to 31.3.2015 [(320 + 160) – Refer W.N. 2]		(480)
		(160)	(480)
	Share of Shyam Ltd. 75% [carried forward to W.N. 4]	(120)	(360)
(ii)	**From the view point of Ram Ltd.**		
	Debit Balance of Profit and Loss Account as on 1.4.14	(480)	
	Loss during the year 2014-15		(160)
		(480)	(160)
	Share of Ram Ltd. (25%)	(120)	(40)

Analysis of Profits of Shyam Ltd. (From the viewpoint of Ram Ltd.)

Particulars	Capital Profits ₹ '000	Revenue Profit ₹ '000
General Reserve as on 1.4.14 Profit and Loss Account Balance as on 1.4.14 Profit earned during 2014-15 (W.N. 1) Brought forward Shyam Ltd.'s share of loss in Tom Ltd. [W.N. 3(i)]	280 520 (120)	 440 (360)
Share of Shyam Ltd. in revenue loss of Tom Ltd. for the period 1.4.14 to 31.3.14 [75% of (360-40)] being treated as capital loss from view point of Ram Ltd.	(240)	240
	440	320
Less: Share of Minority Interest (20%)	88	64
Balance taken to Ram Ltd. (80%)	352	256

Cost of Control

Particulars	₹ '000	₹ '000
Investment by Ram Ltd. in		
Shyam Ltd.	4,800	
Tom Ltd.	200	
Investment by Shyam Ltd. in		
Tom Ltd.	720	5720
Less: Paid up value of shares of:		
Shyam Ltd.	3,200	
Tom Ltd. (400 + 1,200)	1,600	
	4,800	
Capital loss of Ram Ltd. in Tom Ltd. [W.N. 3(ii)]	(120)	
Capital Profit of Ram Ltd. in Shyam Ltd. (W.N. 4)	352	5,032
Goodwill		688

Consolidated Profit and Loss A/c of Ram Ltd.

Particulars	₹ '000
Profit and Loss A/c Balance	1,360
Post acquisition share of loss from Tom Ltd.	(40)
Post acquisition share of profit from Shyam Ltd.	256
	1,576
Less: Unrealised Profit on Stock (1/6th of 480)	80
	1,496

Minority Interest

Particulars	₹ '000
Paid up value of shares in Shyam Ltd. (20% of 4,000)	800
Share of Capital Profit (W.N. 4)	88
Share of Revenue Profit (W.N. 4)	64
	952

17. Entities A and B established as 50:50 joint operation in a separation vehicle. Entity C, whereby each operator has a 50% ownership interest and takes 50% of the output. On formation of the joint operation, Entity A contributed a property with fair value of ₹220 lakhs and experience of the industry; Entity B contributed equipment with a fair value of ₹240 lakhs. The carrying value of the contribution assets were ₹200 lakhs and ₹160 lakhs respectively.

Answer:

Entity A – gain in Consolidates Financial Statements

Particulars	₹ in lakhs
A's shares of fair value of asset contributed by Entity B (50% × ₹240 lakhs)	120.00
A's share of carrying value of asset contribution by entity A to the joint operation (50% × 200 lakhs)	(100.00)
Gain recognized by Entity A	20.00

This can also be calculated as:

Particulars	₹ in lakhs
Fair value of joint operation gained (50% × ₹460 lakhs)	230.00
Carrying value of asset contributed	(200.00)
Unrealised portion of the gain [50% (₹220 – 200)]	(10.00)
Gain recognized by Entity A	20.00

18. The following is an abstract of the Balance Sheets of H Ltd., S Ltd. and D Ltd. as on March 31, 2015:

Liabilities	H Ltd.	S Ltd.	D Ltd.
	₹	₹	₹
Share Capital:			
Equity Share of ₹ 10 each fully paid	**20,00,000**	**10,00,000**	**6,00,000**
Reserves and Surplus:			
Reserves	**1,80,000**	**2,00,000**	**1,44,000**
Profit and Loss A/c	**2,00,000**	**40,000**	**1,02,000**
Current Liabilities & Provisions:			
Creditors	**60,000**	**60,000**	**20,000**
	24,40,000	**13,00,000**	**8,66,000**
Assets:			
Fixed Assets	**11,00,000**	**6,00,000**	**8,00,000**
Investments:			

75,000 shares in S Ltd.	**10,00,000**	**—**	**—**
15,000 shares in D Ltd.	**2,00,000**	**—**	**—**
40,000 shares in D Ltd.	**—**	**5,60,000**	**—**
Current Assets, Loans & Advances:			
Stock	**1,20,000**	**1,00,000**	**56,000**
Cash at Bank	**20,000**	**40,000**	**10,000**
	24,40,000	**13,00,000**	**8,66,000**

H Ltd. purchased the shares in S Ltd. and in D Ltd. on Sept. 30, 2014, and S Ltd. also purchased the shares in D Ltd. on the same day.
The following are the balances at the beginning of the year (01.04.2014)

	S Ltd. ₹	D Ltd. ₹
Reserves	**1,80,000**	**1,20,000**
Profit & Loss A/c	**20,000**	**16,800**

You are to assure that Profit accrue uniformly every month.
Required:
Prepare a Consolidated Balance Sheet of H Ltd. and its Subsidiaries as at March 31, 2015.
15

Answer:

Balance Sheet of H Ltd. and its subsidiaries as on 31st March, 2015

	Particulars	Note	31.03.2015 (₹)	31.03.2014 (₹)
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	Share Capital – Equity shares of ₹10 each		20,00,000	
	Reserves & Surplus			
	- Reserves		1,96,500	
	- Profit and Loss A/c		2,39,450	
(2)	**Minority Interest**		3,89,594	
(3)	**Current Liabilities**			
	Trade payables (Creditors) [60,000 + 60,000+ 20,000]		1,40,000	
	Total		**29,65,544**	
II	**ASSETS**			
(1)	**Non-Current Assets:**			
	Fixed Assets			
	Tangible Assets [11,00,000 + 6,00,000 + 8,00,000]		25,00,000	
	Intangible Assets - Goodwill		1,19,544	
(2)	**Current Assets;**			
	Inventories [1,20,000 + 1,00,000 + 56,000]		2,76,000	
	Cash and cash equivalents [20,000 + 40,000 + 10,000]		70,000	
	Total		**29,65,544**	

Position on 30.09.2014

Particulars	Reserve (₹)	Profits (₹)
D Ltd.		
Balance as on 31.03.2015	1,44,000	1,02,000
Less: Balance as on 01.04.2014	1,20,000	16,800
Increase during the year	24,000	85,200
Estimated increase for half year	12,000	42,600
Balance as on 30.09.2014	(1,20,000 + 12,000) i.e. 1,32,000	(16,800 + 42,600) i.e. 59,400
S Ltd.		
Balance as on 31.03.2015	2,00,000	40,000
Less: Balance as on 01.04.2014	1,80,000	20,000
Increase during the year	20,000	20,000
Estimated increase for half year	10,000	10,000
Balance as on 30.09.2014	(1,80,000 + 10,000) i.e. 1,90,000	(20,000 + 10,000) I.e. 30,000

Analysis of Profits:

Particulars	Capital Profit (₹)	Revenue Reserve (₹)	Revenue Profit (₹)
D Ltd.			
Reserves as on 30.09.2014	1,32,000		
Profit and Loss A/c as on 30.09.2014	59,600		
Increase in Reserves		12,000	
Increase in Profit and Loss A/c			42,600
Total	1,91,400	12,000	42,600
Share of H Ltd. (25%)	47,850	3,000	10,650
Share of S Ltd. (66.67%)	1,27,606	8,000	28,400
Minority Interest (8.33%)	15,944	1,000	3,550
S Ltd.			
Reserves as on 30.09.2014	1,90,000		
Profit and Loss A/c as on 30.09.2014	30,000		
Increase in Reserves		10,000	
Increase in Profit and Loss A/c			10,000
Total	2,20,000	10,000	10,000
From D Ltd.	--	8,000	28,400
Total	2,20,000	18,000	38,400
Share of H Ltd. (75%)	1,65,000	13,500	28,800
Minority Interest (25%)	55,000	4,500	9,600

Computation of Cost of Control:

Particulars	(₹)	(₹)
Cost of Investment in S Ltd.	10,00,000	-
Cost of Investment in D Ltd. (2,00,000 + 5,60,000)	7,60,000	17,60,000
Less:		
Share of Capital Profit in D Ltd. (47,850 + 1,27,606)	1,75,456	
Share of Capital Profit in S Ltd.	1,65,000	3,40,456
Nominal Value of Shares (7,50,000 + 1,50,000 + 4,00,000)		13,00,000
Goodwill		1,19,544

Computation of Consolidated Reserves and Profit:

Particulars	Reserves (₹)	Profit and Loss A/c (₹)
Balance of H Ltd.	1,80,000	2,00,000
Share in D Ltd.	3,000	10,650
Share in S Ltd.	13,500	28,800
TOTAL	1,96,500	2,39,450

Computation of Minority Interest:

Particulars	(₹)
Nominal Value of Shares in S Ltd.	2,50,000
Nominal Value of Shares in D Ltd.	50,000
Share of Capital Profit in S Ltd.	55,000
Share of Capital Profit in D Ltd.	15,944
Share of Revenue Reserves and Profit in S Ltd.	(4,500 + 9,600) i.e. 14,100
Share of Revenue Reserves and Profit in D Ltd.	(1,000 + 3,550) i.e. 4,550
Total	3,89,594

19. A Ltd. acquired 5,000 Shares of S Ltd. at ₹ 48 per Share Cum-Dividend constituting 62.50% holding in the latter. Immediately after purchase, S Ltd. declared and distributed a dividend at ₹ 4 per Share, which S Ltd. credited to its Profit and Loss Account.

One year later, S Ltd. declared a Bonus of 1 fully paid Equity Share of ₹ 10 each for every 5 Shares held. Later on, S Ltd. proposed to raise funds and made a Rights Issue of 1 Share for 5 held at ₹ 36 per Share. A Ltd. exercised its right.
After some time, at its AGM, S Ltd. had decided to split its Equity Share of ₹ 10 into Two Equity Shares of ₹ 5 each. The necessary resolutions were passed and share certificates issued to all its existing shareholders.
To increase its stake in S Ltd. to 80%, A Ltd. acquired sufficient number of shares at ₹ 30 each.
Ascertain the Cost of Control as on 31st December if S's share in Capital Profits (duly adjusted for purchase in lots) as on that date was ₹ 3,15,000.

Answer :

A. Cost of Investment

Particulars	Shares	₹

Less:	Cost of First Acquisition Pre-Acquisition Dividend	(5,000 x ₹ 48) (5,000 × ₹ 4 per Share)	5,000 N.A.	2,40,000 (20,000)
Add:	Corrected Cost of Investment Bonus Shares	(1/5 × 5,000 Shares)	5,000 1,000	2,20,000 –
Add:	**Cost after Bonus Shares** Rights Shares	(1/5 x 6,000 Shares x ₹ 36)	6,000 1,200	2,20,000 43,200
	Cost after Rights Issue before Share Split		**7,200**	**2,63,200**
2) **Add:**	**Cost after share split (WN 1)** holding to 80% (Note B) (4,032 x ₹ 30)	(2 Sh. for 1 for 7,200 Sh = 7,200 x Acquisition to increase	14,400 4,032	2,63,200 1,20,960
	Balance on date of Consolidation		**18,432**	**3,84,160**

Notes:

A. Share Split: In case of Share Split, the Cost of Acquisition will not undergo any change. Only the number of Equity Shares and the face value will change. This is similar to adjustment for Bonus Issue. However, for Bonus Issue, the face value and paid up value of the share will be the same as the original share. In share split, the face value and paid up value will be lesser than that of the original shares.

B. Calculation of Number of Shares to be acquired to increase stake to 80%

	Particulars			Shares
a.	Shares held before acquisition			14,400
b.	% of holding			62.5%
c.	Hence, Total Number of Shares of S Ltd.	(a ÷ b)	= (14,400 ÷ 62.50%)	23,040
d.	80% of above (c x 80%)		= (23,040 x 80%)	18,432
e.	Number of Shares to be acquired	(d - a)	= (18,432 - 14,400)	4,032

2. Cost of Control

Particulars		₹
Cost of Investment	**(A)** (from 1 above)	**3,84,160**
Nominal Value of Equity Capital Share in Capital Profit	(18,432 x ₹ 5 per Share)	92,160 3,15,000
Total of Above	**(B)**	**4,07,160**
Capital Reserve (if B < A)	**(B-A)**	23,000

Study Note 4 – Recent Trends in Financial Reporting

20.(a) Financial Reporting vis-À-vis Triple Bottom Line Reporting — discuss.

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.

(b) Discuss the benefits of Triple Bottom Line reporting.

Answer:

The benefits emerging from triple bottom line reporting are discussed hereunder:

- **Enhancement of reputation and brand:** Corporate reputation is a function of the way in which a company is perceived by its stakeholders. Effective communication with stakeholders on one or more of the environmental, social, and economic dimensions can play an important role in managing stakeholder perceptions and, in doing so, protect and enhance corporate reputation.

- **Securing a social license to operate:** A 'license to operate' is not a piece of paper, but informal community and stakeholder support for an organisation's operations. Business is increasingly recognising the link between ongoing business success and its 'license to operate', especially in the resources sector. Communication with stakeholders is often critical to securing and maintaining a 'license to operate'. Communities and stakeholders generally, are likely to be more supportive of companies that communicate openly and honestly about their management and performance in relation to environmental, social and economic factors.

- **Attraction and retention of high calibre employees:** Existing and prospective employees have expectations about corporate environmental, social and economic behaviour, and include such factors in their decisions regarding working for an organisation.. The publication of TBL-related information can play a role in positioning an employer as an 'employer of choice' which can enhance employee loyalty, reduce staff turnover and increase a company's ability to attract high quality employees.

- **Improved access to investor market:** A growing number of investors are including environmental and social factors within their decision-making processes. The growth in socially responsible investment and shareholder activism is evidence of this. Responding to investor requirements through the publication of TBL-related information is a way of ensuring that the company is aligning its communication with this stakeholder group, and therefore enhancing its attractiveness to this segment of the investment market.

- **Establish position as a preferred supplier:** Obtaining a differentiated position in the market place is one way to establish the status of preferred supplier. Effectively communicating with stakeholder groups on environmental, social and economic issues is central to obtaining a differentiated position in the market place.

- **Reduced risk profile:** There is an expanding body of evidence to suggest that performance in respect of economic, social and environmental factors has the capacity to affect the views of market participants about a company's exposure to, and management of risk. TBL reporting enables a company to demonstrate its commitment to effectively managing such factors and to communicate its performance in these areas. A communication policy that addresses these issues can play an important role in the company's overall risk management strategy.

- **Identification of potential cost savings:** TBL reporting often involves the collection, collation and analysis of data on resource and materials usage, and the assessment of business processes. For example, this can enable a company to better identify opportunities for cost savings through more efficient use of resources and materials.

- **Increased scope for innovation:** The development of innovative products and services can be facilitated through the alignment of R&D activity with the expectations of stakeholders. The process of publishing TBL reporting provides a medium by which companies can engage with stakeholders and understand their priorities and concerns.

- **Aligning stakeholder needs with management focus:** External reporting of information focuses management attention on not only the integrity of the data but also the continuous improvement of the indicator being reported.

- **Creation of sound basis for stakeholder dialogue:** Publication of TBL reporting provides a powerful platform for engaging in dialogue with stakeholders. Understanding stakeholder requirements and alignment of business performance with such requirements is fundamental to business success. TBL reporting demonstrates to stakeholders the company's commitment to managing all of its impacts, and, in doing so, establishes a sound basis for stakeholder dialogue to take place.

In addition to the benefits obtained through superior relationships with key stakeholder groups, the decision to be publicly accountable for environmental and social performance is often recognised as a powerful driver of internal behavioural change. The availability of relevant information on economic, environmental and social performance that previously may not have been collected and evaluated in a readily understood manner may enable executives to identify and focus attention on specific aspects of corporate performance where improvement is required.

21.Write a note on — Sustainability Reporting.

Answer:

In the modern era, sustainability has often been considered as a goal of every kind of organisation, be it business, non-profit organisation or government. Sustainability is a balancing act where business decisions take into account the impact they may have on the various aspects of sustainability including the economic viability of the business. Sustainability usually

makes us think about carbon footprints, greenhouse gases and ecosystems. This is the environmental aspect of sustainability. Moreover, two additional aspects are generally recognised as contributing to sustainability: economic factors and social factors. Together these three pillars of sustainability are often referred to as 'People – Planet – Profit'. In this scenario, the three forms of sustainability that are considered by the organisations are:

- Social sustainability activities focus on maintaining mutually beneficial relationships with employees, customers and the community. These activities often have benefits in terms of positive profile and customer and community support.
- Environmental sustainability activities focus on the impact of resource usage, hazardous substances, waste and emissions on the physical environment. These activities may have a direct benefit for a business by reducing costs.
- Economic sustainability activities focus on business efficiency, productivity and profit.

With the shift in societal focus toward environmental longevity, businesses are encouraged to look at the big picture and see their impact on the world around them. Sustainable development was identified by the Brundtland Commission of the United Nations in 1987. The need was felt by the various entities to incorporate the concept of sustainability, in their financial reporting framework.

In 1981, Freer Spreckley first articulated this theme in a publication called 'Social Audit - A Management Tool for Co-operative Working' in which, he stated that enterprises should measure and report on social, environmental and financial performance.

The growth of this broader "world sustainability" viewpoint can be seen in the number of companies that have begun reporting on more than just financial operations. Large corporations such as Weyerhaeuser Company, The Boeing Company, PricewaterhouseCoopers, The Procter & Gamble Company, Sony Corporation, and Toyota Motor Corporation, have joined with many others to create the World Business Council for Sustainable Development (WBCSD).

Study Note 5 – Valuation, Accounting and Reporting of Financial Instruments and others

22. (a) Virat Ltd. purchases a financial asset as on 29th March 2016 for ₹200 lakhs. The fair value of the asset on 31st March 2016 (year-end) and 2nd April 2016 (Settlement Date) are ₹210 lakhs and ₹206 lakhs respectively. Accounting treatment of the transaction would depend upon classification of the financial asset. Pass the entries for:

(i) Trade date accounting;

(ii) Settlement date accounting.

Answer:

(i) Trade Date Accounting

Date	Journal Entries		Financial Asset at amortized cost	Financial Asset at FVTPL	Financial Asset at FVTOCI
29th Mar 2016	Financial Asset	Dr.	200	200	200
	To Payables		200	200	200

31st Mar 2016	Financial Asset	Dr.	No Entry	10	
	To Profit and Loss			10	
31st Mar 2016	Financial Asset	Dr.	No Entry		10
	ToOCI				10
2nd April 2016	Profit and Loss	Dr.		4	
	To Financial Asset			4	
2nd April 2016	OCI	Dr.			4
	To Financial Asset				4
2nd April 2016	Payables	Dr.	200	200	200
	To Cash		200	200	200

(ii) Settlement Date Accounting

Date	Journal Entries		Financial Asset at amortized cost	Financial Asset at FVTPL	Financial Asset at FVTOCI
29th Mar 2016	No Entry on Trade Date				
31st Mar 2016	Fair Value Change	Dr.		10	
	To Profit and Loss			10	
31st Mar 2016	Fair Value Change	Dr.			10
	To OCI				10
2nd April 2016	Financial Asset	Dr.	200		
	To Cash		200		
2nd April 2016	Financial Asset	Dr.			206
	OCI	Dr.			4
	To Cash				200
	To Fair Value Change				10
2nd April 2016	Financial Asset	Dr.		206	
	Profit or loss	Dr.		4	
	To Cash			200	
	To fair Value Change			10	

(b) From the following information, calculate the value of a share if you want to

(i) Buy a small lot of Shares;
(ii) Buy a controlling interest in the Company

Year	Profit (₹)	Capital Employed	Dividend %

		(₹)	
2013	**27,50,000**	**1,71,87,500**	**12**
2014	**80,00,000**	**4,00,00,000**	**15**
2015	**1,10,00,000**	**5,00,00,000**	**18**
2016	**1,25,00,000**	**5,00,00,000**	**20**

The market Expectation is 12%.

Answer:

(i) Buy a small lot of Shares

If the purpose of valuation is to provide data base to aid decision of buying a small (non-controlling) position of the equity of a company, dividend yield method is most appropriate. Dividend rate is rising continuosly, weighted average will be more appropriate for calculation of average dividend.

Year	Rate of Dividend	Weight	Product
2013	12	1	12
2014	15	2	30
2015	18	3	54
2016	20	4	80
		10	**176**

Average Dividend = $\frac{176}{10}$ = 17.6%

Value of share on the basis of dividend for buying a small lot of shares will be

$$\frac{\text{Average dividend rate}}{\text{Market expectation rate}} \times 100 = \frac{17.6}{12} \times 100 = ₹146.67 \text{ per share}$$

(ii) Buy a controlling interest in the Company

If the purpose of valuation is to provide data base to aid a decision of buying controlling interest in the company, total profit will be relevant to determine the value of shares as the shareholders have capacity to influence the decision of distribution of profit. As the profit is rising, weighted average will be more appropriate for calculation of average profit/ yield.

Year	Yield % (Profit/ capital employed) X 100	Weight	Product
2013	16	1	16
2014	20	2	40
2015	22	3	66
2016	25	4	100
		10	**222**

Average yield = $\frac{222}{10}$ = 22.2%

If controlling interest in the company is being taken over, then the value per share will be

$$= \frac{\text{Average yield rate}}{\text{Market expectation rate}} \times 100 = \frac{22.2}{12} \times 100 = ₹185 \text{ per share}.$$

23.(a) Following balances as on 31st March, 2017, are obtained from the account books of Gunnu Ltd.:

	₹ in Lakhs
200 Lakhs Equity Shares of ₹ 10 each	**2000**
10 Lakhs, 10% Preference Shares of ₹ 100 each	**1000**
General Reserve	**1600**
Profit and Loss Account	**1400**
12% Debentures	**1000**
Creditors	**800**
Goodwill	**1000**
Land and Buildings	**2500**
Plant and Machinery	**1500**
Investment in 10% Stock	**480**
Stock-in-trade	**1600**
Debtors	**400**
Cash and Bank	**220**

Additional information are given below:

(a) Nominal value of investment is ₹ 500 Lakhs and its market value is ₹ 520 Lakhs.

(b) Following assets are revalued:

	₹ in Lakhs
(i) Land and Building	**3200**
(ii) Plant and Machinery	**1800**
(iii) Stock-in-trade	**1450**
(iv) Debtors	**360**

(c) Average profit before tax of the company is ₹ 2,400 Lakhs and 12.50% of the profit is transferred to general reserve, rate of taxation being 30%.

(d) Normal dividend expected on equity shares is 18% while fair return on closing capital employed is 12%.

(e) Goodwill may be valued at two year's purchase of super profits.
You are required to calculate the value of goodwill.

Answer:

1. Calculation of Capital Employed

		₹ in Lakhs
Assets: Land and Buildings		3,200
Plant and Machinery		1,800
Stock		1,450
Debtors		360
Cash and Bank		220
		7,030
Less: Liabilities:		
Debentures	1,000	
Creditors	800	1,800
Capital Employed		5,230

2. Calculation of Actual Profit

	₹ in Lakhs
Average Profit before Tax (given)	2,400
Less: Income from Investment (₹ 5,00,00,000 × 10%)	50
	2,350
Less: Income Tax @ 30%	705
Average Actual Profit	1,645

3. Normal Profit = 12% of Capital Employed
= ₹ 5,230 Lakhs ×12% = ₹ 627.60 Lakhs

4. Super Profit = Average Actual Profit - Normal Profit
= ₹ 1,645 Lakhs – ₹ 627.60 Lakhs = ₹ 1,017.40 Lakhs

5. Goodwill = Super Profit × 2 = ₹ 1,017.40 Lakhs × 2 = ₹ 2,034.80 Lakhs

(b) While closing its books of account on March 31st of a financial year, a Non-banking Finance company has its advances classified as follows:

Particulars	**₹ Lakhs**
Standard Assets	**16,800**
Sub- Standard Assets	**1,340**
Secured Positions of Doubtful Debts:	
- Up to one year	**320**
- one year to three years	**90**
- more than three years	**30**
Unsecured Portions of Doubtful debts	**97**
Loss Assets	**48**

Calculate the amount of provision which must be made against the advances.

Answer:

Particulars	**Loan (₹ Lakhs)**	**Provision (%)**	**Provision (₹ Lakhs)**
Standard Assets	16,800	0.35	58.80
Sub- Standard Assets	1,340	10	134
Secured Portion of Doubtful Debts:			
- Up to one year	320	20	64
- 1 year to 2 years	90	30	27
- more than 3 years	30	50	15
Unsecured Portion of Doubtful debts	97	100	97
Loss Assets	48	100	48
		Total	443.80

Study Note 6 – Share Based Payment

24. (a) King Ltd. brand grants 170 share options to each of its 600 employees. Each grant containing condition on the employees working for King Ltd. over the next 4 years. King Ltd. has estimated that the fair value option is ₹15. King Ltd. also estimated that 25% of employees will leave during four periods and hence forfeit their rights to share the option. If the above expectations are correct, what amount of expenses to be recognised during vesting period as per Ind AS 102?

Answer:

GK Limited should recognize expenses of ₹11,47,500 over four year period as under:

Total employees - 600
Expected to exercise option - 600 × 75% = 450
Expense to be recognize - 450 ×170 × 15 = ₹11,47,500.

(b) A company Matritwa Ltd. announced a Stock Appreciation Right on 01.04.14 for each of its 525 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹ 125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31.03.17 but before 30.06.17. The fair value of SAR was ₹ 21 in 2014-15, ₹ 23 in 2015-16 and ₹ 24 in 2016-17. In 2014-15 the company estimates that 2% of the employees shall leave the company annually. This was revised to 3% in 2015-16. Actually, 10 employees left the company in 2014-15, 5 left in 2015-16 and 3 left in 2016-17. The SAR therefore actually vested to 482 employees. On 30.06.17, when the SAR was exercised, the intrinsic value was ₹ 25 per share.
Show Provision for SAR A/c by fair value method.

Answer:

Dr. **Provision of SARs Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹

2014-15	To Balance c/d	3,29,700	2014-15	By Employees Compensation Expenses A/c	3,29,700
2015-16	To Balance c/d	7,06,867	2015-16	By Balance b/d	3,29,700
				By Employee Compensation Expenses A/c	3,77,167
		7,06,867			7,06,867
2016-17	To Balance c/d	11,56,800	2016-17	By Balance b/d	7,06,867
				By Employee Compensation Expenses A/c	4,49,933
		11,56,800			11,56,800
2017-18	To Bank(48,200×25)	12,05,000	2017-18	By Balance b/d	11,56,800
				By Employee Expenses A/c	48,200
		12,05,000			12,05,000

The Provision for SAR is a liability as settlement of SAR is through cash payment equivalent to an excess of market price of company's shares on exercise date over the exercise price.

Working Notes:

Year 2014-15

Number of employees to whom SARs were announced (482+10+5+3) = 500 employees.
Total number of employees after three years, on the basis of the estimation in 2014-15 = (500 x 0.98 x 0.98 × 0.98) = 471employees.
No. of SARs expected to vest = 471employees ×100 = 47,100 SAR
Fair value of SARs = 47,100SARs × ₹ 21= ₹ 9,89,100
Vesting period = 3 years
Recognized as expense in 2014-15 = ₹ 9,89,100/3 years = ₹ 3,29,700

Year 2015-16

Total number of employees after three years, on the basis of the estimation in 2015-16 = [(500-10) × 0.97 × 0.97) = 461employees
No. of SARs expected to vest = 461employees ×100 = 46,100 SARs
Fair value of SARs =46,100 SARs × ₹ 23 = ₹ 10,60,300
Vesting period = 3 years
No. of years expired = 2 years
Cumulative value of SARs to be recognized as expense =10,60,300/3 × 2 = ₹ 7,06,867
SARs recognize as expense in 2015-16 = ₹ 7,06,867- ₹ 3,29,700 = ₹ 3,77,167

Year 2016-17

Fair value of SARs = ₹ 24
SARs actually vested = 482 employees x 100 = 48,200 SARs
Fair value = 48,200 SARs × ₹ 24 = ₹ 11,56,800
Cumulative value to be recognized = ₹ 11,56,800
Value of SARs to be recognized as an expense = ₹ 11,56,800 – ₹ 7,06,867 = ₹ 4,49,933

Year 2017-18

Cash payment of SARs = 48,200 SARs ×₹ 25 = ₹ 12,05,000

Value of SARs to be recognized as an expense in 2017-18 = ₹12,05,000 – ₹ 11,56,800 = ₹ 48,200

Study Note 7 – Reporting through XBRL (Extended Business Reporting Language)

25. (a) Discuss the myths regarding XBRL.

Answer:

This section clarifies certain myths regarding XBRL. In other words, it is discussed what XBRL is not:

(a) **XBRL is not a set of Accounting Standards**: It needs to be clearly understood that XBRL does not represent a set of accounting standards, which remain the prerogative of the regulatory standards bodies. XBRL is merely a platform on which reporting standards content will reside and be represented.

(b) **XBRL is not a chart of accounts:** It is not a detailed universal chart of accounts. Formulation of a company's chart of accounts is an exercise conducted by its management with regard to its specific business intricacies. XBRL can facilitate the implementation of such structures through its ability to transport data between disparate software applications that might be used within an organization's operational structures.

(c) **XBRL is not a GAAP translator:** It does not provide a mechanism for facilitating a drilldown of existing GAAP information into lower levels of information that would be necessary for translating financial statements from one GAAP to another. The business-reporting document contains the same GAAP information, be it in an XBRL format or an MS word or PDF format.

(a) List the features of XBRL Reporting.

Answer:

Following are the features of XBRL Reporting:

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.

(b) Discuss the benefits of XBRL Reporting.

Answer:

The benefits of reporting under XBRL over traditional form are:

1. **Automated Data Processing**: The use of XBRL offers major benefits to the preparers and users of business and financial information by enabling this data to be exchanged and processed automatically by the software. XBRL identification tags reduce and eliminate the need for the data entry operator to manually key data into the software.
2. **More accurate and efficient**: XBRL makes reporting more accurate and more efficient by using comprehensive definitions and accurate data tags. Such data tags allow the preparation, validation, publication, exchange, consumption and analysis of business information of all kinds.
3. **Data Review:** Organisations can use software to automatically validate data electronically received through XBRL. The software can help to analyse the data and to identify problems that accountants and auditors can examine.
4. **Improved reporting quality:** XBRL provides its users with increased data integrity and uniformity. It also allows for increased transparency of public owned companies' financial records for view by 'interested' parties.
5. **Interchangeable**: Information in reports prepared using the XBRL standard is interchangeable between different information systems in entirely different organisations. This allows for the exchange of business information across a reporting chain. The users who intend to report information, share information, publish information and allow straight through information processing rely on XBRL.
6. **Cost and time savings:** Currently all companies file their reports with regulators using formats like the Portable Document Format (PDF) which has its inherent limitations. Moreover, the costs of sending, receiving, storing, validating and auditing the financial records in this format are comparatively higher. XBRL reduces the involved time and also the cost.
7. **Tagging of transactions**: In addition to allowing the exchange of various business reports, XBRL has the capability to allow the tagging of transactions that can themselves be aggregated into XBRL reports. These transactional capabilities allow system-independent

exchange and analysis of significant quantities of supporting data. XBRL allows unique tags to be associated with reported facts, which leads to the following advantages:

- publishing of reports with the confidence that the information contained in them can be consumed and analysed accurately;
- testing of the reports against a set of business and logical rules, in order to capture and avoid mistakes at their source;
- using the information in the way that best suits the users' needs, including by using different languages, alternative currencies and in their preferred style
- providing confidence to the users that the data provided to them conforms to a set of sophisticated pre-defined definitions.

Study Note 8 – Government Accounting

26. Compare between Government Accounting and Commercial Accounting.

Answer:

Although the basic principles of financial accounting that are applicable in regular commercial activities apply to the government accounts, there are certain features of governmental accounting which make it quite different from that of regular commercial accounting. The differences between commercial and government accounting have been presented hereunder:

1. Meaning: The accounting system applied in the government departments, offices and institutions is referred to as government accounting. While, the system of accounting applied by non-government organizations (whether profit-oriented or non-profit oriented) is known as commercial accounting.
2. Objective: Government accounting is maintained by the government offices for recording and reporting the utilisation and position of public funds. Commercial accounting is maintained by business organizations to know the profit or loss for an accounting period and disclose the financial position of the entity.
3. Scope: The government accounting happens to be more elaborate that that followed in commercial accounts.
4. Budget: Government accounting is directly influenced by the government budgeting system, while commercial accounting does not follow the government budgeting system.
5. Basis: Government accounting is prepared on cash basis. On the other hand, commercial accounting may be done on cash basis or accrual basis, or sometimes even on hybrid basis.

27. Write a note on Indian Government Accounting Standards (IGAS).

Answer:

The standards being developed to make existing cash system of accounting more transparent are called Indian Government Accounting Standards (IGAS).The Indian Government Accounting Standards (IGAS), formulated by the Government Accounting Standards Advisory Board (GASAB) and notified by the Ministry of Finance, Government of India are:

- Guarantees given by Governments: Disclosure Requirements (IGAS 1);
- Accounting and Classification of Grants-in-aid (IGAS 2)
- Loans and Advances made by Governments (IGAS 3)

The Indian Government Accounting Standards (IGAS), approved by the Government Accounting Standards Advisory Board (GASAB) and under consideration of Government of India, are:

- Foreign Currency Transactions and Loss/Gain by Exchange Rate Variations (IGAS 7);
- Government Investments in Equity (IGAS 9);
- Public Debt and Other Liabilities of Governments: Disclosure Requirement (IGAS 10).

28. Discuss the role of Public Accounts Committee.

Answer:

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. 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.

29. Write a note on IGFRS 2 — Property, Plant and Equipment.

Answer:

Answer: IGFRS 2: Property, Plant and Equipment This standard has prescribed the accounting treatment for property, plant and equipment (PPE) so that users of financial statements can obtain information regarding an entity's investment in its property, plant and equipment and any changes in such investment. The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them. In addition, this standard aims at categorising assets according to their nature and also

aims to provide for depreciation of assets, taking into account their usage over the life of the assets. The Accounting Standard is essentially an adaptation to Indian requirements of International Public Sector Accounting Standard (EPSAS 17) issued by IFAC on Property, Plant and Equipment. It also envisaged to provide guidance to pilot studies and the eventual development of a common reporting framework under accrual basis for the Union and the States. The IGFRS are subject to revision by GASAB based on experiences with pilot studies.

Short Note

30. Write Short note on the following:

(a) Write a note on Business Combination as per Ind AS 103;
(b) Responsibilities of GASAB;
(c) Super Profit Method of Goodwill Valuation;
(d) Uses of Triple Bottom Line reporting;
(e) Disclosure requirement as per AS 14;
(f) Review of Government Accounts;
(g) Users of Financial Statements and their Information Needs
(h) Jointly controlled Operations As per AS 27.

Answer:

(a) A business combination is a transaction or other event in which an acquirer obtains CONTROL of one or more BUSINESS.

Generally, companies doing similar type of business or involved in similar line of activities may be combined to get the economies of scale and to minimize the possibility of tough competition. Business combination results in growth. Business combination can be in the form of merger and acquisition.

A 'merger' refers to a situation where two or more than two companies of similar nature combine willingly while in case of 'acquisition' or 'take over' refers to the situation where a bigger company takes over a smaller company. It can be either through amalgamation or through absorption.

AS-14 'Amalgamations' and Ind AS-103 'Business Combination' is substantially different. Ind AS-103 lays down the accounting principles for business combination and not for asset combination.

(b) Responsibilities of GASAB:

GASAB, inter alia, has the following responsibilities:

(i) To formulate and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
(ii) To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
(iii) To keep the standards current and reflect change in the Governmental environment.
(iv) To provide guidance on implementation of standards.
(v) To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.

(vi) To improve the common understanding of the nature and purpose of information contained in the financial reports.

(c) Super Profit Method of Goodwill Valuation

Super Profit Method of Goodwill Valuation:

- As per this method, the value of goodwill depends on the extra (i.e. super) profit earning capacity of an entity.
- Such 'Super Profit' refers to the excess profit earned by the entity over the normal profit that should be earned by a similar firm in the industry.
- Mathematically, Super Profit = Average Future Maintainable Profit – Normal Profit i.e. Super Profit = Average Future Maintainable Profit – (Average Capital Employed × Normal rate of return)
- Finally, the value of goodwill is determined by multiplying the Super Profit, so calculated,• by certain ‗Number of Years' Purchase'.
- ∴ Value of Goodwill = Super Profit × No. of Years' Purchase.

(d) Uses of Triple Bottom Line Reporting

All types of entities viz. Businesses, non-profits organisations and government entities alike can all use the TBL.

Businesses: The TBL and its core value of sustainability have become compelling in the business world due to accumulating anecdotal evidence of greater long-term profitability. For example, reducing waste from packaging can also reduce costs. Among the firms that have been exemplars of these approaches are General Electric, Unilever, Proctor and Gamble, 3M among others.

Non-profit Organisations: Many non-profit organizations have adopted the TBL and some have partnered with private firms to address broad sustainability issues that affect mutual stakeholders. Companies recognize that aligning with nonprofit organizations makes good business sense, particularly those nonprofits with goals of economic prosperity, social well-being and environmental protection.

Government: State, regional and local governments are increasingly adopting the TBL and analogous sustainability assessment frameworks as decision-making and performance-monitoring tools.

(e) Disclosure requirement as per AS 14:

Disclosure under AS-14 (in the first financial statement after the amalgamation)

(a) Names and general nature of business of the amalgamating companies
(b) Effective date of amalgamation for accounting purpose
(c) The method of accounting used
(d) Particulars of the scheme sanctioned under statute

(e) Additional disclosure for merger
1. Description and number of shares issued
2. Percentage of each company's equity shares exchanged under amalgamation
3. The amount of difference between the consideration and the value of net identifiable assets acquired and treatment thereof

(i) Additional disclosure under 'Purchase' method
1. Consideration for the amalgamation and a description of the consideration paid or contingently payable
2. Amount of difference as above and the treatment/amortization period for goodwill

(ii) Where the scheme sanctioned under a statute prescribes a different treatment other than AS-14, for better understanding:
1. A description of the accounting treatment and reasons for variation with AS-14
2. Deviation in the accounting treatment as prescribed in he scheme under statute as compared to AS-14, if followed had there been no treatment prescribed by the scheme.

(f) Review of Government Accounts

The accounts of Government Companies set up under the provisions of the Companies Act (including Government Insurance Companies and deemed Government Companies) are audited by the Comptroller and Auditor General of India (C&AG) under the provisions of Section 143 of the Companies Act, 2013. Under these provisions, the C&AG:
(i) shall appoint statutory auditor of a Government company,
(ii) may conduct supplementary or test audit of accounts of a Government Company, and
(iii) may comment upon the report of the statutory auditor. In addition he issues directions to the statutory auditors regarding the manner in which the accounts of a Government Company are to be audited.

The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the Central Government on the advice of the CAG under the Companies Act, 2013 are subjected to supplementary or test audit by officers of the CAG and CAG gives his comments or supplements the report of the Statutory Auditors. The Companies Act, 2013 empowers the CAG to issue directions to the Statutory Auditors on the manner in which the Company's accounts shall be audited.

(g) Users of Financial Statements and their Information Needs

1. Investors	Information need of the group primarily relates to decision making of buy, hold or sale of the entity's share. Also dividend paying ability of the entity is a matter of interest.
2. Employees	Need to know about the stability and continued profitability of the employer which would ensure payment of remuneration, employee opportunities and retirement benefits.
3. Lenders	Interested in debt servicing ability.
4. Suppliers and other trade creditors	Interested in information about the entity's ability in the short run to pay their dues. Of course, they are interested in long run viability of the entity, if it is the major customer.
5. Customers	Seek information about the continuation of the entity in particular

	if the entity is the major supplier.
6. Government and their agencies	They have manifold interests like taxation, contribution of the entity in the employment generation and economic activities of the nation and also the infrastructural facilities to be provided to serve the need of the entity commensurate with its contribution to the society.
7. Public	Mostly interested in employment generation and societal contribution.

(h)Jointly controlled Operations as per AS 27

a. Meaning: JCO is an arrangement where two or more Ventures combine their operations, resources and expertise, to manufacture, market and distribute, a product Jointly.
b. Example(s): Different parts of the manufacturing process of a product (say Aircraft) are carried out by each of the venturers, each venture bearing its own costs and sharing the revenue from the sale of the aircraft, such share being determined in accordance with the contractual arrangement.
c. Legal Entity: Not a separate entity.
d. Creation and Ownership of Assets: Venturer creates and fully owns the assets.
e. Books of Account: Not maintained separately.
f. Financial Statements: Not prepared separately.
g. Recognition Principle in Venture's books:
   In both SFS and CFS –
   - Asset it controls and the Liability it incurs
   - Expenses incurred by it and its share of Income from the JCO.