CORPORATE FINANCIAL REPORTING

FINANCIAL REPORTS

GROUP - IV
PAPER - XVII

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
www.icmai.in

WORK BOOK

CORPORATE FINANCIAL REPORTING

FINAL

GROUP – IV

PAPER – 17

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Preface

Professional education systems around the world are experiencing great change brought about by the global demand. Towards this end, we feel, it is our duty to make our students fully aware about their curriculum and to make them more efficient.

Although it might be easy to think of the habits as a set of behaviours that we want students to have so that we can get on with the curriculum that we need to cover. It becomes apparent that we need to provide specific opportunities for students to practice the habits. Habits are formed only through continuous practice. And to practice the habits, our curriculum, instruction, and assessments must provide generative, rich, and provocative opportunities for using them.

The main purpose of this volume is to encourage our students as we are overwhelmed by their response after publication of the first and second editions. Thus, we are delighted to inform our students about the **e-distribution of the third edition of our 'Work book'.**

This book was written to meet the needs of students as it offers the practising format that will appeal to the students to read smoothly. Each chapter includes unique features to aid in developing a deeper under-standing of the chapter contents for the readers. The unique features provide a consistent reading path throughout the book, making readers more efficient to reach their goal.

Discussing each chapter with illustrations and incorporation of Ind AS in the phased manner may integrate the key components of the subjects. In the third edition, we expanded the coverage in some areas and condensed others in the said ways.

It is our hope and expectation that this third edition of work book will provide further an effective learning experience to the students like the first edition.

The Directorate of Studies,

The Institute of Cost Accountants of India

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Suggested Marks Distribution from Examination Point of View

Only for Practice Purpose

Total 100 Marks	3 Hours	MCQ = 20 Marks
		Others = 80 Marks

Objective Question

20 Marks (2 Marks each questions)	MCQ	1 mark for correct answer
		1 mark for justification

Short Notes / Case Study

Minimum Marks for each Questions	3 Marks
Maximum Marks for each Questions	10 Marks

Practical Problem

Minimum Marks for each Questions	4 Marks
Maximum Marks for each Questions	16 Marks

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Study Note – 1

ACCOUNTING STANDARDS

Learning Objective:

- *To understand the applicability, interpretation, scope of Accounting Standards and applicability of Indian Accounting Standards*
- *To solve the numerical problems based on Accounting Standards and Indian Accounting Standards*

MULTIPLE CHOICE QUESTIONS:

Questions based on AS

1. X Ltd. deals in four products X_1, X_2, X_3 and X_4 which are neither similar nor interchangeable.

   At the time of closing of its account for the year 2016-17 the historical cost and net realizable value of the items of closing stock are determined as below:

Items	Historical Cost (₹ in Lakhs)	Net realizable value (₹ in Lakhs)
X_1	78	82
X_2	47	43
X_3	23	27
X_4	87	88

   What will be the value of closing stock?

   A. ₹ 235 Lakhs

   B. ₹ 231 Lakhs

   C. ₹ 240 Lakhs

   D. None of these

Answer:

(B) ₹ 231 Lakhs

Computation of value of closing stock

Lower of Historical Cost and Net Realisable Value will be considered = ₹(78+43+23+87) lakhs = ₹ 231 lakhs

2. Which of the following is/are the examples of cash flows arising from investing activities?

   A. cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

   B. cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

   C. interest and dividends received (other than for a non-financial institution)

   D. All of the above

Answer:

(D) All of the above

3. Net Assets of the Transferor Company: ₹ 20 lakhs. If Purchase Consideration is ₹ 23 lakhs & amalgamation is in the nature of purchase, then

   (A) 3 lakhs will be treated as Capital Reserve

   (B) 3 lakhs will be treated as Goodwill

   (C) ₹ 20 lakhs will be treated as Capital Reserve and ₹ 3 lakhs will be Goodwill

   (D) None of the above

Answer:

(B) 3 lakhs will be treated as Goodwill

4. Choose the correct alternative:

   (i) K Ltd. agreed to absorb S Ltd. S Ltd. has 120000 Equity Shares of ₹10 having intrinsic value of ₹24 each. If intrinsic value of K Ltd's equity share is ₹ 48 each, then how many equity shares should be issued by K Ltd. to S Ltd. to meet out the purchase consideration?

      (a) 60000 shares

      (b) 56000 shares

      (c) 45000 shares

      (d) 90000 shares

(ii) At the time of absorption of B Ltd by A Ltd., 10% debenture holders of ₹240000 of ₹ 100 each in B Ltd are to be paid off at 10% premium by 9% debentures in A Ltd. issued at a premium of 20%. How many debentures of ₹ 100 each are to be issued by A Ltd?

(a) 2300

(b) 2200

(c) 2400

(d) 2100

(iii) In case of amalgamation in the nature of purchase, Fixed Assets, Current Assets, Total Debts, Debit balance of Profit and Loss Account and Purchase consideration are ₹ 5120000, ₹ 2500000, ₹2260000, ₹440000, ₹4800000 respectively. The amount of capital reserve or Goodwill will be

(a) ₹ 560000 (Capital Reserve)

(b) ₹ 1000000 (Capital Reserve)

(c) ₹ 120000 (Capital Reserve)

(d) ₹ 1940000 (Goodwill)

(iv) P Ltd. agreed to absorb R Ltd. For this purpose R Ltd.'s 10000, 9% Preference shares are valued at ₹ 62.25 each and 130000 equity shares are valued at ₹ 16 each. If P Ltd. discharged purchase consideration by issuing its equity shares of ₹10 each which is having intrinsic value of ₹ 46 each, No. of equity shares issued by P Ltd. to R Ltd. will be

(a) 54750

(b) 58750

(c) 63750

(d) 48750

(v) At the time of absorption of B Ltd. by A Ltd., trade receivables of both companies shown in their Balance Sheets were ₹ 30 Lakhs and ₹ 16 Lakhs. On that date trade payable of B Ltd. includes payable to A Ltd. ₹ 5 Lakhs. After absorption, the amount of trade receivables will be shown in A Ltd's Balance Sheet as

(a) ₹ 41 Lakh

(b) ₹ 25 Lakh

(c) ₹ 11 Lakh

(d) ₹ 35 Lakh

Answer:

(i) (a)

(ii) (b)

(iii) (a)

(iv) (b)

(v) (a)

5. **Which of the policy is/are not in accordance with AS-15 policies for retirement benefits as under?**
   (a) Contribution to pension fund is made based on actuarial valuation at the year end. In respect of employeeswho have opted for pension scheme.
   (b) Contribution to the gratuity fund is made based on actuarial valuation at the year end.
   (c) Leave encashment is accounted for on "PAY-AS-YOU-GO" method.
   (d) None of the above

Answer:

(c) Leave encashment is accounted for on "PAY-AS-YOU-GO" method.

As regard leave encashment, which is accounted for on PAY-AS-YOU-GO basis, it is not in accordance withAS-15. It should be accounted for on accrual basis.

6. **M Ltd. has taken the assets on lease from ABC Ltd. The following information is given below:**

   Lease Term = 4 years

   Fair value at inception of lease = ₹ 14,50,000

   Lease Rent = ₹ 5,00,000 p.a. at the end of year

   Guaranteed Residual Value = ₹ 1,00,000

   Expected Residual Value = ₹ 2,00,000

   Implicit Interest Rate = 14.97%

   The leased asset and liability should be recognized at -

   (A) ₹ 14,85,590
   (B) ₹ 14,50,000
   (C) ₹ 21,00,000
   (D) ₹ 20,00,000

Answer:

(B) ₹ 14,50,000

Present value of minimum lease payment

Year	MLP	Discount rate (14.97%)	PV
1	5, 00, 000	0.8698	4,34,900
2	5, 00, 000	0.7565	3,78,250
3	5, 00, 000	0.6580	3,29,000
4	6, 00, 000	0.5724	3,43,440
	21, 00, 000		14, 85, 590

Fair value at the inception of lease (₹14,50,000) is less than Present value of minimum lease payment (₹14,85,590) so the leased asset and liability should be recognized at ₹ 14,50,500.

7. What is the weighted avg. number of equity shares for the following situation prescribed under AS-20:

Accounting year: 2016-17

01/04/2016	**Balance**	**3600 equity shares**
15/09/2016	**Issued for Cash**	**1800 equity shares**
01/02/2017	**Buyback**	**120 equity shares**

(A) 4630

(B) 4600

(C) 5280

(D) None of the above

Answer:

(A) 4630

(3600 x 12/12) + (1800 x 7/12) - (120 x 2/12) i.e. 4630 shares

8. From the following information for T Ltd, calculate the amount of tax to be debited in Profit and Loss Account for the year 31.03.2015 as per AS-22

Accounting Profit	**₹ 50,00,000**
Book Profit as per MAT(Minimum Alternate Tax)	**₹ 30,00,000**
Profit as per Income Tax Act	**₹ 25,00,000**
Tax Rate	**30%**
MAT Rate	**10%**

(A) ₹ 14, 50, 000

(B) ₹ 15, 00, 000

(C) ₹ 15, 50, 000

(D) None of the above

Answer:

(C) ₹ 15, 50, 000

Tax as per accounting profit: 50,00,000 x 30% = 15,00,000

Tax as per Income Tax profit: 15,00,000 x 30% = 4,50,000

Tax as per MAT: 50,00,000 x 10% = 5,00,000

Tax expense = Current tax + Deferred tax

15,00,000 = 4,50,000 + Deferred tax

Therefore, Deferred Tax Liability as on 31.3.2015 = ₹ 15,00,000 – ₹ 4,50,000 = ₹ 10,50,000.

Amount of tax to be debited in Profit and Loss Account for the year 31.03.2015:

= Current tax + Deferred tax liability + Excess of MAT over current tax

= 4,50,000 + 10,50,000 + (5,00,000 – 4, 50, ,000)

= 15,50,000

9. On April 2016, J Ltd.bought a trademark from I Ltd. for ₹ 40 lakhs. J Ltd. retained an independent valuer,who estimated the trademark's remaining life to be 20 years. Its unamortized cost on I ltd. records was ₹ 30 lakhs.J Ltd.decided to amortize the trademark over the maximum period allowed. In J Ltd.'s Balance Sheet as on 31st March 2017, what amount should be reported as accumulated amortization?

(A) ₹ 1 lakhs

(B) ₹ 2 Lakhs

(C) ₹ 1.5 lakhs

(D) ₹ 4 lakhs

Answer:

(D) ₹ 4 lakhs

As per para 23 of AS-26, intangible assets should be measured initially at cost therefore. J Ltd. should amortize thetrademark at its cost of ₹ 40 lakhs. The unamortized cost on the seller's books ₹ 30 lakhs is irrelevant to the buyer.Although the trademark has a remaining useful life of 20 years, intangible assets are generally amortized overa maximum period of 10 years as per AS-26. Therefore, the maximum amortization expense and accumulatedamortization is ₹ 4 lakhs (₹ 40 lakhs/10).

10. Choose the correct alternative:

(i) On 1st April 2017, H Ltd acquired 16000 shares out of 20000 equity shares of ₹10 each of S Ltd at ₹ 600000. On that date balance of General reserve, Capital Reserve and Preliminary Expenses in S Ltd were ₹ 242000, ₹320000 and ₹ 70000 respectively. The amount of cost of control will be

(a) ₹ 40000 (Goodwill)

(b) ₹ 40000 (Capital Reserve)

(c) ₹ 46400 (Goodwill)

(d) ₹ 46400 (Capital Reserve)

(ii) P Ltd. purchases 80% shares out of 80000 Equity shares of ₹ 10 each in Chandu Ltd. at ₹ 1000000. On that date the balance of Capital reserve, Securities Premium, General Reserve and Discount on issue of Debentures were ₹ 80000, ₹120000, ₹ 215000 and ₹ 40000 respectively. The amount of minority interest will be

(a) ₹ 235000

(b) ₹ 215000

(c) ₹ 335000

(d) ₹ 315000

(iii) P Ltd. acquired 80% equity shares of R Ltd. on 1st April 2016. On 31st March 2017, goods worth ₹ 80000 purchased from P Ltd. were included in the stock of R Ltd. P Ltd. made a profit of 25% on sales. At the time of preparation of consolidated Balance Sheet the amount of unrealized profit on stock will be

(a) ₹ 30000

(b) ₹ 16000

(c) ₹ 20000

(d) ₹ 22000

(iv) V Ltd. acquired 2,000 equity shares of D Ltd. on April, 01, 2016 for a price of ₹ 2,00,000. D Ltd. made a net profit of ₹ 80,000 during the year 2016-17. The Share Capital of D Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the share of V Ltd. in the pre-acquisition profit of D Ltd. is ₹ 56,000, the amount of Goodwill/Capital Reserve to be shown in the Consolidated Balance Sheet as on March 31, 2013 is —

(a) ₹ 44,000 (Capital Reserve)

(b) ₹ 56,000 (Capital Reserve)

(c) ₹ 44,000 (Goodwill)

(d) ₹ 56,000 (Goodwill)

(v) N Ltd. acquire 60% of T Ltd.'s shares on April 2, 2015, the price paid was ₹2,80,000. T Ltd.'s Shareholder equity shares are as follows:

	₹
Equity Shares (Paid up)	100,000
Share premium	3,00,000
Retained Earning	100,000
	5,00,000

The Minority interest will be

(a) ₹ 200000

(b) ₹ 300000

(c) ₹ 310000

(d) ₹ 210000

(vi) As per AS 23, investment in associates is accounted for under

(a) Equity method

(b) Debt method

(c) Acquisition method

(d) Purchase method

(vii) As per AS 23, investor's share in post acquisition profit of the associate is

(a) reduced from the carrying amount of investment

(b) added to the consolidated profit and loss

(c) added to the carrying amount of investment

(d) reduced from the consolidated profit or loss

(viii) As per AS 27, in which of the following cases a separate legal entity is recognized?

(a) Jointly controlled operations

(b) Jointly controlled assets

(c) Jointly controlled entities

(d) All of the above

(ix) Which of the following statements is false?

(a) For jointly controlled operations no separate financial statements are prepared.

(b) Jointly controlled assets are not owned by a single venture.

(c) Jointly controlled entities do not prepare financial statements separately.

(d) In jointly controlled entities ventures do not own the assets, but own the interest in JCE.

Answer:

(i) (c)

(ii) (a)

(iii) (c)

(iv) (b)

(v) (a)

(vi) (a)

(vii) (a)

(viii) (c)

(ix) (c)

<u>Questions based on Ind AS</u>

1. Which of the following statement is not a true statement regarding foreign currency cash flows under Ind AS– 7?

(A) Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

(B) The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

(C) Unrealised gains and losses arising from changes in foreign currency exchange rates are cash flows.

(D) None of the above

Answer:

(C) Unrealised gains and losses arising from changes in foreign currency exchange rates are cash flows.

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the

beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

2. **Identify the reportable segment by profitability test is demonstrated as follows for S Ltd.**

Segment	Profit (Loss)
V	(200)
W	250
X	150
Y	(350)
Z	(50)

(A) W,X,Y and Z

(B) V,W,X and Z

(C) V,W,X and Y

(D) V,W,X, Y and Z

Answer:

(C) V, W, X and Y

Reportable Segment = more than 10% of higher of absolute value of Profit or Loss

= more than 10% of 600 = 60

3. **An entity shall prepare its financial statements, except for ________________ , using the accrual basis of accounting.**

(A) balance sheet

(B) profit and loss

(C) changes in equity

(D) cash flows

Answer:

(D) cash flows

Write the answer of the following questions

Questions based on AS

1. **Company Y entered into an agreement to sell its immovable property included in the Balance Sheet at ₹ 20 lakhs to another company for ₹ 35 lakhs. The agreement to sell was concluded on 18.02.2017 and the sale deed was registered on 28.04.2017. How this will be treated in Balance Sheet as on 31.03.2017.**

Answer:

As per AS 4 Assets and liabilities should be adjusted for events occurring after the balance sheet date which provides additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date. In the present case sale of immovable property was concluded before approval by the Board. This is clearly an event occurring after the balance sheet date. Agreement to sell was entered into before the balance sheet date. Registration of the sale deed simply provides additional information relating to the conditions existing at the balance sheet date. So adjustments to assets are necessary and Asset will be derecognized in the Balance Sheet as on 31.03.2017.

2. **What is the treatment to be given in each of the following cases to an entity for re-classify its Investment in accordance with AS-13.**
   - **(i) A portion of Current Investments purchased for ₹ 48 lakhs to be reclassified as long-term Investments, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 57 lakhs.**
   - **(ii) Another portion of Current Investments purchased for ₹ 31 lakhs has to be reclassified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was ₹ 24 lakhs.**
   - **(iii) Certain Long-term Investments no longer considered for holding purposes have to be re-classified as Current Investments. The original cost of theses was ₹ 35 lakhs but they had been written down to ₹ 26 lakhs to recognize permanent decline as per AS 13.**

Answer:

As per AS - 13 Accounting for Investments' where investments are reclassified from current to long term, transfers are made at the lower of cost and fair value at the date of transfer. In the first case, the market value of the investment is ₹ 57 lakhs, which is higher than its cost ₹ 48 lakhs. Therefore, the transfer to long term investments should be carried at cost ₹ 48 lakhs.

In the second case, the market value of the investment is ₹ 24 lakhs, which is lower than its cost ₹ 31 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value ₹ 24 lakhs. The loss of ₹ 7 lakhs should be charged to profit and loss account. Where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

In the third case, the book value of the investments is ₹ 26 lakhs, which is lower than its cost ₹35 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹ 26 lakhs.

3. **A claim lodged with the Insurance Company in February, 2015 for loss of goods of ₹ 15 lakhs had been passed for payment inMarch, 2017 for ₹ 12 lakhs. No entry was passed in the books of the company, when the claim was lodged. Advice the Company about the treatment of the following in the final statement of accounts for the year ended 31st March, 2017.**

Answer:

The financial statements of the company are prepared for the year ended 31.3.17.

There was a loss of goods of ₹15 lakhs in 2014-15 and the claim was lodged in February 2015 with the Insurance Company. No entry was passed in the books of the company when the claim was lodged and the said treatmentwas correct in view of AS-9, which states that if uncertainty exists as to collectability, the revenue recognitionshould be postponed.Since, the claim is passed for payment of ₹12 lakhs in March, 2017, it should be recognized as revenue in thefinancial statements prepared for the year ended 31.3.17.

As per AS-5 Revised, the claim amount received will not be treated as extraordinary item. AS-5 Revised furtherstates that when items of income and expense within profit 0r loss from ordinary activities are of such size, nature,or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the natureand amount of such items should be disclosed separately. Accordingly, the nature and amount of this item shouldbe disclosed separately.

4. **Exchange Rate**

Goods sold on 03.02.2018 of US $1,00,000	**₹ 64.17**
Exchange rate on 31.3.2018	**₹ 63.58**
Date of actual payment 5.04.18	**₹ 63.75**

Calculate the loss/gain for the financial years 2017-18 and 2018-19.

Answer:

As per AS-11, all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction. Therefore, goods sold on 03.02.2018 and corresponding debtor would be recorded at ₹ 64.17

= 1,00,000 × 64.17 = 64,70,000

As per AS-11, at the balance sheet date all monetary items should be reported using the closing rate.

Therefore, the debtors of US $1,00,000 outstanding on 31.3.18 will be reported as:

1,00,000 × 63.58 = 63,58,000.

Exchange loss ₹ 1,12,000 = (64,70,000– 63,58,000) should be debited in profit and loss account for 2017-18.

As per AS-11, exchange difference on settlement on monetary items should be transferred to profit and loss account as gain or loss thereof:

1,00,000 × 63.75 = 63,75,000 - 63,58,000 = ₹17,000 should be credited to profit or loss for the year 2018-19.

5. **In preparing the financial statements of X Ltd. for the year ended 31st March, 2016, you come across the following information.**

   "An unquoted long-term investment is carried in the books at a cost of ₹15 lakhs. The published accounts of the unlisted company received in June 2016 showed that the company was incurring cash losses with declining market share and the long-term investment may not fetch more than ₹ 10lakh". State with reasons, how would you deal with them in the financial statements:

Answer:

As per AS-13, the long-term investments should be carried in the financial statements at cost. If there is a diminution in the value of long term investments, which is not temporary in nature, provision should be made for each investment individually. Any reduction in the carrying amount should be charged to the Profit and Loss Account. The long term investments are carried at a cost of ₹15 lakhs in the books of accounts. The value of investments fall down to ₹ 10 lakh due to cash losses and the declining market share of the company in which the investments were made.

In view of the provision contained in AS-13, the carrying amount of long-term investments should be brought downto ₹ 10 lakh and ₹5 lakhs should be charged to Profit and Loss Account for the year ended 31st March, 2016.

6. **B Ltd., an insurance company, has classified its total investment on 31.3.2015 into three categories: (a) held to maturity (b) available for sale (c) held for trading.**

   Held to maturity investment is carried at acquisition cost less amortized amount. Available for sale are carried at marked to market. Held for trading investments are valued at weekly intervals at market rates. Comment on the policy of the company in accordance with AS-13.

Answer:

As per para 2(d) of AS-13, the accounting standard is not applicable to bank, insurance company, mutual funds. In this case, B Ltd. is an insurance company; therefore AS-13 does not apply here.

7. **X Ltd. has obtained an institutional loan of ₹700 lakhs for modernization and renovation of its machinery. Machinery acquired under the modernization scheme and installation completed on 31.3.16 amounts to ₹500 lakhs. ₹150 lakhs have been advanced to suppliers for additional assets and balance loan of ₹ 50 lakhs have been utilized for working capital purpose. The total interest paid for the above loan amounted to ₹ 70 lakhs during 2015-16.You are required to state how the interest on the institutional loan is to be accounted in the year 2015-16.**

Answer:

The total interest of ₹ 70 lakhs are related to two periods. Upto the date of installation of the machinery, amount disbursed is ₹ 650 lakhs (₹ 500 + 150). Interest on such amounting to ₹ 65 lakhs should be capitalized and the balance of the interest ₹ 5 lakhs (i.e. ₹ 70-65) should be treated as an expense.

8. Sun Ltd. has taken a loan of US $10 lakhs on 1st April, 2015, for a specific project at an interest rate of 10% p.a., payable annually. On 1st April, 2015, the exchange rate between the currencies was ₹ 55 per US $. The exchange rate, as at 31st March, 2016, is ₹ 58 per US $. The corresponding amount could have been borrowed by Sun Ltd. in local currency at an interest rate of 14% p.a. as on 1st April, 2015.

Compute the amount of borrowing costs for the purposes ofAS-16.

Answer:

(a) Interest for the period = US $10,00,000 x 10% x RS. 58 per US $ = ₹58,00,000

(b) Increase in the liability towards the principal amount = US $ 10,00,000 x (58-55)= ₹ 30,00,000.

(c) Interest that would have resulted if the loan was taken in Indian currency = US $ 10,00,000 x ₹ 55 x 14% = ₹77,00,000

(d) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 77,00,000 – ₹58,00,000 = ₹ 19,00,000

Therefore, out of ₹30,00,000 increases in the liability towards principal amount, only ₹19,00,000 will be considered as the borrowing cost. Thus, total borrowing cost would be ₹77,00,000 being the aggregate of interest of ₹58,00,000 on foreign currency borrowings (as per Para 4(a) of AS-16) plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹19,00,000. Thus, ₹77,00,000 would be considered as the borrowing cost to be accounted for as per AS-16 and the remaining ₹11,00,000 would be considered as the exchange difference to be accounted for as per AS-11 "The Effects of Changes in Foreign Exchange Rates".

9. On 10.05.2016 C Ltd. obtained a loan from the bank for ₹ 10 crores to be utilized as under:

(i) Purchase of Machinery ₹ 3.5 crores.

(ii) Construction of a factory shed ₹ 4 crores.

(iii) Working Capital ₹ 2 crores.

(iv) Advance for Purchase of vehicle ₹ 50 lakhs.

In March 2016, construction of shed was completed and machinery installed. Delivery of truck was not received. Total interest charged by the bank for the year ended 31.3.16 was ₹ 1.20 crores. Show the treatment of interest as per AS-16.

Answer:

As per AS-16, borrowing cost (interest) should be capitalized if borrowing cost is directly attributable to the acquisition, construction or production of qualifying asset. ₹ 5 crores borrowed from Bank was utilized for four different purposes, only construction of factory shed is a qualifying asset as per AS-16, while the other three payments are not for the qualifying asset. Therefore, borrowing cost attributable to the construction of a factory shed should only be capitalized which will be equal to ₹ 1.20 crores x 4/10 = ₹ 48 lakhs. The balance of ₹ 72 lakhs (₹ 120 lakhs – ₹ 48 lakhs) should be treated as an expense and debited to Profit and Loss Account.

10. Define the term 'Geographical segment' as per AS – 17.

Answer:

A 'Geographical segment' is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risk and returns that are different from those of components operating in other economic environments. Factors for identification of geographical segments are:

(a) Significant difference in risk and rewards;

(b) Internal MIS and organization structure;

(c) Essential factors that defines a business segment.

11. Discuss the provision relating with Related party disclosures and the applicability under AS –18.

Answer:

Type of disclosure under AS-18

(a) in case of related party relationship by virtue of significant influence (not control) e.g. those of associates, key management personnel, relatives, there is no need. to disclose the related party relationship unless there has been actual transaction during the reporting period with such related parties.

(b) in the event of transaction between related parties during the existence of a related party relationship(control or significant influence) the reporting enterprise should disclose:

- (i) the name of transacting related party
- (ii) description of the relationship between parties
- (iii) description of nature of transaction
- (iv) volume of transaction, either in amount or approximate proportions
- (v) any other element of the related party transactions necessary for understanding of financial statements(e.g. transfer of major asset taken at price different from normal commercial terms i.e. not at fair value)
- (vi) either in amount or proportion of outstanding items and provisions for doubtful debts pertaining to related parties on B/S date.
- (vii) amounts written off/back in the accounting period in respect of debts due from or to related parties.

Related party disclosures are applicable only to the following related party relationships:

1. enterprises that directly or indirectly through one or more intermediaries control or are controlled by or under common control with the reporting enterprise
2. associates and joint ventures of the reporting enterprise and the investing party or venture in respect of which the reporting enterprise is an associate or joint venture.
3. individuals owning directly or indirectly an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise and relatives of any such individual.

4. key management personnel and relatives of such individuals.
5. enterprise over which any person in (3) and (4) is able to exercise significant influence (including enterprise owned by directors or major shareholders of the reporting enterprise and enterprise that have a member of key management in common with the reporting enterprise).Related party transactions involve transfer of resources or obligations between related parties, regardless of whether or not a price is charged, e.g. use of logo/brand name provision of management services, providing financial guarantee use of common infrastructure etc.

12. X Ltd. sold machinery having WDV of ₹ 800 Lakhs to Y Ltd. for ₹ 900 Lakhs and the same machinery was leased back by B Ltd. to H Ltd. The Lease back is operating lease.

Comment if –

(a) Sale price of ₹900 lakhs is equal to fair value

(b) Fair value is ₹950 lakhs

(c) Fair value is ₹800 lakhs and sale price is ₹900 lakhs

(d) Fair value is ₹850 lakhs and sale price is ₹750 lakhs

(e) Fair value is ₹750 lakhs and sale price is ₹790 lakhs

(f) Fair value is ₹860 lakhs and sale price is ₹900 lakhs

Answer:

(a) X ltd. should immediately recognize the profit of ₹100 lakhs in its books.

(b) Profit ₹100 lakhs should be immediately recognized by X Ltd.

(c) Profit of ₹100 lakhs is to be amortized over the lease period.

(d) Loss of ₹ 50 lakhs to be immediately recognized by X Ltd. in its books provided loss is not compensated by future lease payment.

(e) Loss of ₹50 lakhs (800-750) to be immediately recognized by X Ltd. in its books and profit of ₹40lakhs (790-750) should be amortized / deferred over lease period.

(f) Profit of ₹60 lakhs (860-800) to be immediately recognized in its books and balance profit of ₹40lakhs (900-860) is to be amortized / deferred over lease period.

13. What is Diluted EPS as per AS – 20?

Answer:

Diluted EPS indicates the potential variability or risk attached to the basic EPS as a consequence of the issue of potential equity shares and potential dilutive securities having significant impact on lowering EPS. However, no potential equity shares be included in the computation of any diluted per share amount in case of continuing loss from operation, even though the entity reports an overall net profit.

(i) Adjustments should be made both in numerator and denominator consequent upon the conversion of potential dilution to arrive at diluted EPS in keeping with the nature of conversion including tax implication thereon in the respective year.

(ii) Potential equity shares are:

(a) debt instruments/preference share convertible into equity shares

(b) share warrants

(c) employees and other stock option plans which entitles them to receive equity shares as part of their remuneration and other similar plans

(d) contingently issuable shares under contractual arrangements e.g. acquisition of a business/assets, loan converted to equity on default

(e) share application pending allotment if not statutorily required to be kept separately and is being utilized for business is treated as potential (dilutive) equity share.

14. C Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2015, 2016and 2017 for ₹ 22,00,000, ₹ 32,00,000 and ₹42,00,000 respectively. However, for income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of ₹ 14,00,000, ₹ 36,00,000 and ₹ 46,00,000for the years 2015, 2016 and 2017 respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/liability for the years 2015, 2016 and 2017.

Answer:

C Limited

Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Deferred Tax Liability (balance)
2015	22,00,000	14,00,000	8,00,000	2,80,000
2016	32,00,000	36,00,000	4,00,000	1,40,000
2014	42,00,000	46,00,000	nil	nil
	96,00,000	96,00,000		

15. State the provision for non-applicability of AS-23 for Investment in Associates.

Answer:

These are the following situation where AS – 23 is not applicable:

1. Investment in associates are accounted for using the 'equity method' in the Consolidated Financial Statements except when,

(a) the investment is made and held exclusively with a view to subsequent disposal in the near future, or

(b) the associate operates under severe long-term restrictions that significantly impairs its ability to transfer funds to investor. Investments in such a situation is accounted for in accordance with AS-3 in Consolidated Financial Statements.

2. Equity method of accounting is also not applicable if

(a) it has no investment in Association

(b) it has investment in Association but has no subsidiaries, Consolidated Financial Statements is not required

(c) it has subsidiaries and associates but these are not material, hence Consolidated Financial Statements is not prepared.

(d) It is not listed enterprise hence not mandatory to present Consolidated Financial Statements or has not chosen voluntarily to present Consolidated Financial Statements.

16. X holds, 25% share in Y Ltd at a cost of ₹ 50 lakhs as on 31-03-2016. Y's shares capital and reserve is ₹ 200 Lakh. For the year ended 31-03-2016 Y made a profit of ₹ 8,00,000 and 50% distributed as dividend. Compute the value (carrying amount) as at 31.03.2016 to be shown in the Consolidated Financial Statements.

Answer:

	₹ in Lakhs
Cost of shares in Y Ltd.	50
Share of Reserve	50
Share of profit	02
	102
Less: dividend received	01
Value of investment as at 31.03.16	101

17. What are the prerequisites conditions to determine discounting operation as per AS – 24?

Answer:

Prerequisites to determine 'discontinuing operation' –

1. The enterprise in term a single plan:

(a) disposing substantially in its entirety e.g. by selling the component in a single transaction or by demergeror spin-off of ownership of the component to the enterprise's shareholder, or

(b) disposing in piecemeal manner e.g. selling off the assets-and settling its liabilities individually or

(c) terminating through abandonment

2. That represent, a separate major line of business or geographical area of operation, and
3. That can be distinguished operationally for financial reporting purpose.

18. When it is required to prepare and present Interim Financial Report in comply with AS-25.

Answer:

As per Clause 41 of listing agreement the companies are required to publish the financial results on a quarterly basis. The standard itself does not categorize the enterprise or frequency of interim financial report and the time limit for presentation from the end of an interim period, but if it is required to prepare and present, it should comply with AS-25.

Instances for interim financial report:

(i) quarterly report to the board of directors or bank

(ii) in case of merger and amalgamation

(iii) for IPO purpose

(iv) for consolidation of parent and subsidiary when year ends are different

(v) for declaring interim dividend' Accounting for interim transaction:

(a) interim period is considered as integral part of annual accounting period e.g. annual operating expectations are estimated and then allocated to the interim period based on estimated sales or other parameters and results of subsequent interim periods are adjusted for estimation errors (integral approach)

(b) each interim period is considered as discrete and separate accounting period like a full accounting period e.g. no estimation or allocation and operating expenses are recognized in the concerned interim period irrespective of benefit accruing to other interim period (discrete approach).

19. Define the term 'Intangible Assets' as described in AS – 26.

Answer:

An intangible asset is an identifiable non-monetary asset, without physical substance held for production or supply of goods and services for rental to others or for administrative purposes.

Essential criteria for recognition of an intangible asset:

(a) identifiable: It must be separate from goodwill and the enterprise could rem. sell: exchange or distribute the future economic benefits attributable to the asset without disposing of future economic benefits that flow from other assets in the same revenue earning activity - but goodwill cannot be meaningfully transferred to a new owner without also selling the other assets or the operation of the business. e.g.

patents, copyrights, license, brand name, import quota, computer software, lease hold right, marketing rights, technical know-how etc.

(b) control: The enterprise has the power to obtain the future economic benefits, flowing from the underlying resources and also can restrict the access of others to those benefits (not necessarily legal right and may be in some other way – market and technical knowledge may give rise to future economic benefit).

(c) future economic benefits: An enterprise should asses the probability of future economic benefits using reasonable and supportable assumptions that represent best estimate of the set of economic conditions that will exist over the useful life of the asset on the basis of weight age to external evidence available at the time of initial recognition.

(d) Cost can be measured reliably :(i) Initially recognized at cost - purchase price, taxes duty and other directly attributable expenses to make the asset ready for its intended use, if acquired separately - purchase consideration in the form of cash or other monetary asset.

20. M.S.D. Ltd. is developing a new production process. During the financial year ending 31st March, 2016, the total expenditure incurred was ₹ 60 lakhs. This process met the criteria for recognition as an intangible asset on 1st September, 2015. Expenditure incurred till this date was ₹32 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2017 was ₹ 50 lakhs. As at 31st March, 2017, the recoverable amount of know-how embodied in the process is estimated to be ₹ 77 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to calculate:

(i) Amount to be charged to Profit and Loss A/c for the year ending 31st March, 2016 and carrying value of intangible as on that date.

(ii) Amount to be charged to Profit and Loss A/c and carrying value of intangible as on 31st March, 2017. Ignore depreciation.

Answer:

As per AS 26 'Intangible Assets'

(i) For the year ending 31.03.2016

(a) Carrying value of intangible assets as on 31.03.2016:

At the end of financial year 31st March 2016, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 28 lakhs (expenditure incurred since the date the recognition criteria were met, i.e., on 1st December 2015).

(b) Expenditure to be charged to Profit and Loss account: The ₹32 lakhs is recognized as an expense because the recognition criteria were not met until 1st December 2015. This expenditure will not form part of the cost of the production process recognized in the balance sheet.

(ii) For the year ending 31.03.2017

(a) Expenditure to be charged to Profit and Loss account:

(₹ in lakhs)

Carrying Amount as on 31.03.2016	28
Expenditure during 2016 – 2017	50
Total book cost	78
Recoverable Amount	77
Impairment loss	01

₹1 lakh to be charged to Profit and loss account for the year ending 31.03.2017.

(b) Carrying value of intangible as on 31.03.2017:

(₹ in lakhs)

Total Book Cost	78
Less: Impairment loss	01
Carrying amount as on 31.03.2017	77

21. Discuss the term 'Joint Venture' as per AS-27

Answer:

A joint venture is a contractual arrangement between two or more parties undertaking an economic activity, subject to joint control (control is the power to govern the financial and operating policies of an economic activity to obtain benefit from it).The arrangement may be:

(a) Jointly controlled operations

(b) Jointly controlled asset

(c) Jointly controlled entities

In the event an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary of that enterprise within the meaning of AS-2, it will be treated as joint venture as per AS-27. Joint control requires all the ventures to jointly agree on key decisions, else decision cannot be taken, as such even a minority holder (owner) may enjoy joint control.

22. What are the sources, based on which assessment for impairment of assets needs to be made?

Answer:

Assessment for impairment of assets needs to be made based on external or internal source of information.

External sources:

- Market value changes with passage of time or normal use (typewriter on invention of computer)
- Adverse effect in the light of technological, market, economic, or legal environment in which the enterpriseoperates.
- Change in market rate of interest or returns on investment affect the discount rates used to assess an assetvalue in use (if the effect is not a short-term phenomenon).
- Carrying amount of the net asset, exceeds its market capitalization (determined by future growth, profitability,threat of new products/entrants etc).

Internal sources:

- Obsolescence /physical damage is evident.
- Indication obtained internally that economic performance of an asset has worsened or likely to worse thanexpected.
- Continuous cash loss may indicate that one or more of the business division is impaired.

23. A Company acquired a machine for ₹ 5.6 crores on 1.1.2014. It has a life of 5 years with a salvage value of ₹ 30 lakhs. Apply the test of impairment on 31.3.2016:

(a) Present value of future cash flow ₹2.3 crores

(b) Net selling price ₹2.2 crores

Answer:

Carrying amount of the asset: [5.6 – (5.6 – 0.3) x 27/60] = 2.43 crores.

Time period for use of the asset: 1.1.2014 to 31.3.2016 = 27 months

Total life period of the asset = 5 years = 60 months.

Recoverable amount: being the higher of present value and net selling price = ₹ 2.3 crores.

Impairment Loss = ₹ (2.43 – 2.3) crores = ₹ 0.13 crores.

24. Write short notes on (A) Contingent liability (B) Contingent asset

Answer:

(A) contingent liability is:

(a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(b) a present obligation that arises from past events but is not recognized because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) a reliable estimate of the amount of the obligation cannot be made.

(B) A contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

Whereas, present obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not and possible obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable.

Questions based on Ind AS

1. What is total comprehensive income under Ind AS – 1

Answer:

Total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'.

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that is not recognised in profit or loss as required or permitted by other Ind ASs.

The components of other comprehensive income include:

(a) changes in revaluation surplus — Ind As 16 & 38;

(b) remeasurements of defined benefit plans — Ind AS 19;

(c) gains and losses arising from translating the financial statements of a foreign operation — Ind AS 21;

(d) gains and losses from investments in equity instruments designated at fair value through other comprehensive income — Ind AS 109;

(e) gains and losses on financial assets measured at fair value through other comprehensive income — Ind AS 109;

(f) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income — Ind AS 109;

(g) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk — Ind AS 109;

(h) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value — Ind AS 109;

(i) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument — Ind AS 109.

2. What do the items comprise in a complete set of financial statements under Ind AS-1?

Answer:

A complete set of financial statements comprises:

(a) a balance sheet as at the end of the period;

(b) a statement of profit and loss for the period;

(c) statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information; and

(f) comparative information in respect of the preceding period;

(g) a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements

(h) An entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

3. Discuss the terms Current assets and Current liabilities as per Ind AS -1

Answer:

An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period; or

(d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

(e) An entity shall classify all other assets as non-current.

(f) This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal

operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading and the current portion of non-current financial assets.

Current liabilities

An entity shall classify a liability as current when:

(i) it expects to settle the liability in its normal operating cycle;

(ii) it holds the liability primarily for the purpose of trading;

(iii) the liability is due to be settled within twelve months after the reporting period; or

(iv) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

- An entity shall classify all other liabilities as non-current.
- Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entitys normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period.
- Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Financial liabilities that provide financing on a long-term basis and are not due for settlement within twelve months after the reporting period are non-current liabilities.
- An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

(a) the original term was for a period longer than twelve months, and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue.

4. X ltd. Has a loan obligation which would become due within a period shorter than 12 months from the reporting date. What will be disclosure requirement of this loan when

(a) The entity has the power to refinance the existing loan obligation for at least 12 months after the reporting period.

(b) refinancing the obligation is not at the discretion of the entity.

Answer:

If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

5. (i) State the offsetting provision under Ind AS

(ii) A Ltd, has an unused property, had no intention to use in the future. The Board of Directors decided to sell the property to compel its liquidity problems. The Company made a profit of ₹ 30 Lakhs by selling the said property. There was a fire in the factory and a part of the unused factory valued at ₹ 8 Lakhs was destroyed. The Loss was set-off against the Profit from Sale of property and a Profit of ₹ 22 Lakh was disclosed as Net Profit from Sale of Assets. Analyse.

Answer:

(i) An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.

An entity reports separately both assets and liabilities, and income and expenses. Measuring assets net of valuation allowances — for example, obsolescence allowances on inventories and doubtful debts allowances on receivables — is not offsetting.

In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material.

(ii) An Entity shall not offset Assets and Liabilities or Income and Expenses, unless required or permitted by an Ind AS.

When items of Income or Expense are material, an Entity shall disclose their nature and amount separately. Disposal of items of Property, Plant and Equipment is one example of such material item.

Disclosing Net Profits by setting off Fire Losses against Profit from Sale of property is not correct. As per Ind AS-1, Profit on Sale of property, and Loss due to Fire should be disclosed separately.

6. What are the information to be disclosed in Statement of Changes in Equity?

Answer:

An entity shall present a statement of changes in equity. The statement of changes in equity includes the following information:

- total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8;
- for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:
  - profit or loss;
  - other comprehensive income;
  - transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control; and
  - any item recognised directly in equity such as amount recognised directly in equity as capital reserve.

7. What is Inventories as per Ind AS 2?

Answer:

Inventories are assets:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

In case of service providers, inventories include the cost of service for which the entity has not yet recognised the revenue.

8. Discuss about the scope of Ind AS 2.

Answer:

This Standard applies to all inventories, except:

(a) financial instruments ; and

(b) biological assets (i.e living animals or plants) related to agricultural activity and agricultural produce at the point of harvest.

This Standard does not apply to the measurement of inventories held by:

commodity broker traders who measure their inventories at fair value less costs to sell and producers of agricultural and forest products, agricultural produce after harvest and minerals and mineral products to the extent that they are measured at net realisable value in accordance with well established practices in those industries.

The standard also scopes out the biological assets related to agricultural activity and agricultural produce at the point of harvest

9. How the cost of inventories can be measured? What other costs are excluded from the cost of inventories?

Answer:

Cost of inventories comprises

- all costs of purchase,
- costs of conversion and
- other costs incurred in bringing the inventories to their present location and condition.

Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

Following costs are excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

(a) abnormal amounts of wasted materials, labour or other production costs;

(b) storage costs, unless those costs are necessary in the production process before a further production stage;

(c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and

(d) selling costs.

10. MNC Ltd. Produces three joint products X, Y and Z from a joint process. It incurred ₹ 7,84,800. Allocate the Joint Costs with the following information:

Particulars	X	Y	Z
Quantity Produced	20,000 kgs	15,000 kgs	18,000 kgs
Sales Price per kg	₹ 15	₹ 25	₹ 17
Stock Quantity at the end of year	1,000 kgs	750 kgs	250 kgs

Answer:

As per Ind AS – 2, costs of Joint Products should be apportioned on a rational and consistent basis. The Sales Value at Split Off Point may be used for apportionment in the given case.

Particulars	X	Y	Z
1. Production Quantity	20,000	15,000	18,000
2. Sale price per kg	₹ 15	₹ 25	₹ 17
3. Total Sale Vale (1×2)	3,00,000	3,75,000	3,06,000
4. Joint Costs apportioned (based on Sale Value) (bases on 3)	$\frac{3,00,000}{9,81,000} \times 7,84,800$ = 2,40,000	3,00,000	2,44,800
5. Average Joint Costs per kg (4÷1)	12	20	13.6
6. Closing Stock Quantity (given)	1000	750	250
7. Value of Closing Stock (5×6)	12,000	15,000	3,400

Note: It is presumed that the NRV of the products as at the Balance Sheet date, are higher than the respective costs

11. In a production process, Normal Waste is 5% of input. 8,000 MT of input were put in process resulting in a wastage of 500 MT. Cost per MT of input is ₹1,250. The entire quantity of waste is on stock at the year-end. Compute the value of Inventory.

Answer:

Abnormal Amounts of Waste Materials, Labour or other Production Costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred.

Normal Waste is 5% of 8,000 MT i.e. 400 MT and Abnormal Waste is 500 MT – 400 MT = 100 MT.

Cost of Normal Waste 400 MT (i.e. 400 MT × ₹1,250 = ₹5,00,000) will be included in determining the cost of inventories at the year-end.

12. What is the provision regarding Taxes on income in Ind AS - 7

Answer:

Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

13. Define the term Cash and cash equivalents

Answer:

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or lessfrom the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preference shares acquired within a short period of their maturity and with a specified redemption date.

Bank borrowings are generally considered to be financing activities. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalent

14. What are the disclosure requirements for Changes in accounting Policies?

Answer:

It requires retrospective application of changes in accounting policies by adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts for each period presented as if the new accounting policy had always been applied (unless transitional provisions of an accounting standard require otherwise).

15. How the Errors can be recognized in the financial statements?

Answer:

Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and

these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

An entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

16. As at the end of the reporting period 31st March, 2017 Cost of Investments is ₹15,00,000. (Market Value ₹18,00,000) Its value declines to ₹8,00,000 on 15th April, 2017. How should the entity consider the above in its Financial Statements?

Answer:

Decline in fair value of investments does not normally relate to the condition of the Investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. So, an entity does not –

(a) Adjust the amounts recognized in its Financial Statements for the Investments, or

(b) Update the amounts disclosed for the investments as at the end of the reporting period.

The entity may need to give Additional Disclosure.

17. How the liabilities should be recognized if dividends are declared after the reporting period but before the financial statements are approved for issue?

Answer:

If an entity declares dividends to holders of equity instruments (as defined in Ind AS 32, Financial Instruments: Presentation) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements. It depends on the fact whether the event existed at the end of the period or not.

18. State the Recognition provision of deferred tax assets and liabilities as per Ind AS 12 — Income Taxes

Answer:

Deferred income taxes are recognised for all temporary differences between accounting and tax base of assets and liabilities except to the extent which arise from a) initial recognition of goodwill or b) asset or liability in a transaction which i) is not a business combination; and ii) at the time of the transaction, affects neither the accounting nor the tax profit.

19. How the replacement costs of an item of PPE is considered as per Ind AS 16 Property, Plant and Equipment?

Answer:

Replacement cost of an item of PPE is capitalized if replacement meets the recognition criteria. Carrying amount of items replaced is derecognised.

20. What is functional and presentation currency as per Ind AS 21 - The Effects of Changes in Foreign Exchange Rates?

Answer:

Functional currency is the currency of the primary economic environment in which the entity operates. Foreign currency is a currency other than the functional currency. Presentation currency is the currency in which the financial statements are presented.

21. What do you understand by Impairment of Assets as per Ind AS 36?

Answer:

Impairment of assets means weakening in value of assets. An asset is said to be impaired when the carrying amount of asset is more than its recoverable amount.

Carrying Amount is the amount at which assets are shown in the Balance Sheet, i.e. generally at cost less accumulated depreciation or amortisation and accumulated impairment losses.

Recoverable amount of an asset is higher the following:

(i) Fair value less cost of disposal;

(ii) Value in use i.e. estimated future cash flow arising from use of asset+ residual price at the end of its useful life.

Study Note – 2

ACCOUNTING OF BUSINESS COMBINATIONS AND RESTRUCTURING

Learning Objective:

After studying this chapter of the workbook the students will be able to:

- *Solve numerical problems on acquisitions, amalgamations and internal reconstruction*

OBJECTIVE TYPE QUESTIONS:

Questions based on AS

1. Choose the correct alternative.

(i) As per Ind AS 103, accounting and reporting for business combination is done under

(a) Acquisition Method

(b) Purchase method

(c) Pooling of interest method

(d) None of the above

(ii) As per Ind AS 103, while accounting and reporting for business combination goodwill is calculated as

(a) Consideration + Non controlling Interest – Net assets

(b) Consideration - Non controlling Interest + Net assets

(c) Consideration - Non controlling Interest – Net assets

(d) Consideration + Non controlling Interest + Net assets

(iii) A Ltd. acquires 80% of B Ltd. for ₹ 1200000 paid by equity at par. Fair Value (FV) of B's net assets at time of acquisition amounts ₹ 900000. The value of goodwill will be.

(a) ₹ 300000

(b) ₹ 480000

(c) ₹ 450000

(d) ₹ 500000

(iv) Q Ltd. acquired a 60% interest in R Ltd. on January 1, 2018. Z Ltd. paid ₹ 900 Lakhs in cash for their interest in P Ltd. The fair value of R Ltd.'s assets is ₹ 2000 Lakhs, and the fair value of its liabilities is ₹ 1000 Lakhs.

(a) ₹ 300 lakhs

(b) ₹ 250 lakhs

(c) ₹ 400 lakhs

(d) ₹ 350 lakhs

(v) How is non-controlling interest recorded in the books of the transferee at the time of a business combination arrangement under Ind AS 103.

(a) It is credited at fair value

(b) It is debited at fair value

(c) It is not shown at all

(d) None of the above

(vi) On 1 January 2018 A Ltd. acquires 80 per cent of the equity interests of B Ltd in exchange of cash of ₹ 600 lakh. The identifiable assets are measured at ₹ 925 lakh and the liabilities assumed are measured at ₹150 lakh. The fair value of the 20 per cent non controlling interest in P is ₹ 90 lakh. The gain on bargain purchase will be

(a) ₹ 90 lakh

(b) ₹ 85 lakh

(c) ₹ 105 lakh

(d) ₹ 75 lakh

(vii) X has acquired 100% of the equity of Y on March 31, 2018. The purchase consideration comprises of an immediate payment of ₹ 50 lakhs and three further payments of ₹ 2.5 lakhs if the Return on Equity exceeds 20% in each of the subsequent three financial years. A discount rate of 10% is used. Compute the value of total consideration at the acquisition date.

(a) ₹ 50 lakhs

(b) ₹ 56.215 lakhs

(c) ₹ 55 lakhs

(d) ₹ 57.5 laks

Answer:

(i) (a)

(ii) (a)

(iii) (b)

(iv) (a)

(v) (a)

(vi) (b)

(vii) (b)

Sums solved as per Ind AS 103:

2. **Following are the abstracts of balance sheets of two companies A and B when A acquired control of B. Amounts are in ₹ crores.**

	A	B		A	B
Equity Share Capital	600	500	PPE	800	600
Other Equity	300	200			
			Current Assets	600	500
Creditors	500	400			
Total	1400	1100	Total	1400	1100

A acquired 80% shares of B at 720, paid by shares issued at par. Fair Value of PPE is 640 and Current Assets 580.

- **Pass journal entries in the books of A (a. for consolidated accounts and b. for separate financial statements) and B for the business combination.**
- **Prepare Separate Balance Sheet and Consolidated Balance Sheet after business combination.**

Answer:

In the books of B there will be no accounting for this transaction.

Amounts are in ₹ crores.

In the books of A there will be accounting in two sets (a) in the set for consolidated accounting as per Ind AS 103 and (b) in the set for Separate Financial Statements.

(a): in the books of A for consolidated accounts:

Note 1: Net assets identified of Acquiree B shall be recognized at Fair Value.

	Carrying amount	Fair Value
PPE	600	640
Current Assets	600	580
Creditors	400	400
Net Assets		820

Note 2: Value of NCI can be made

(i) at Fair Value ie, 20%/80%*720 = 180, or

(ii) at proportionate Net Asset Value ie, 20%*820 = 164

Note 3: (i) Goodwill = Consideration + NCI – Net Asset = 720 + 180 – 820 = 80, or

(ii) Goodwill = Consideration + NCI – Net Asset = 720 + 164 – 820 = 64

- Journal Entries:

(taking NCI at Fair Value)

PPE	Dr.	640	
Current Assets	Dr.	580	
Goodwill	Dr.	80	
To, Consideration			720
To, Creditors			400
To, NCI			180
Consideration A/c	Dr.	720	
To, Equity Share Capital			720

(b) In the set for Separate Financial Statements

Investment A/c	Dr.	720	
To, Equity Share Capital			720

- Separate and Consolidated Balance Sheet of A (after business combination)

		Separate	Consolidated
PPE	800+640	800	1440
Goodwill	Note 3		80
Investment		720	
Current Assets	600+580	600	1180
Total		**2120**	**2700**
Equity Share Capital	600+720	1320	1320
Other Equity		300	300
NCI	Note 2		180
Trade Payables		500	900
Total		**2120**	**2700**

3. **Following are the abstracts of balance sheets of two companies A and B when A acquired control of B.**

Amounts are in ₹ crores.

	A	B		A	B
Equity Share Capital	**600**	**500**	**PPE**	**800**	**600**
Other Equity	**300**	**200**			
12% Debenture	**200**	**100**	**Current Assets**	**800**	**600**
Creditors	**500**	**400**			
Total	**1600**	**1200**	**Total**	**1600**	**1200**

A acquired 80% shares of B at 640, paid by shares of ₹ 10 issued at ₹ 25. 12% Debentures of A were issued in exchange of Debentures of B. Fair Value of PPE is 640 and Current Assets 580.

- **Pass journal entries in the books of A (for consolidated accounts) and B for the business combination. NCI is recognized at proportionate to net assets.**
- **Prepare Consolidated Balance Sheet after business combination.**

Answer:

In the books of B there will be no accounting for this transaction.

Amounts are in ₹ crores.

In the books of A for consolidated accounts:

Note 1: Net assets identified of Acquiree B shall be recognized at Fair Value.

	Carrying Value	Fair Value
PPE	600	640
Current Assets	600	580
Creditors	400	400
Debenture	100	100
Net Assets		720

Note 2: Value of NCI

At proportionate Net Asset Value ie, 20%*720 = 144

Note 3: (i) Goodwill = Consideration + NCI – Net Asset = 640 + 144 – 720 = 64

- Journal Entries:

PPE Dr.	640	
Current Assets Dr.	580	
Goodwill Dr.	64	
To, Consideration		640
To, Creditors		400
To, 12% Debentures		100
To, NCI		144
Consideration A/c Dr.	640	
To, Equity Share Capital		256
To, Security Premium		384

- Consolidated Balance Sheet of A (after business combination)

		Consolidated
PPE	800+640	1440
Goodwill	Note 3	64
Current Assets	800+580	1380
Total		**2884**
Equity Share Capital	600+256	856
Other Equity		684
NCI	Note 2	144
Trade Payables		900
12% Debenture		300
Total		**2884**

4. X holds 20% shares of B for certain years. On 01-04-20X1 X further acquires 60% shares of B at a consideration of 560000 in cash and by issue of 10000 shares of ₹ 10 (market price). Debentures of B are exchanged for 12% Debenture of X. A contingent consideration is also payable, fair value of which at the date of acquisition is estimated at ₹60,000. A pays transaction cost ₹20,000. Non-Controlling Interest is recognized at ₹ 1,20,000. The fair value of shares previously held in B amounts to ₹ 1,20,000. The fair values of assets and liabilities of B are stated below:

	Fair Value ₹
PPE	3,00,000
Current Assets	6,20,000
Creditors	36,000

The abstracts of consolidated balance sheet of A and individual balance sheet of B on 31-03-20X1 are given below:

[Amount in Rupees]

	X	B		X	B
Equity Share Capital	460000	250000	PPE	180000	160000
Other Equity	370000	500000	Investment in 20% shares in B (valued at Equity Method)	80000	
12% Debenture	60000	10000	Current Assets	680000	640000
Creditors	50000	40000			
Total	940000	800000	Total	940000	800000

Pass journal entries in the books of A for business combination and show the consolidated balance sheet.

Answer:

Working note 1: Net Identified Assets at fair value:

	Fair Value ₹
PPE	300000
Current Assets	620000
Less Creditors	36000
Less Debenture	10000
Net Identified Assets at fair value	874000

Working note 2: Consideration:

	₹
Cash payment	560000
Issue of shares	100000
Contingent consideration	60000
Consideration	720000

Working note 3: Goodwill:

	₹
Consideration	720000
Fair value of previously held shares	120000
NCI	120000
Total	960000
Net Identified Assets at fair value	874000
Goodwill	86000

- Journal Entries:

Investment A/C Dr.	40000	
To, Profit and Loss A/C		40000
PPE Dr.	300000	
Current Assets Dr.	620000	
Goodwill Dr.	86000	
To, Consideration		720000
To, Creditors		36000
To, 12% Debentures		10000
To, NCI		120000
To, Investment		120000
Consideration A/C Dr.	720000	
To, Equity Share Capital		100000
To, Cash		560000
To, Liability for Contingent Consideration		60000
Transaction Cost Dr.	20000	
To, Cash		20000
Profit and Loss A/C Dr.	20000	
To, Transaction Cost		20000

- Consolidated Balance Sheet of X (after business combination)

		Consolidated
PPE	180000+300000	480000
Goodwill	Note 3	86000
Current Assets	680000+620000-560000-20000	720000
Total		**1286000**
Equity Share Capital	460000+100000	560000
Other Equity	370000+40000 – 20000 (transaction cost)	390000
NCI	Note 2	120000
12% Debenture	60000+10000	70000
Liability for contingent consideration		60000
Trade Payables	50000+36000	86000
Total		**1286000**

5. P Ltd. shares are quoted at ₹ 20 and Q Ltd. shares are quoted at ₹ 60. P Ltd. issues shares for acquiring all the shares of Q Ltd. in the exchange ratio based on the quoted price. The statement of financial position immediately before business combination:

	P ₹	Q ₹
Non-Current Assets	1200	4000
Current Assets	600	800
Total Assets	1800	4800
Equity Share Capital		
60 shares	600	
80 shares		800
Other Equity	200	1200
Non-Current Liability	800	2000
Current Liability	200	800
Total of Equity and Liability	1800	4800

Fair value of assets and liabilities at the acquisition date:

	P ₹	Q ₹
Non-Current Assets	1500	4800
Current Assets	500	880
Non-Current Liability	800	2400
Current Liability	200	840

Pass journal entries for business combination and show consolidated balance sheet of the group.

Answer:

Note 1: Price of P's Share = ₹ 20; Price of Q's Share = ₹ 60; Exchange ratio = 3 shares of P for every share of Q. Q has 80 shares; P has to issue 3*80 = 240 shares. In the combined entity shareholders of Q hold 240 shares (80%) and shareholders of P hold 60 shares (20%). Legal Acquirer is P but accounting Acquirer is Q. It is a Reverse Acquisition. Net assets identified of P should be recognized at fair value and assets and liabilities of Q should be accounted at carrying amount.

Note 2: Consideration has to be computed from the view point of the Accounting Acquirer Q. Consideration effectively transferred from Q to P is the fair value of the shareholding of P, the accounting Acquiree = Shares held by shareholders of P*quoted price of P's Share = 60*₹ 20 = ₹1200.

Note 3: Fair value of net assets identified (of P) = 1500+500-800-200 = ₹ 1000

Note 4: Goodwill = Consideration effectively transferred – Net Assets Identified (of P) at fair value

= 1200 – 1000 = ₹ 200

- Journal Entries

	Dr ₹	*Cr* ₹
Non-Current Assets	1500	
Current Assets	500	
Goodwill	200	
To, Consideration		1200
To,Non-Current Liability		800
To, Current Liability		200
Consideration Dr.	1200	
To, Equity Share Capital		1200

- Consolidated Balance Sheet

		₹
Non-Current Assets	4000+1500	5500
Goodwill	Note 4	200
Current Assets	800+500	1300
Total Assets		7000
Equity Share Capital		
300 shares	800+1200	2000
Other Equity		1200
Non-Current Liability	2000+800	2800
Current Liability	800+200	1000
Total of Equity and Liability	1800	7000

Note 5: Equity share capital in CBS is determined from the view point of the Accounting Acquirer Q and equity capital structure (no. of shares) is shown on the basis of legal acquirer P including the issue of shares for business combination (60+240).

6. **Entity P acquired 30 % of Entity Q at 31-03-20X1 for ₹12,000 and accounted investments under equity method. At 31-03-20X2, T recognized share of Net Asset changes in B as follows: Share of Profit and Loss amounted to ₹900 and share of OCI amounted ₹ 600.**

   At 01-04-20X2, T further acquired 50% stake in B. Consideration paid ₹25000 by equity shares issued at par. Entity P identifies the net assets of Q as ₹48,000, Fair value of investment in 30% shares ₹14400. NCI is valued at 9600.

   Show workings and Journal entries.

Answer:

WN 1. Investment at cost 12000

Share of Net Asset Change (900+600) 1500

Carried amount at 31-03-20X2 = 13500

Fair Value at 01-04-20X2 14400

WN 2. A will make transfer to P&L:

Gain on disposal of 30% investment ₹ (14400 – 13500) = ₹900

Gain previously reported in OCI = ₹600

Total transfer to P & L = ₹ 1500

WN 3. A will measure goodwill as follows:

	₹
Fair Value of consideration given for controlling interest	25,000
Non-controlling interest at Fair Value	9,600
Fair Value of previously-held interest	14,400
	49,000
Less : Fair value of net assets of acquiree	48,000
Goodwill	1,000

Journal Entries in the books of T

Particulars		Dr. (₹)	Cr. (₹)
Investment A/c	Dr.	900	
OCI A/c	Dr.	600	
To, P&L A/c			1,500
Net Assets A/c	Dr.	48,000	
Goodwill A/c	Dr.	1,000	
To, Consideration A/c			25,000
To, Investment A/c			14,400
To, NCI A/c			9,600
Consideration A/c	Dr.	25,000	
To, Equity Share Capital			25,000

7. The Balance Sheet of M/s. X Ltd. as at 31st December, 2013 is as follows:

Liabilities	₹	Assets	₹
Paid up Capital:		Fixed Assets :	
8,000 Equity Shares of ₹100 each fully paid	8,00,000	Land, Building and Machinery	14,00,000
Secured Loan:		Current Assets:	
8% Debentures	14,00,000	Stock	1,00,000
Accrued Interest	70,000	Sundry Debtors	40,000
Sundry Creditors	4,50,000	Investments	15,000
Income Tax Liability	10,000	Cash at Bank	1,03,000
		Cash in hand	2,000
		Profit and Loss A/c	10,70,000
	27,30,000		27,30,000

The fixed assets are heavily overvalued. A scheme of reconstruction was prepared and passed.

The salient points of the scheme are the following:

(a) Each share shall be sub-divided into ten fully paid Equity Shares of ₹10 each.

(b) After such sub-division, each shareholder shall surrender to the Company 90% of his holding, for the purpose of re-issue to Debenture holders and Creditors so far as required, and otherwise for cancellation,

(c) Of those surrendered 50,000 Equity Shares of ₹ 10 each shall be converted into 5% Preference Shares of ₹10 each fully paid for debenture holders.

(d) The debenture-holders' total claim shall he reduced to ₹5,00,000. This will be satisfied by the issue of ₹50,000

(e) Preference Shares of ₹10 each fully paid.

(f) The claim of sundry creditors shall he reduced by 80% and the balance shall he satisfied by allotting them Equity

(g) Shares of ₹10 each, fully paid from the shares surrendered.

(h) Shares surrendered and not re-issued shall be cancelled.

Assuming that the scheme is duly approved by all parties interested and by the Court, draft necessary Journal Entries and Balance Sheet of the company after the scheme has been carried into effect.

Answer:

Journal Entries *Dr.* *Cr.*

Date	Particulars		₹	₹
2013 Dec. 31	Equity Share Capital (₹100) A/c	Dr.	8,00,000	
	To Equity Share Capital (₹100) A/c			8,00,000
	(Being 8,000 Eq. Sh. of ₹ 100 each fully paid subdivided into 80,000 Equity Sh. of ₹ 10 each fully paid as per Special Resolution no.... dt.... confirmed by the Court *vide* order ... dt...)			
2013 Dec. 31	Equity Share Capital (₹ 10) A/c	Dr.	7,20,000	
	To Shares Surrendered A/c			7,20,000
	(Being 90% of Equity Shares surrendered for conversion or cancellation as per Special Resolution no. ...dated....)			
2013 Dec. 31	Shares Surrendered A/c	Dr.	5,00,000	
	To 8% Preference Share Capital A/c			5,00,000
	(Being 50,000 Pref. Sh. of ₹ 10 each fully paid issued to debenture holders out of Shares surrendered in pursuance of Scheme of Reconstruction)			
2013 Dec. 31	Shares Surrendered A/c	Dr.	90,000	
	To Equity Share Capital (₹ 10) A/c			90,000
	(Being Eq. Sh. issued to Sundry Creditors equal to 20% of their claim as per Reconstruction Scheme)			
2013 Dec. 31	8% Debenture A/c	Dr.	14,00,000	
	Accrued Interest A/c	Dr.	70,000	
	Sundry Creditors A/c	Dr.	4,50,000	
	To Capital Reduction A/c			19,20,000
	(Being the entire balance of 8% Debentures A/c, accrued Interest A/c and Sundry Creditors A/c transferred to Capital Reduction A/c as per Scheme of Reconstruction)			
2013 Dec. 31	Shares Surrendered A/c (Note: I)	Dr.	1,30,000	
	To Capital Reduction A/c			1,30,000
	(Being the balance of Shares Surrendered A/c transferred to Capital Reduction A/c as per Reconstruction Scheme)			

2013 Dec. 31	Capital Reduction A/c Dr. (₹ 19,20,000 + ₹ 1,30,000) To Profit and Loss A/c To Plant, Property and Equipments A/c (Being the balance Capital Reduction Account used for writing off the debit balance of Profit and Loss Account and writing-down Fixed Assets as per scheme of reconstruction)	20,50,000	 10,70,000 9,80,000

Workings Note:

(1) Total amount of Shares Surrendered is ₹ 7,20,000. ₹ 5,00,000 of the surrendered Shares has been convened into 8% Preference Shares and ₹ 90,000 has been issued to Sundry Creditors. Therefore, the balance of ₹ 1,30,000 is to be transferred to Capital Reduction Account.

(2) Preference share capital is treated as equity instruments.

M/s X Ltd (and Reduced)

Balance Sheet as at 31st December, 2012

Particulars	**Note**	₹
I. ASSETS		
(1) Non-current Assets:		
(a) Plant, Property and Equipments	(3)	4,20,000
(b) Non-current Investments		
(c) Deferred Tax Assets (Net)		
(d) Long-term Loans and Advances		
(e) Other Non-current Assets		
(2) Current Assets:		
(a) Current Investments		15,000
(b) Inventories		1,00,000
(c) Trade Receivables		40,000
(d) Cash and Cash Equivalents		1,05,000
(e) Short-term Loans and Advances		

(f) Other Current Assets		
TOTAL		6,80,000
II. EQUITY AND LIABILITIES		
(1) Equity		
(a) Equity Share Capital	(1)	6,70,000
(b) Other Equity		
(2) Non-current Liabilities:		
(a) Long-term Borrowings		
(b) Deferred Tax Liabilities (Net)		
(c) Other Long-term Liabilities		
(d) Long-term Provisions		
(4) Current Liabilities:		
(a) Short-term Borrowings		
(b) Trade Payables		
(c) Other Current Liabilities	(2)	10,000
(d) Short Term Provisions		
TOTAL		6,80,000

Notes to Accounts:

(1) Equity Share Capital

Particulars	₹
Authorised Capital:	
... Equity Shares of ₹... each	
Issued and Subscribed Capital:	
17,000 Equity Shares of ₹ 10 each fully paid	1,70,000
50,000 Other Equity Instruments (8% Preference Shares of ` 10 each)	5,00,000
	6,70,000

(2) Other Current Liabilities

Income tax liability	10,000

(3) Fixed Assets

Particulars	
Tangible Assets:	
Plant and Machinery	14,00,000
Less: written-off as per scheme 1,70,000	9,80,000
	4,20,000

(4) Cash and Cash Equivalent

Cash at Bank	1,03,000
Cash in Hand	2,000
	1,05,000

8. **Reverse Acquisition takes place as H Ltd. acquires 100% equity shares of S Ltd on 31-03-2018. From the following data pass journal entries and prepare balance sheet in the books of Accounting Acquirer.**

[Amount in ₹]

	H	S
Non Current Assets	**2000**	**3000**
Current Assets	**1000**	**1000**
Total	**3000**	**4000**
Equity Share Capital H: 100 shares; S: 80 shares	**1000**	**800s**
Other Equity	**500**	**1600s**
Non Current Liabilities	**700**	**1200**
Current Liabilities	**800**	**400**

H Ltd. and S Ltd. shares are quoted at ₹ 20 and ₹ 50 respectively on 31-03-2018. H Ltd. issues shares in exchange ratio based on quoted price.

Answer:

I. It is a business combination. H issues 2.5 shares for every one share of S (50/20). Thus 200 shares (80×2.5) of H are issued to owners of S, who become 2/3 rd owner of the group interest (200 out of total 300 shares, 100 shares belonging to the owners of H). For accounting purpose the subsidiary company S Ltd., (holding 2/3rd of the group interest)the legal acquiree is considered as the acquirer company. It is a reverse acquisition. The carrying amounts of assets and liabilities are considered to be their fair value. As 100% shares of S Ltd. are acquired there is no non controlling interest.

II. Consideration transferred:

Of the group 100 shares are held by owners of H and 200 shares are held by owners of S. Effective consideration from the view point of accounting acquirer S is the fair value of 100 shares held by H = 20*100 = 2000, which is equivalent to 40 shares of S at ₹ 50

III. Goodwill: [Amount in ₹]

Net Assets of H identified	1500
Consideration transferred	2000
Goodwill (2000 – 1500)	500

IV. Journal in the books of S (Accounting purpose acquirer)

Non current assets	Dr.	2000	
Current assets	Dr.	1000	
Goodwill	Dr.	500	
To Non current Liabilities			700
To Current Liabilities			800
To Consideration			2000

………………………………………………

Consideration	Dr.		2000
To Equity Share Capital	(40*10)		400c
To Securities Premium	(40*40)		1600p

………………………………………………………………

V. Consolidated Balance Sheet on 31-03-2018 (in books of S Ltd.)

	₹
Non Current Assets	5,000
Goodwill	500
Current Assets	2,000
Total	7,500

Equity Share Capital -300 shares of H (equivalent to 80+40 =120 shares of S) $800^{s}+400^{c}$	1,200
Other Equity $1600^{s}+1600^{p}$	3,200
Non Current Liabilities	1,900
Current Liabilities	1,200
Total	7,500

* Equity structure reflects the legal parent H.

9. DA Ltd. and TA Ltd. were amalgamated to form a new company DATA Ltd. on 31-03-X7 who issued requisite number of equity shares of ₹ 10 to take over the businesses of DA and TA. The abstract of balance sheets of the companies on 31-03-X7: ₹ Lakhs

	DA	TA
PPE	7500	8000
Financial Assets	800	500
Current Assets	4700	6500
Equity Share Capital	6000	10000
Other Equity	3000	1000
Borrowings	2000	3000
Current Liabilities	2000	1000

Fair value of the following items is given:

	DA	TA
PPE	8000	6000
Current Assets	5000	7000
Fair Value of Business	7500	15000

However the control of DATA Ltd. is taken by the management of TA Ltd.

Show the merged balance sheet.

Answer:

TA Ltd. having the control over DATA Ltd., it is considered a reverse acquisition and in the merged balance sheet, assets and liabilities of TA Ltd. would be shown at carrying amount.

₹ Lakhs

	DA	TA
Fair Value of Business	7,500	15,000
Share of each company in the merged company	1/3	2/3

Fair value per share of TA = 15000/1000 = ₹15

Consideration payable by TA to DA is : 7500 in 7500/15 = 500 lakh shares

Or, No. of shares held by TA for 2/3 share in DATA = 1000 lakh shares; no. of shares to be issued to DA for 1/3 share = 500. Thus total consideration = 500 lakh shares of ₹ 10 each at ₹ 5 premium = 7500.

₹ Lakhs

Assets		
Non Current Assets		
PPE (8,000+8,000)		16,000
Financial Assets		1,300
Current Assets (5,000 + 6,500)		11,500
Total		28,800
Equity and Liabilities		
Equity		
Equity Share Capital 1500 lakh shares of ₹ 10		15,000
Other Equity	Note 1	5,800
Borrowings		5,000
Current Liabilities		3,000
Total		28,800

Note 1:

PPE	8,000
Financial Assets	800
Current Assets	5,000
	13,800
Borrowings	2,000
Current Liabilities	2,000
	4,000
Net Assets	9,800
Consideration	7,500
Gain on Bargain Purchase	2,300

Other Equity = Other Equity of TA + Gain on Bargain Purchase + security premium = 1000+2300+2500 = 5800

Study Note – 3

GROUP FINANCIAL STATEMENTS

Learning Objective:

After studying this chapter of the workbook the students will be able to:

- *Solve numerical problems on consolidation of company accounts and more specifically preparation of Consolidated Balance Sheet.*

QUESTIONS BASED ON AS

1. Choose the correct alternative:

(i) Which of the following is false?

(a) A parent company of a group preparing a separate financial statement may not prepare consolidated financial statement.

(b) A company having investments in associates or joint ventures prepares financial statements using equity method of accounting as per Ind AS 28.

(c) In separate financial statements investments in subsidiaries, associates and joint ventures may be shown at cost or as per Ind AS 109.

(d) Separate financial statements must be prepared by a parent company as per Ind AS 27.

(ii) As per Ind AS 28, investment in associates is accounted for under

(a) Equity method

(b) Debt method

(c) Acquisition method

(d) Purchase method

(iii) Which of the following is true?

(a) An entity shall classify a non-current asset as held for sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use.

(b) Assets held for sale (or held for distribution to owners) to be measured at the lower of carrying amount and fair value less costs to sell.

(c) Depreciation is to be charged on assets held for sale.

(d) A non-current asset is classified as held for distribution to owners when the entity is committed to distribute the asset to the owners.

(iv) An investment entity is an entity that

(a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

(b) Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital

(c) Appreciation, investment income, or both; and measures and evaluates the performance of substantially all of its investments on a fair value basis.

(d) All of the above

(v) Which of the following is true as per Ind AS 111?

(a) In a joint arrangement the parties are bound by a contractual arrangement.

(b) In a joint arrangement the parties enjoy joint control of the arrangement.

(c) A joint arrangement is either a joint operation or a joint control.

(d) All of the above

(vi) Which of the following is true as per Ind AS 113?

(a) The fair value of a liability reflects the effect of non-performance risk.

(b) Three widely used valuation techniques are the market approach, the cost approach and the income approach.

(c) The asset or liability measured at fair value might be either a stand alone asset or liability or a group of assets and/or liabilities.

(d) All of the above.

(vii) Fair value hierarchy is categorized into

(a) Four levels of inputs

(b) Three levels of input

(c) Two levels of inputs

(d) Only one level of input

Answer:

(i) (a)

(ii) (a)

(iii) (c)

(iv) (d)

(v) (d)

(vi) (d)

(vii) (b)

Problems solved based on Ind AS:

2. **Company P Ltd. (a listed company) invests in shares of company Q Ltd. on 1-4-17 at a cost of ₹ 66000, paid by cash. During the financial year 17-18, Q made profits of ₹ 20000 and other comprehensive income of ₹ 10000. The following alternative scenarios are presented:**

   I. Investment entails 25% voting power and significant influence over Q.

   II. P does have joint control of Q, a joint venture.

   III. Investment entails significant influence over Q, which is a Joint Venture and P does not have joint control of Q.

   IV. P does not have significant influence over Q.

   V. P does not have joint control of or significant influence over Q, which is a joint venture.

   For each of the cases I, II , III, IV and V:

   (a) State whether for the investment in shares of Q, P requires preparation of consolidated financial statements and separate financial statements.

   (b) Pass the journal entries in books of P at the time of purchase of shares.

   (c) Show the relevant accounting treatment at the end of the year for (i) consolidated financial statements, (ii) separate financial statements and (iii) Individual financial statements of P.

Answer:

(a) In cases I, II and III, P Ltd. requires preparation of consolidated financial statements for its investment in Q Ltd.

In case I, Q is an Associate because P has significant influence in Q by virtue of its 25% voting power.

In case II, Q is a joint venture in which P has joint control.

In case III, Q is a joint venture in which P does not have joint control, but has significant influence. For each of the above cases, Ind AS 28 requires that accounting for investment in associate or in joint venture (having joint control or significant influence) should be made under equity method in the consolidated financial statement.

Ind AS 28 also requires P the investor company to prepare separate financial statement as per Ind AS 27.

For cases IV and V, P requires preparation of Individual financial statements.

(b) Journal Entry on 01-04-2017 for cases I, II and III for both Consolidated and separate financial statements:

Investment	Dr.	66,000	
To Cash			66,000

Journal Entry for cases IV and V: As per Ind AS 109 for Individual financial statements.

At initial measurement:

Investment	Dr.	66,000	
To Cash			66,000

(c) Journal Entry on 31-03-2018 for cases I, II and III:

There will be two sets of accounting at the end the year, one (i) for consolidated accounts and the other (ii) for separate financial statements.

(i) For consolidated accounts Ind AS 28 requires the recognition of investment by **equity method**.

Investment	Dr.	7,500	
To Profit and Loss			5,000
To Other Comprehensive Income			2,500

Working Note: Change in investee's net assets = 20000+10000 = 30000; share of P = 25% of 30000 = 7500.

Investor's Profit or loss includes 25% of 20000 = 5000 and other comprehensive income includes 25% of 10000 = 2500.

(ii) At the yearend for the separate financial statements of P, Investment is valued at cost at ₹ 66,000 or at a value as per Ind AS 109.

Note: There will be no individual financial statement of P for cases I, II and III.

(iii) For cases IV and V: Investment shall be valued as per Ind AS 109 in Individual financial statements. There will be no consolidated and no separate financial statement.

3. The financial data of the companies P and S at 31-3-2017 and at 31-3-2018 are stated below.

(All amounts are in ₹ Lakhs)

	On 31-3-17		On 31-3-18	
	S (Individual B/S)	Fair Value of S	P (Separate B/S)	S (Individual B/S)
PPE	480	700	750	500
Investment in S (60% shares acquired on 1-4-2017 by issue of Equity)			480	
CA	350	300	540	400

			1770	900
Equity	300		1070	360
Noncurrent Liability	300	310	360	330
Current Liability	230	200	340	210

Prepare Consolidated Balance Sheet.

Answer:

All amounts are in ₹ Lakhs)

WN 1: Purchase consideration = 480

WN 2: Fair value of net identified assets at the date of acquisition:

	Fair Value of S
PPE	700
CA	300
Noncurrent Liability	310
Current Liability	200
Net assets	490

WN 3: Post-acquisition TCI of S:

Equity on 31-3-18	360
Less Equity on 31-3-2017	300
TCI post-aacquisition	60
Add Reversal of Revaluation loss on Current items	20
Adjusted Post-acquisition TCI	80
Share of Parent 60% × 80	48
Share of NCI 40% × 80	32

WN 4: NCI at proportionate net assets at acquisition date = 40% × 490 = 196

Add: Share of NCI in post-acquisition TCI	32
NCI at reporting date	228

WN 5: Goodwill = Consideration + NCI at acquisition – Net Assets = 480 + 196 – 490 = 186

WN 6: Consolidated Equity:

Equity of P	1,070
Share of P in Post acquisition TCI of S	48
Consolidated Equity	1,118

Consolidated Balance Sheet of P and S on 31-3-18

	Book Value	Adjustment on non-current items (FV – BV)	Consolidated
PPE	750+500	+220	1470
Goodwill		WN 5	186
CA	540+400	[revaluation loss 50]$	940
Total Assets			**2596**
Equity		WN 6	1118
NCI		WN 4	228
Noncurrent Liability	360+330	+10	700
Current Liability	340+210	[revaluation gain 30]$	550
Total of Equity and Liability			**2596**

$ Net revaluation loss on current items (50-30) = 20 is not adjusted in consolidated value, rather it is reverted to Retained earnings and TCI of S is increased.

4. **Company Sky Ltd. (a listed company) acquires 60% shares in company Cloud Ltd. on 1-4-17 at a cost of (₹Lakhs) 150000, paid by issue of shares of ₹ 10 (market price ₹ 25). The abstract of balance sheets of Cloud (along with fair values at the acquisition date) and Sky at the end of the year 2016-17 and 2017-18 are as follows:**

	Cloud (₹Lakhs)			Sky (₹Lakhs)	
	31-3-17 book value	31-3-17 Fair Value	31-3-18 book value	31-3-17	31-3-18
PPE	194000	210000	206000	280000	300000
Investment in Q					150000
Inventories	45000	54000	58000	74000	80000
Financial Assets	88000	50000	98000	100000	120000
Total assets	327000		362000	454000	650000
Equity Share Capital	150000		150000	200000	260000

Other Equity	87000		117000	120000	240000
Borrowings	60000	60000	64000	90000	100000
Trade Payables	30000	25000	31000	44000	50000
Total of Equity and Liabilities	327000		362000	454000	650000

(a) Pass journal entries in consolidated accounts of P and show consolidated balance sheet of P on 1-4-17 based on Ind AS 103 and Ind AS 110.

(b) Prepare consolidated balance sheet of P on 31-3-18 based on Ind AS 110.

Answer:

Working Note 1: Assets and liabilities of Cloud recognized at Fair value. (₹Lakhs)

	1-4-17 Fair Value
PPE	210000
Inventories	54000
Financial Assets	50000
Total	**314000**
Borrowings	60000
Trade Payables	25000
Total	**85000**
Net Assets at fair value	**229000$**

(a) Journal entries in books of Sky:

PPE	Dr.	2,10,000	
Inventories	Dr.	54,000	
Financial assets	Dr.	50,000	
Goodwill (balancing Figure#)	Dr.	21000	
To Consideration			1,50,000
To NCI@			1,00,000
To Borrowings			60,000
To Trade Payables			25,000
Consideration	Dr.	1,50,000	
To Equity Share Capital			60,000
To Security Premium (Other Equity)			90,000

[**Working Notes:**

@ NCI recognized at Fair Value: 40% × 150000/60% = 100000;

Goodwill = Consideration + NCI – Fair Value of Identifiable Net Assets = 150000 + 100000@ – 229000$ = 21000.

Alternative solution: @NCI can be measured at proportionate share of identifiable net assets = 40%*229000 = 91600.]

Balance sheet (abstracts) of Sky and Cloud as at 01-04-2017 (based on Ind AS 103, Ind AS 110 and Ind AS 27) (₹Lakhs)

	Cloud (Fair Value)	Sky	Sky	
		Before acquisition	Consolidated	Separate
PPE	210000	276000	486000	280000
Goodwill			21000	
Investment in Cloud				150000
Inventories	54000	68000	122000	74000
Financial Assets	50000	100000	150000	100000
Total assets		**444000**	**779000**	**604000**
Equity Share Capital		200000	260000	260000
NCI			100000	
Other Equity		120000	210000	210000
Borrowings	60000	80000	140000	90000
Trade Paybles	25000	44000	69000	44000
Total of Equity and Liabilities		**444000**	**779000**	**604000**

(b)

Working Note 1: Adjustment to Balance sheet data of Cloud (₹Lakhs)

	1	2	3	4	5	6
	31-3-17	**1-4-17 Fair Value**	**Change on acquisition**	**Reversal of change in Current items to Retained Earnings [see 5d]**	**Change in Bk Value carried to subsequen t B/S**	**Adj. B/S on 31-3-18 (1+3+4+5) or (2+4+5)**
PPE	194000	210000	+16000	-	12000	222000^x
Inventories	45000	54000	+9000	-9000	13000	58000^Y
Financial Assets	88000	50000	-28000		10000	60000^Z
Borrowings	60000	60000	-	-	4000	64000
Trade Payables	30000	25000	+5000	-5000	1000	31000
Total				-14000		

Working Note 2: #: Goodwill is recognised in (a) above.

Working Note 3: &: NCI at the year end

NCI at the time of acquisition = 100000

Post acquisition total comprehensive income of Cloud = 117000 – 87000 – 14000 = 16000;

Share of NCI = 40% ×16000 = 6400;

Total NCI at the year end = 100000 + 6400 = 106400.

Working Note 4: $: Other Equity Consolidated

Other Equity of Sky at the end of the year = 240000;

Share of post acquisition Total comprehensive income of Cloud = 60% ×16000 = 9600;

Other equity consolidated = 240000 + 9600 = 249600.

Abstract of Separate of Sky and Consolidated balance sheet of the group as at 31-3-18

(₹ Lakhs)

	Adjusted value of Cloud	Sky (Separate balance sheet)	Consolidated balance sheet
PPE	222000^{X}	300000	522000
Goodwill			21000$^{\#}$
Investment in Q		150000	
Financial Assets	60000^{Z}	120000	180000
Inventories	58000^{Y}	80000	138000
Total assets	**334000**	**650000**	**861000**
Equity Share Capital		260000	260000
Other Equity		240000	249600$^{\$}$
NCI			106400$^{\&}$
Borrowings	64000	100000	164000
Trade Payables	31000	50000	81000
Total of Equity and Liabilities	**365000**	**650000**	**861000**

5. X Ltd. acquires 80% of equity of Y Ltd. on 31-03-20x5 at cost of (₹ Lakhs) 110, when the Equity Share Capital and Other Equity of Y Ltd. were 40 and 80 respectively. For the years ending on 31-03-20x6 and 31-03-20x7, Y Ltd accounted Total Comprehensive income of (15) and 25. Find NCI (Proportionate Net Asset Method), X Ltd's share in post-acquisition profits of Y Ltd. and Goodwill to be shown in CFS of X Ltd. at the end of the years. The revaluation profit/loss for the difference between fair value and carrying amount of assets and liabilities of Y Ltd. at acquisition date and the abstracts of separate balance sheet of X Ltd. and individual balance sheet of Y Ltd. as at 31-03-20x8 are as follows:

(₹ Lakhs)

	Revaluation profit (+)/loss (-) at acquisition	X at 31-03-20x8	Y at 31-03-20x8
Non-Current Assets	+25	480	240
Investment in shares of Y at cost		110	
Current Assets	- 15	310	160
Total Assets		900	400
Equity Share Capital		200	40
Other Equity		300	120
Non-Current Liabilities	-10	300	140
Current Liabilities	+ 5	100	100
Total	+5	900	400

Prepare the consolidated balance sheet in books of X Ltd.

Answer:

Workings:

(₹ Lakhs)

At the end of the years	31-03-20x5	31-03-20x6	31-03-20x7	31-03-20x8
TCI		(15)	25	120 -90=30
Other Equity of Y Ltd.	80	85 -15 = 65	65+25 = 90	120
Net Asset at balance sheet value = Equity share capital + other equity	40+80 = 120			

Revaluation Profit/loss at acquisition	5			
Net Assets at fair value at acquisition	125			
Revaluation profit/loss on current items reverted in next year (reversal)		+10		
Adjusted TCI		-15+10 = -5	25	30
(Adjusted) Net Assets = Opening Net Assets + Adj. TCI		125-5 = 120	120+25=145	145+30=175
Consideration	110			
a. NCI = Net Asset*20%	25	24	29	35
b. Goodwill = Consideration + NCI – Net Assets at acquisition	10			
X Ltd's share in post-acquisition profits = 80%* TCI (adjusted by reversal) = .8*[-15+10]= - 4 ,.8*25=20 and .8*30=24	-	(4)	20	24
c. Consolidated other equity		300+(4) +20+24 =		340

Consolidated Balance sheet as at 31-03-20x8 (₹ Lakhs)

	Workings	Consolidated
Non-Current Assets	480+240+25 (revaluation profit)	745
Goodwill	b	10
Current Assets	310+160	470
Total Assets	900	1225
Equity Share Capital	200	200
Other Equity	c	340
NCI	a	35
Non-Current Liabilities	300+140+10 (revaluation loss)	450
Current Liabilities	100+100	200
Total		1225

6. P acquires 60% shares in Q on 1- 10 - 2017 at 30000. Q makes profits 20000 in the year 20X7-X8 and declared dividend 9000. NCI is valued at proportionate net assets. Abstracts of Separate Balance Sheet of P (Dividend from subsidiary not accounted) and Individual Balance Sheet of Q as at 31-03-20X8:

(₹ Lakhs)

	P	Q
PPE	50,000	30,000
Investment in shares of Q at cost	30,000	
Current Assets	20,000	28,000
	1,00,000	58,000
Equity Shares (₹10)	60,000	25,000
Other Equity	25,000	15,000
Current Liabilities		
Trade Payables	15,000	9,000
Dividend Payable		9,000
	1,00,000	58,000

Show Consolidated Balance Sheet and Separate Balance Sheet in books of P.

Answer:

Working Notes:

1. Analysis of profits of Q:

   Opening P/L = Other Equity at the end + Dividend – Profits for the year = 15000+9000-20000 = 4000

2. Net Assets identified on acquisition in the mid of the year, represented by Value of Equity of Q = 25000 + Pre acquisition profits (Opening P/L + 50% of yearly profit) = 25000+ 4000 + 10000 = 39000 (A)

3. Goodwill = B + C - A = 15600+30000 – 39000 = 6600

   Where:

   A = 39000

   B NCI = 40% × 39000 = 15600

   C Consideration = Investment in shares of Q = 30000.

4. NCI at the reporting date = NCI at acquisition + Share of NCI in post acquisition profits of Q – Dividend payable to NCI = 15600 + 40% × 10000 (50% of yearly profit) - 40% × 9000 (dividend payable to be shown separately) = 15600 + 4000 – 3600 = 16000.

5. Consolidated Other Equity = P's Other Equity + Share from Post acquisition profits of Q = 25000 + 60% ×10000 = 31000

   Separate Other Equity = 25000 + 2700 (post-acquisition profits) = 27700

(₹ Lakhs)

	In P's Book	
	Separate	**Consolidated**
Goodwill (3)		6,600
PPE = 50000 + 30000	50,000	80,000
Investment in shares of Q (30000 – 2700 Pre-acquisition Dividend)	27,300	
Current Assets (20000 + 5400 Div Receivable)	25,400	48,000#
	1,02,700	1,34,600
Equity Shares	60,000	60,000
Other Equity (5)	27,700	31,000
NCI (4)		16,000
Current Liabilities		
Trade Payables	15,000	24,000
Dividend Payable (to NCI)		3,600
	1,02,700	1,34,600

#
(20000 + 28000 = 48000); In Consolidated balance sheet Inter-company dividend is set off and does not appear.

7. On 1-4-x6 BB Ltd. acquired 90% share of CM Ltd. at 1080000, when the fair value of its net assets was 1000000. During 1-4-x6 to 31-3-x7 CM Ltd made TCI 200000. On that date BM sold 15% holding to outsiders at 220000. Pass journal entries for sale of partial holding retaining control.

Answer:

Workings:

Net Assets on 31-3-17 = 10,00,000 + 1,50,000 (TCI) = 12,00,000

Carrying amount of 15% holding sold ie. NCI recognized (assumed at proportionate net asset) = 15% ×12,00,000 = 1,80,000

Sale price = 2,20,000

Gain credited to Other Equity = 2,20,000 –1,80,000 = 40,000

Journal:

Bank	Dr.	2,20,000	
To NCI			1,80,000
To Other Equity			40,000

Alternative:

NCI assumed to be recognized at fair value:

Carrying amount of 15% holding sold ie. NCI recognized (at fair value) = 15% × 10,80,000 + 15% of 2,00,000 (TCI) = 1,92,000

Sale price = 2,20,000

Gain credited to Other Equity = 2,20,000 – 1,92,000 = 28,000

Journal:

Bank	Dr.	2,20,000	
To NCI			1,92,000
To Other Equity			28,000

8. **Prepare Consolidated Balance Sheet (CBS) of a group of P Ltd., Q Ltd. and R Ltd. for which the abstracts of Balance sheets on 31-03-20x6 are given below.**

(₹ In lakhs)

	P	Q	R
PPE	400	500	320
Investment in Q (80%)	480		
Investment in R (75%)		300	
Current Assets:			
Inventory	250	80	60
Trade Receivables	280	120	200
Bills Receivables	70		50

Cash and Bank	180	50	60
Total Assets	1660	1050	690
Equity and Liabilities			
Equity Share Cap (₹ 10)	600	500	300
Other Equity	460	160	120
Current Liabilities			
Trade Payables	500	250	200
Dividend Payable		50	
Bills Payables	100	90	70
Total	1660	1050	690

Control was acquired on 01-10-2015 when fair value of PPE was in excess of carrying amount by Q: 50 and R: 30. On 01-04-2015 the balances of Other Equity were Q : 100 and R : 50

NCI is measured at fair value.

Inventory of Q included 16 purchased from R at cost plus 33.33%.

Bills Receivables of R includes 30 from P and Bills Receivables of R includes 40 from Q.

Answer:

Consolidated Balance sheet of the group as at 31-03-2016

(₹ In lakhs)

Assets	Workings	Amount
Non-Current:		
PPE	400+500+320+50+30	1300
Current Assets:		
Inventory	250+80+60-4	386
Trade Receivables	280+120+200	600
Bills Receivables	70+50-30-40	50
Cash and Bank	180+50+60	290
Total Assets		**2626**

Equity and Liabilities		
Equity Share Cap		600
Other Equity	Note 2	641
NCI of Q	Note 3	61
NCI of R	Note 2	174
Current Liabilities		
Trade Payables	500+250+200	950
Dividend Payable		10
Bills Payables	100+90+70-30-40	190
Total		**2626**

Workings:

I. Share of parent and NCI

Share of P in Q = 80%

Share of Q in R = 75%

Share of Group in R = 80%*75% = 60%

NCI in R = 40%

II. Analysis of Profits

Analysis of Profits	P	Q	R
Other Equity at the yearend + dividend payable	460	210	120
Other Equity at the beginning		100	50
Profits during the year		110	70
Pre-acquisition upto 30-09-2015		55	35
Post-acquisition Profits		55	35
Share from Q = 80% × 55	44		
Share from R = 60% × 35	21		
	525		
Less Unrealised Profits in inter-company Inventory = 16 × 1/4	4		
Other Equity	521		

III. Net Assets on acquisition

Net Assets on acquisition	Q	R
Share Cap	500	300
Other Equity on 01-04-2015	100	50
Revaluation	50	30
Add Profits	55	35
Net Assets	705	415

IV. NCI on 01-10-2015

Consideration X (NCI share/Parent Share)	Q	R
NCI - Q = 480 × 20%/80%	120	
NCI - R = 300 × 40%/75%		160

Note 1: Goodwill/ Bargain Purchase

		Q	R	consolidated
Net Assets	a	705	415	
Consideration	b	480	240$	
NCI on acquisition at fair value	c	120	160	
Gains on bargain Purchase	a-(b+c)	105	15	
Net amount to Other Equity				120

$ 80% × 300

Note 2: Consolidated Other Equity = Other Equity (II) + Net Gains on Bargain Purchase = 521+120 = 641

Note 3: NCI on 31-03-2016

	Q	R
NCI on acquisition	120	160
Post acquisition profit = Q: 55 × 20%; R: 35 ×40%	11	14
Less: NCI share in investment in R = 20% × 300	-60	
Less; Dividend payable	-10	
NCI on Reporting date	61	174

Study Note – 4

RECENT TRENDS IN FINANCIAL REPORTING

Learning Objective:

- *To gain concept of Sustainability Reporting, Triple Bottom Line and Concept of Triple Bottom Line Reporting*
- *To be aware of benefits of Triple Bottom Line Reporting, process of Implementation of Triple Bottom Line Reporting and the form of TBL Reporting to satisfy the users of TBL Report by better presentation and reporting procedure.*
- *To gain knowledge of stakeholders in corporations and concepts of corporate responsibility, accountability and reporting, regulatory actions to be taken in corporate social responsibility, accountability and reporting.*

MCQS ON TRIPLE BOTTOM LINE REPORTING

1. Choose the correct alternative:

(i) Which of the following is not a pillar of Sustainability?

(a) Profit

(b) Plant

(c) Product

(d) People

(ii) Which of the following is not a form of sustainability considered by the organisations?

(a) Political Sustainability

(b) Environmental Sustainability

(c) Economic Sustainability

(d) Social Sustainability

(iii) In traditional accounting, the term 'bottom line' means

(a) Operating Results

(b) Total Asset

(c) Total Liabilities

(d) Sales or Revenue

(iv) Which of the following is not a dimension of Triple Bottom Line (TBL) reporting?

(a) Social Equity

(b) Economic Factors

(c) Environmental Factors

(d) Regulatory Factors

(v) Which of the following is not an advantage of TBL reporting?

(a) Enhancement of reputation and brand

(b) Securing a social licence to operate

(c) Improved access to investor market

(d) Reducing the tax liability

(vi) Which of the following is/are the challenges associated with the implementation of TBL reporting?

(a) Understanding stakeholder requirements;

(b) Aligning TBL reporting with objectives and risks; and

(c) Determining and measuring performance indicators

(d) All of the above

(vii) Integrated Reporting aims to provide a more holistic form of reporting the value created by a business by considering

(a) Financial Capital

(b) Intellectual Capital

(c) Natural Capital

(d) All of the above

(viii) Business Responsibility Reporting does not require compliance to the principle

(a) That business should promote wellbeing of all employees

(b) That business should respect and promote human rights

(c) That business should make efforts to restore the Environment

(d) That business should maximise return to the shareholders

(ix) As per Ind AS 113 the fair value of an asset is its exit price

- (a) In an actual transaction;
- (b) In an assumed orderly transaction;
- (c) In a forced transaction
- (d) To the specific entity holding the asset

(x) A fair value measurement of an asset assumes the transaction to take place

- (a) In the market nearest to the entity;
- (b) In the most advantageous market when principal market is present;
- (c) In the principal market
- (d) In the principal market only when most advantageous market is absent.

(xi) The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability

- (a) shall not be adjusted for *transaction costs but shall be adjusted for transport costs.*
- (b) shall be adjusted for *transaction costs but shall not be adjusted for transport costs.*
- (c) shall not be adjusted for *transaction costs and transport costs.*
- (d) shall be adjusted for *transaction costs and transport costs.*

Answer:

(i) (c)

The three pillars of sustainability are ***People – Planet – Profit***

(ii) (a)

Organisations considered only three forms of sustainability, viz. Environmental Sustainability, Economic Sustainability, Social Sustainability.

(iii) (a)

In traditional accounting and common parlance, "bottom line" refers to "operating result", which is usually recorded at the very last line (or, bottom) of the income statement.

(iv) (d)

The concept of 'triple bottom line' consists of three dimensions, namely 'social equity', 'economic', and 'environmental factors'.

(v) (d)

TBL reporting does not have any direct impact on determination of tax liability.

(vi) (d)

All of (a), (b) and (c) are associated with the successful implementation of TBL reporting.

(vii) (d)

IR uses six capitals as resources: Financial, Intellectual, Natural, Manufactured, Social and Human Capital.

(viii) (d)

Nine principles under Responsibility Reporting contains all other principles stated above except d.

(ix) (b)

Fair value is exit price in an assumed orderly transaction and it is not entity specific.

(x) (c)

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

(i) in the principal market for the asset or liability; or

(ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

(xi) (a)

The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for *transaction costs but shall be adjusted for transport costs*.

MCQS ON CORPORATE SOCIAL RESPONSIBILITY REPORTING

2. Choose the correct alternative:

(i) By which of the following is the CSR Reporting in India governed?

(a) Companies Act 2013

(b) Companies (Corporate Social Responsibility Policy) Rules 2014

(c) Both of the above

(d) None of the above

(ii) Which of the following sections of the Companies Act 2013 contains the provisions on CSR?

(a) Section 141

(b) Section 139

(c) Section 135

(d) Section 148

(iii) As per Section 135 of the Companies Act 2013, the minimum percentage of average net profit that must be spent on CSR activities is _____________.

(a) 1.5%

(b) 2%

(c) 2.5%

(d) 3%

(iv) For the purpose of determining the minimum amount to be spent on CSR activities, the average net profits must be calculated based on the net profits of ___________.

(a) Immediately Preceding 3 Financial Years

(b) Immediately Preceding 3 Calendar Years

(c) Immediately Preceding 3 Assessment Years

(d) Immediately Preceding 4 Calendar Years

(v) The CSR committee to be constituted under Section 135(1) of the Companies Act 2013 must have

(a) At least 2 directors

(b) At least 3 directors

(c) At least 4 directors

(d) At least 5 directors

(vi) As per Schedule VII of the Companies Act 2013, which of the following activity/activities qualifies/qualify for CSR spending by an eligible company?

(a) Eradicating extreme hunger and poverty;

(b) Promotion of education;

(c) Promoting gender equality and empowering women

(d) All of the above

(vii) As per Rule 8 of the Companies (CSR Policy) Rule 2014, which of the following items must be incorporated in the Annual CSR Report?

(a) A brief outline of the company's CSR policy

(b) Composition of CSR committee

(c) Prescribed CSR expenditure

(d) All of the above

Answer:

(i) (c)

CSR reporting in India is guided by both Companies Act 2013 and Companies (Corporate Social Responsibility Policy) Rules 2014.

(ii) (c)

Section 135 of the Companies Act 2013 contains the provisions related to CSR.

(iii) (b)

(iv) (a)

As per Section 135 (5) of the Companies Act 2013, an eligible company must spend at least 2% of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

(v) (b)

As per section 135, the CSR Committee shall be comprised of 3 or more directors.

(vi) (d)

Activities may be included by the company in their CSR Policy as per Schedule VII of the Companies Act, 2013:

Eradicating extreme hunger and poverty; Promotion of education; Promoting gender equality and empowering women; Reducing child mortality and improving maternal health; Combating HIV, AIDS, malaria and other diseases; Ensuring environmental sustainability; Employment enhancing vocational skills; Social business projects; Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; or Such other matters as may be prescribed.

(vii) (d)

The following are required to be incorporated in any CSR Report.

(a) A brief outline of the company's CSR Policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs;

(b) The composition of the CSR Committee;

(c) Average net profit of the company for last three financial years;

(d) Prescribed CSR Expenditure (2% of the amount of the net profit for the last 3 financial years);

(e) Details of CSR Spent during the financial year;

(f) In case the company has failed to spend the 2% of the average net profit of the last three financial year, reasons thereof;

(g) A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company.

Study Note – 5

VALUATION, ACCOUNTING AND REPORTING OF FINANCIAL INSTRUMENTS AND OTHERS

Learning Objective:

- *To gain concept of Ind As 32, 10, Ind AS 107 and Ind AS 109 and related terms and matters.*
- *To gain knowledge and to be able to recognize and measure the outlines of financial assets, financial liabilities, and some contracts to buy or sell non-financial items.*
- *To gain concept of NBFCs in India.*
- *To be able to evaluating credit and security interest and structure different forms of funding transactions, pricing of credit assets.*
- *To know the regulatory framework of NBFCs, RBI regulations and other relevant terms and accounting treatments*
- *To know what is goodwill and share, the nature and sources of it.*
- *To understand the terms — future maintainable profit; normal rate of return; capital employed and average capital employed.*
- *To be able to calculate average capital employed and the value of goodwill and shares under different methods.*
- *To be able to understand "minority" and "majority" holdings and other key terms associated with "Valuation of Goodwill and Shares".*

OBJECTIVE TYPE QUESTIONS:

Recognition & Valuation of Financial Instruments (Ind AS-32, Ind AS-107 & Ind AS-109)

<u>MCQ: On Ind AS 32</u>

1. Choose the correct alternative:

(i) Ind AS 32 provides rules for classification of a financial instrument into:

(i) financial asset

(ii) Financial liability

(iii) equity instrument

Which of the following statements is true?

(a) (i) and (ii) only

(b) (iii) only

(c) (i), (ii) and (iii) all

(d) none of the above

(ii) A financial instrument is any contract that gives rise to

(a) a financial asset of one entity and financial liability of another entity.

(b) financial asset and equity instrument of one entity and financial liability of another entity.

(c) a financial asset of one entity and financial liability or equity instrument of another entity.

(d) financial asset and financial liability of one entity and equity instrument of another entity.

(iii) A financial asset does not include

(a) Cash

(b) Foreign currency

(c) Prepid Expenses

(d) Receivables

(iv) State which of the following classification is incorrect?

(a) Borrowing from bank is classified as financial liability.

(b) Investment in shares of another company classified as financial asset.

(c) Cash held in foreign currency classified as financial asset.

(d) Equity shares issued by the entity are classified as financial liability.

Answer:

(i) (c)

This standard provides rules for classification of a financial instrument into:

- Financial asset
- Financial liability
- Equity instrument

(ii) (c)

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

(iii) (c)

Prepaid expense does not entail a right to receive cash or other financial assets.

(iv) (d)

It is classified as equity instrument and not financial liability.

MCQ on Ind AS 109:

2. Choose the correct alternative:

(i) Ind AS 109 shall be applied to all types of financial instruments including:

(a) Interests in subsidiaries, associates and joint ventures

(b) Financial instruments resulting in business combination

(c) Equity instruments issued by the entity

(d) Debenture of another company

(ii) A loan given to a party is a financial asset to be measured at

(a) amortised cost

(b) fair value through other comprehensive income or

(c) fair value through profit or loss

(d) is not a financial asset.

(iii) Which of the following assets is a financial asset to be classified as 'at fair value through profit and loss'?

(a) an investment in equity shares of another entity.

(b) an investment in Debenture of another entity.

(c) a loan given to a party

(d) trade receivables

(iv) A Ltd. issued 10% debenture. Is it a financial liability to A Ltd. to be subsequently measured at ...?

(a) Fair value

(b) Fair value through Profit or loss

(c) Fair value through other comprehensive income

(d) Amortised cost

Answer:

(i) (d)

This Standard shall be applied by all entities to all types of financial instruments except those specified in the standard:

- Interests in subsidiaries, associates and joint ventures
- Financial instruments resulting in business combination
- Equity instruments issued by the entity

(ii) (a)

At amortised cost since it is a part of portfolio that the entity manages in order to collect the contractual cash flows.

(iii) (a)

In investment in equity shares there is no contractual cash flows it does not attract 'at amortised cost' or 'at fair value through other comprehensive income'. In other alternatives there are contractual cash flows.

(iv) (d)

Financial liability is measured at amortised cost for fixed contractual cash flows

MCQ on Ind AS 107:

3. **Choose the correct alternative:**

   (i) The carrying amounts of which of the following categories shall not be disclosed either in the balance sheet or in the notes?

   (a) financial assets and liabilities measured at fair value through profit or loss,

   (b) financial assets and liabilities measured at amortised cost.

   (c) financial assets measured at fair value through other comprehensive income

   (d) financial liabilities measured at fair value through other comprehensive income

Answer:

(i) (d)

Since there is no financial liabilities measured at fair value through other comprehensive income.

MCQ on GST:

1. **Choose the correct alternative:**

   (i) I. GST is applicable on the sale of goods or services.

   II. GST is applicable on the supply of goods or services.

   III. It is a source based tax.

   IV. It is a destination based tax.

   (a) I only is correct

   (b) II and III both are correct

   (c) III only is correct

   (d) II and IV both are correct.

(ii) GST is a tax

(a) On value addition basis on the cost of sale.

(b) On value addition basis on the transaction value of inward supply.

(c) On value addition basis on the transaction value of outward supply.

(d) On the purchase price.

(iii) GST is applicable to

(a) Petrol.

(b) Tobacco.

(c) Alcoholic liquor for human consumption.

(d) Aviation turbine fuel.

(iv) A supplier has output tax liability: CGST ₹6,000; SGST ₹6,000, IGST ₹8,000 and Input Tax Credit (ITC) for IGST ₹16,000. He would finally pay

(a) Output IGST ₹ 4,000.

(b) Output CGST ₹ 4,000.

(c) Output IGST ₹ 2,000 and Output CGST ₹ 2,000.

(d) Output SGST ₹ 4,000.

(v) There are ITC for purchase of Air-conditioner in the office: CGST ₹ 5,000 and SGST ₹ 5,000. There is output tax liability for outward supply of goods to other state ₹ 12,000.

(a) Output IGST ₹ 2,000 is finally payable after ITC.

(b) Output CGST ₹ 1,000 and Output SGST ₹ 1,000 are finally payable after ITC.

(c) Output IGST ₹ 12,000 is payable and no ITC is available for set off.

(d) Output SGST ₹ 6,000 and CGST ₹ 6,000 payable and no ITC set off.

(vi) Reverse Charge is levied on

(a) Inward supply from registered supplier.

(b) Inward supply from unregistered supplier.

(c) Outward supply to unregistered buyer.

(d) Outward supply to registered buyer.

(vii) Composition levy

(a) Is applied on Inter-state supply.

(b) Is collected from customers.

(c) Paid is available as Input Tax Credit.

(d) None of the above.

Answer:

(i) (d)

GST is a destination based tax on supply of goods or services.

(ii) (c)

GST is a tax on value addition basis on the transaction value of outward supply.

(iii) (b)

GST is not applicable to Petrol, alcoholic liquor or Aviation turbine fuel. But it is applicable to Tobacco.

(iv) (d)

ITC for IGST of ₹ 16000 will be first set off against output tax liability for IGST ₹ 8,000, then for CGST ₹ 6,000 and last for SGST ₹ 2,000 left. Remaining Output SGST ₹ 4,000 is finally payable.

(v) (a)

ITC ₹ 5,000 + 5,000 = 10,000. It is set off against IGST ₹ 12,000 (For inter-state supply)

(vi) (b)

Reverse Charge is levied on inward supply from unregistered supplier.

(vii) (d)

Composition levy is not applied on Inter-state supply, is not collected from customers, is not available as Input Tax Credit.

VALUATION OF SHARE

1. From the information supplied bellow compute the value of equity share of X Ltd. On the "Assets – Backing Method ":

   I. The summarised balance Sheet of X Ltd. (a manufacturing concern) as on 31.3.2019:

Balance Sheet of X Ltd. at 31.03. 2019

Particulars	Note No.	Amount (₹)
(1)	(2)	(3)
I Equity and liabilities		
(1) Shareholders Fund		
a. Share Capital	(1)	6,60,000
b. Reserve And Surplus – General reserve		1,20,000
(2) Share Application Money Pending Allotment :		-
(3) Non-Current Liabilities:		
a. Long Term Borrowings – 600, 9%Debenture of ₹100 each		60,000
(4) Current Liabilities		
b. Trade Payable – Sundry Creditors		60,000
TOTAL		9,00,000
II Assets		
(1) Non Current Assets:		
a. Fixed Assets		
I. Tangible building		2,40,000
II. Plant and Machinery		2,40,000
b. Non – Current Investment – 10% Government Securities		60,000
(2) Current Assets :		
a. Inventories		1,20,000
b. Trade receivables – Sundry debtors		30,000
c. Cash and Cash equivalent – Cash at bank		2,10,000
TOTAL		9,00,000

Note to Accounts:

(1) Share Capital

Particulars	(₹)
Issued, Subscribed and Paid up Capital :	
6000 Equity Shares of ₹100 each full paid	6,00,000
600, 10% Preference Shares of ₹ 100 each full paid	60,000
	6,60,000

(ii) Fair return on capital employed in this type of business in around 10% p.a.

(iii) Goodwill is to be taken at 5years purchase of super profits.

(iv) Average of profits for the last seven years is ₹120000. Profit is more or less stable over years and the same treated is expected to be maintained in the future. Ignore taxation.

Answer:

Computation of Capital Employed | **Computation of Average Maintainable Super Profits**

Particulars		₹	Particulars	₹
Sundry Assets:			Average annual profit for the last seven years	1,20,000
Land and Buildings	2,40,000		Less : interest on investment (10% on ₹60,000)	6,000
Plant and Machinery	2,40,000			1,14,000
Sundry Debtors	30,000		Add : interest on debenture (9% on ₹60000)	5,400
Investment	1,20,000			11,90,000
Cash at Bank	21,0,000	8,40,000	Less: Normal return on capital employed. (10%on ₹ 780000)	78,000
Less: Current Liabilities				
Sundry Creditors		60,000	Average Annual Super profit	41,400
Average Tangible Capital Employed		7,80,000		

Goodwill valued at 5years purchase of average annual super profit = ₹41400×5 years = ₹ 2,07,000.

Computation of Net Assets Available to Equity Shareholders

Particulars	₹
Trading tangible capital employed (as above)	7,80,000
Add Goodwill (as above)	2,07,000
investment	60,000
Gross Capital Employed	10,47,000
Less : 9% debenture	60,000
Net assets available to equity and preference shareholders	9,87,000
Less : 10% Preference share capital	60,000
Net Assets available to equity share holders	9,27,000

Value of share under assets backing Method:

Value of each full paid share = value of net assets available to equity Shares/number of equity Shares
= 927000/6000 = ₹154.40

2.

Balance Sheet of D Ltd as at 31.03.2019

Particulars	Note No.	Amount ₹
(1)	(2)	(3)
I. Equity and liabilities		
(1) Shareholders' Fund		2,00,000
Share capital – 2000 equity Share of ₹ 100 each		1,00,000
Reserve and surplus – General Reserve		20,000
Profit and loss Account		-
(2) Share Application Money Pending Allotment		-
(3) Non- Current Liabilities		
(4) Current Liabilities:		1,28,000
Trade payable – Sundry creditors		
TOTAL		4,48,000
(ii) ASSETS		
(1) Non – Current Assets :		
Fixed Assets		
Tangible assets		
Land and Building		1,10,000
Plant and Machinery		1,30,000
Intangible Assets – Patent and Trademarks		20,000
(2) Current Assets :		
Investment		48,000
Trade Receivable – debtors		88,000
Cash and cash equivalent – bank Balances		52,000
TOTAL		4,48,000

The expect valuer valued the land and building at ₹ 2,40,000. Goodwill at ₹1,60,000; and plant and machinery at ₹1,20,000. Out of the total debtors, it is found that debtors of ₹8,000 are bad. The profit of Company has been as follows: 2016-17 – ₹80,000; 2017-18 – ₹90,000; 2018-19 – ₹1,06,000.

Rate of depreciation on plant and machinery @15% and on land and building @ 10%.

The company follows the practice of transferring 25% of profit to general reserve. Similar type of companies earn at 10% of the value of their shares. Ascertain the value of shares of company under (i) Intrinsic value method. (ii) Yield value method (iii) Fair value method. Ignore taxation.

Answer:

Valuation of Shares of D Ltd.

(i) Intrinsic Value Method	₹	(ii) Yield Value Method	₹
Sundry Assets:		Total profit of last three years	2,76,000
Land And Building	2,40,000	Less : Bad debts	8,000
Goodwill	1,60,000		2,68,000
Plant And machinery	1,20,000	Average Profit (₹ 268000/3)	89,333
Patent And trademark	20,000	Add : Reduction in depreciation on plant and machinery @15% on ₹ 10000	1,500
Inventories	48,000		
Debtors less Bad debts	80,000	Less: Additional depreciation on Land & Building @ 10% on ₹ 130000	(13,000)
Bank balance	52,000		
	7,20,000	**Average Maintainable Profit**	7,78,333
Less Sundry Creditors	1,28,000	Less : Transfer to Reserve @25% on ₹77833	19,458
Net Assets	5,29,000		
Numbers Of Shares	2,000	Profit available for dividend	58,375
Value of Each Shares (₹5,92,000/2,000)	₹ 296		

(i) Expected Rate of Dividend

Profit available for Dividend /Share capital ×100 = 58,375/2,00,000×100 = 29.187%

(ii) Yield Value of Each Share

Expected rate of dividend/Normal Rate of return* Paid up value of each shares = 29.187%/10% × ₹100 = ₹291.87

(iii) Fair Value Method

Fair value of each share = (Intrinsic value + yield value)/2 = (296 + 291.87)/2 = ₹293.94

3. Following information is finished in respect of S.S. Ltd.

(1) Share capital: 200000 equity shares of ₹10 each fully paid.

(2) Profit after tax, dividends declared and retained earnings:

Year	Profit after tax (₹)	Dividend Declared (₹)	Retained Earnings (₹)
2018	7,10,000	3,40,000	3,70,000
2017	6,00,000	3,00,000	3,00,000
2016	4,00,000	2,60,000	1,40,000

(3) Normal rate of return expected by Shareholders in the market is 12%

(4) The Normal earnings of similar companies in the fibre industry is 15%

You are required to calculate the value of shares if: (a) Only a few shares are to be sold (b) Majority shares are to be sold.

Answer:

(a) The company has contently maintained a growing trend from 2016 to 2018. Profits are to be weighted in the ratio of 1:2:3 - the greatest weight being given in the last year.

Since only a few shares are to be sold, the shares should be valued on the basis of dividend declared and expected normal rate of return.

Year	Dividend Declared	Share Capital (₹)	Rate of Dividend (₹)	weights	Weighted Dividend Rate
2016	2,60,000	20,00,000	(2,60,000/20,00,000)×100 = 13%	1	13
2017	3,00,000	20,00,000	(3,00,000/20,00,000)×100 = 15%	2	30
2018	3,40,000	20,00,000	(3,40,000/20,00,000)×100 = 17%	3	51
				6	94

Weighted average rate of dividend ratio = 94/6= 15.67%

Therefore, yield value of each equity share:

Weighted Average Rate of Dividend/Normal Rate of Dividend × paid up value of each equity share =15.67/12×10 = ₹13.06.

(b) When majority share are to be sold, the shares should be valued on the basic of weighted average profits of the business and expected normal earnings of similar companies in the same industry.

Calculation of Weighted Earnings

Year	Earnings (₹)	Weights (₹)	Weighted earnings	
2016	4,00,000	1	4,00,000	Therefore, Weighted Average Earnings = ₹ 37,30,000/6 = ₹ 6,21,667
2017	6,00,000	2	12,00,000	Weighted Average Rate of Earnings = ₹ 6,21,667/20,00,000 × 100 = 31 % (approx.)
2018	7,10,000	3	21,30,000	Value of Each Equity Shares = {weighted average rate of earnings/normal return} × Paid up value of each share
		6	37,30,000	= (31/15)×10 = ₹ 20.67

4. Following is balance sheet of A Ltd. as at 31.12.2018

Balance Sheet of A Ltd. as on 31.12.2018

Particulars	Note No.	Amount (₹)
(1)	(2)	(3)
I. Equity And Liabilities		
(1) Shareholders Fund:		
Shareholders' Fund		9,00,000
Reserve And Surplus –General reserve		3,30,000
Profit And Loss Account		2,50,000
(2) Share Application Money Pending For Allotment		-
(3) Non-Current Liabilities		-
(4) Current liabilities		
Trade Payable – Sundry Creditors		5,00,000
TOTAL		19,80,000
II. Assets		
(1) Non-current Assets		
Fixed Assets		
I. Tangible Assets		
Land and Building		4,00,000
Machinery		4,50,000
Motor Car		25,000
Furniture		25,000
II. Non- Current investment		50,000
(2) Current Assets		
Inventories		7,25,000
Trade Receivable- Sundry Debtors		2,00,000
Cash and Cash Equivalent- Cash at Bank		1,05,000
TOTAL		19,80,000

Additional information is as under:

(i) Fixed Assets are Worth: Building – ₹ 6,00,000, Machinery – ₹ 5,20,000

(ii) All investments Are Non- trading investments and to be valued at 20% above cost. Dividend at uniform rate of 20% is earned on all investments.

(iii) For the purpose of valuation of share , goodwill is to be valued on the basic of 3year purchase of super profit based on average profit (after tax) of last 3years

(iv) Depreciation on appreciated value of land and building is not to considered for valuation of goodwill.

(v) Profit (after tax) are as follows: 2016 - ₹ 3,80,000:2017 - ₹ 4,20,000: 2018 - ₹ 5,00,000

Rate of Income Tax Similar business, return on capital employed is 20% (after tax)

(vi) In 2016 machinery (book value ₹ 20,000) was sold for ₹ But processed was wrongly credited to profit and loss Account. The mistake has not yet been rectified. Depreciation has been changed on machinery @10% per annum on reducing balance method.

Find out the value of each fully paid and partly paid equity share on net assets basis.

Answer:

Working Notes: Average maintainable trading profit

Particulars	2016 (₹)	2017 (₹)	2018 (₹)
Profit after Tax	38,00,000	4,20,000	5,00,000
Less : Sales Precedes of Machinery wrongly credited to profit and loss Account (net of tax)	10,000		
	3,70,000		
Less : Dividend for Non-trading investment (net of tax)	5,000	5,000	5,000
	3,65,000	4,15,000	4,95,000
Add: Depreciation Wrongly charged on the Assets sold (net tax) – 50% of ₹ 2,000; 1800 and ₹1620	1,000	900	810
	3,66,000	4,15,900	4,95,810
Average profit = ₹ (3,66,000 + 4,15,900 + 4,95,810)/3 = ₹4,25,903; Say ₹425900			

(2) Computation of capital employed (3) calculation of Super profits

Particulars	₹	Particulars	₹
Sundry Assets:		Average maintain able trading Profit (as above)	4,25,900
Land and Building	6,00,000	Less: Normal Profit @ 20% on ₹ 17,00,000	3,40,000
Machinery	5,20,000	**Super Profits**	85,900
Motorcar	25,000	Therefore, Goodwill = ₹85,900×3 Years = ₹2,57,700	
Furniture	25,000		
Investment	7,25,000		
Debtors	2,00,000		
cash	1,05,000		
	22,00,000		
Less Creditors	5,00,000		
	17,00,000		

Valuation of Shares on net Assets Basis

Particulars	₹
Value of Goodwill(W.N.-3)	2,57,700
Capital Employed(W.N.-20	17,00,000
Non-Trading investment(₹ 50000/100*120)	60,000
Notional call on Shares	1,00,000
	21,17,700

Value of full paid up share = 21,17,700/10,000 = ₹211.77

Value partly paid up shares = ₹211.77 - ₹20 = ₹191.77

VALUATION OF GOODWILL

5. **Following is the balance sheet of Das Ltd. as at 31.03.2019**

Balance sheet of Das Ltd. as at 31.03.2019

Particulars	Note No.	Amount ₹
(1)	**(2)**	**(3)**
I. **EQUITY AND LIABILITIES**		
(1) **Shareholders fund:**		
(a) Share capital- 60,000 equity shares of ₹10 each		6,00,000
(b) Reserves and surplus- profit and loss account		50,000
(2) **Share application money pending allotment:**		-
(3) **Non-Current liabilities:**		-
(4) **Current liabilities:**		
(a) Short term borrowings- bank loan		10,000
(b) Trade payable- sundry creditors		60,000
(c) Short term provision-		
Provision for taxation		1,10,000
Proposed dividend		60,000
TOTAL		8,90,000
II. **ASSETS**		
(1) Non- Current Assets:		
(a) Fixed Assets		
(i) Tangible Assets		3,70,000
(2) current assets :		
(a)Other Current Assets		5,20,000
TOTAL		8,90,000

The net profit of the company after deducting working expenses but before providing for taxation were as under

2016-17 ₹ 3,18,000, 2017-18 ₹ 3,40,000, 2018-19 ₹ 3,12,000

On 31.03.19 tangible fixed assets were revalued at ₹ 4,50,000. Sundry debtors on the same date include ₹ 10,000 which is irrecoverable. Having regard to the type of business a 10% return on average capital employed is considered as reasonable.

Ascertain the value of goodwill on the basics of 3 years' purchase of annual super profits. Also calculate goodwill by capitalization of average maintainable profits. Depreciation on tangible fixed assets is charged @ 10% p.a. and the rate of tax is 30%.

Answer:

(1) calculation of closing capital employed **(2) computation of average capital employed**

Particulars		₹	Particulars	₹
Tangible fixed assets (revalued)		4,50,000	Closing capital employed	7,80,000
Current assets (5,20,000-10,000)		5,10,000	Less: ½ of Adj. average trading	
		9,60,000	profit after tax	
Less: Bank loan	10,000		(1/2 x 2,18,400)	1,09,200
Sundry creditors	60,000		(W.N-1)	
Provision for taxation	1,10,000	1,80,000		
Closing capital employed		7,80,000	**Average capital employed**	6,70,800

Value of goodwill based on super profit = 3 years' purchase of super profit

= 3 x 1,51,320 (W.N-2)

= ₹ 4,53,960

Workings notes:

(1) Calculation of average trading profit after tax

Particulars	₹
Average profit [3,18,000+3,40,000+(3,12,000-10,000]/3	3,20,000
Less:	
depreciation @ 10% on revaluation profit of tangible fixed assets (4,50,000-3,70,000)	(8,000)
	3,12,000
Less: income tax	93,600
Average maintainable trading profit after tax	2,18,400

(2) Calculation of averages super profit

Particulars	₹
Average maintainable trading profit after tax	2,18,400
Less: Normal return on aveg. capital employed	
(10% of ₹ 6,70,800)	67,080
Super profit	1,51,320

Calculation of goodwill by capitalization of average maintainable profits

Total value of business = average maintainable profit/normal rate of return

= 2,18,400/10 x 100 = ₹ 21,84,000

Goodwill = total value of business less capital employed (closing)

= ₹ 21,84,000 – ₹ 7,80,000 = ₹ 14,04,000

6. The following are the particulars about Koley & Co. a partnership firm:
   (a) average capital employed in the business is ₹ 7,00,000
   (b) Net trading profit of the firm for the past three years : ₹ 1,07,600; ₹ 90,700; ₹ 1,12,500.
   (c) Market rate of interest on investments 8%
   (d) Rate of risk return on capital invested in business 2%
   (e) Fair remuneration to the partners for their services ₹ 12,000 p.a.
   (f) The profit included non-recurring profits on average basics of ₹ 1000 out of which it was considered that even non-recurring profits had a tendency to recurring at an average rate of ₹ 600 p.a.
   (g) Sundry assets of the firm ₹ 7,50,000 and current liabilities is ₹ 30,000

   Ascertain the value of goodwill of the firm under the following method for Koley & Co.

   Three year purchase of super profit method and Capitalization method

Answer:

Average profit = ₹ (1,07,600+90,700+1,12,500)/3 = ₹ 1,03,600

Calculation of super profit

Particulars	₹
Average profit	1,03,600
Less: partners remuneration	12,000
	91,600
Less: non-recurring income(1000-600)	400
	91,200
Less: normal return on capital employed (₹ 700000 x 10%)	
Super profit	70,000
	21,200

(1) value of goodwill = super profit x number of year's purchase

= ₹ 21,200 x 3 = ₹ 63,600

(2) valuation of goodwill = super profit/normal rate of return × 100

= 21,200/10 x 100 = ₹ 2,12,000

7. The net profit of the KB Ltd after tax, for the past five years are: ₹ 2,00,000; ₹ 2,12,500; ₹ 2,30,000; ₹ 2,62,500 and ₹ 2,95,000. The capital employed in the business is ₹ 20,00,000. The normal rate of return expected in this type of business is 10%. It is expected that company will be able to maintain the super profit for the last 5 years. Calculate the value of goodwill on the basics of capitalization of super profit method for KB. Ltd.

Answer:

Average maintainable profit = (2,00,000 +2,12,500+2,30,000+2,62,500+2,95,000)/5

= ₹ 12,00,000/5 = ₹ 2,40,000

Goodwill = P – rc/m

= [2,40,000-(10% of 20,00,000)]/10% = 4,00,000

Where,

P = average maintainable profit = ₹2,40,000

r = normal rate of return = 10%

c = capital employed = ₹ 20,00,000

m = capitalization ratio = 10%

8. From the following information, calculate the value of goodwill as on 31.03.19 of JK Ltd.

Equity share capital (₹ 10) ₹5,00,000

10% Preference share capital ₹ 2,00,000

Reserve and surplus ₹ 70,000

9% Debentures ₹ 1,00,000

Depreciation fund ₹ 60,000

Creditors ₹ 50,000

Assets side of balance sheet includes preliminary expenses ₹ 20,000

Market value of assets is ₹ 70,000 more than the book value

Profits for the last three years after 40% tax were: ₹ 75,000; ₹ 84,000 and ₹ 1,14,000 respectively.

Fair return on capital on capital employed in this type of business is estimated at 10%.

You are required to calculate the value of goodwill by capitalization of super profit. (Take weighted average profit)

Answer:

Calculation of Capital Employed

Particulars	₹
Equity share capital	5,00,000
10% Preference share capital	2,00,000
Reserve and surplus	70,000
9% Debenture	1,00,000
Increase in the value of fixed assets	70,000
	9,40,000
Less: Preliminary expanses	
Capital employed	20,000
	9,20,000

Calculation of weighted average profit

Particulars	₹
Weighted average profit (W.N-1) after tax	97,500
Add: Debenture interest (net of tax) (100-40/100)x(1,00,000 x 9/100)	5400
Weighted average profit	1,02,900

Calculation of super profit

Particulars	₹
Weighted average profit	1,02,900
Less: normal profit (₹ 920000 x 10%)	92,000
Super Profit	10,900

Goodwill capitalization by super profit:

Goodwill= super profit/normal rate of return= 10,900/10% = ₹ 1,09,000

Workings notes:

(1) Profits for last three years (after tax) have been given. The profit is increasing steadily. Therefore highest weight should be given to 3rd year and lowest weight be given to 1st year. Based on this, the weighted average profit will be as follows:

1st year – ₹ 75,000 x 1	75,000
2nd year – ₹ 84,000 x 2	1,68,000
3rd year – ₹ 1,14,000 x 3	3,42,000
Total	**5,85,000**

Weighted average profit = 5,85,000/6 = 97,500.

Study Note – 6

SHARE BASED PAYMENTS

Learning Objective:

- *Objectives of this chapter is to enable the students test their knowledge about the nature, recognition, measurement and recording of share based payment transactions through objective type multiple choice and short questions and long problems.*

MULTIPLE CHOICE QUESTIONS:

Share based payment transactions under Ind AS 102

1. Choose the correct alternative:

(i) Ind AS 102 applies in accounting for all share-based payment transactions including:

(a) transactions forming part of business combination under Ind AS 103,

(b) transactions forming part of joint venture under Ind AS 111,

(c) transactions where the entity cannot identify specifically some of the goods or services received,

(d) transactions in which the entity incurs liability to transfer cash or other asset based on the value of the debt instruments of the entity.

(ii) In a share-based payment transaction when the entity receives goods or services but neither issues equity instruments nor incurs liability as parent or any other entity in the group settles the transaction,

(a) It is called equity-settled share-based payment transaction.

(b) It is called cash-settled share-based payment transaction.

(c) It is not considered as a transaction.

(d) It is not considered as a share based payment transaction.

(iii) For share based payment transactions with *employees* the entity shall measure the services received

(a) at the Fair Value of the services received.

(b) by reference to the fair value of the equity instruments granted on the grant date.

(c) at the negotiated value.

(d) at the market value of the equity instruments on the grant date.

(iv) In an employee share based payment transaction there may be a condition

(i) of completing a specified period of service only.

(ii) that is related to the market price of equity instruments.

(iii) of meeting the target sales.

Which of the following is true?

(a) both (i) and (ii) are service conditions

(b) (i) is service condition and (ii) is market condition

(c) Only (iii) is performance condition

(d) both (i) and (ii) are performance conditions

(v) A company granted 100 shares to an employee on the conditions:

(i) That the employee will complete 2 year's service

(ii) That the company will make sales over ₹ 2 crore in each of the years in the two years

(iii) That the share price will not be below ₹50 at the end of the 2nd year

(iv) And that the employee will be issued shares 4 months after completion of 2 year service (which has no impact on vesting right).

Which one of the following is true?

(a) all the conditions (i) to (iv) are vesting conditions

(b) (ii) and (iii) are market conditions

(c) (iv) is non-vesting condition and (ii) and (iii) are performance conditions

(d) (i) and (iv) are service conditions.

(vi) If the equity options are granted on a vesting condition that the employee shall complete a specified period of service:

(a) Employee expenses will be recognized at the completion of the specified period of service.

(b) Employee expenses will be recognized during the specified period of service.

(c) Employee expenses will be recognized at the grant date.

(d) Employee expenses will be recognized when options will be exercised.

Answer:

(i) (c)

Apply this Standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received.

(ii) (a)

It is called equity-settled share-based payment transaction.

In a share-based payment transaction the entity

(a) receives goods or services from the supplier or employee and recognizes it as asset or as expense (when no asset is qualified for recognition), and

(b) issues equity instruments (called equity-settled transaction) or incurs liability to transfer cash or other asset based on the value of the equity instruments of the entity (cash-settled) to settle the transaction, or

(c) neither issues equity instruments nor incurs liability as parent or any other entity in the group settles the transaction (it is also called equity-settled).

(iii) (b)

For transactions with employees and others providing similar services, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.

(iv) (b)

The vesting condition may be a service condition or a performance condition.

- If the condition requires completing a specified period of service only, it is a service condition;
- Otherwise it is a performance condition.
- When a performance condition is related to the market price of equity instruments it is a market condition.
- When the performance is not related to market price of equity instruments it is non-market performance condition such as meeting the target sales or profits or any other activity of the entity.

(v) (c)

See answer reference of D above

(vi) (b)

If the equity instruments granted does not vest until the counterparty completes a specified period of service or fulfils the performance condition, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the vesting period.

Short Questions

2. M Ltd. offers shares to its employees as bonus for achieving a target. (a) Is it a share based payment transaction? (b) Is it equity settled or cash settled? (c) When will it be recognized? (d) What will be the journal entries?

Answer:

(a) It is share-based payment transaction.

(b) It is equity settled share based payment transaction as M issues its shares against receiving of services from the employees achieving the target.

(c) It will be recognized at the grant date.

(d) The journal entry is: Employee Expenses Dr. and Equity Cr.

3. Mr. Q is granted share options conditional upon completing 3 years' service. How is the transaction recognized in the books of the entity?

Answer:

The transaction will be recognized as equity-settled share based payment transaction. The services from the employee will be assumed to be rendered in future during the vesting period. In each financial statements falling in the vesting period the fair value of the share options as on the grant date will be recognized in proportion of the period expired to the total vesting period.[See problems 6,7 and 9 for its application]

4. Mr. X is an employee of P Ltd. and also holder of equity shares of P Ltd. P Ltd. makes a right issue on equity and X receives his right. Is it a share based payment transaction?

Answer:

No. For the purpose of Ind AS 102, a transaction with an employee (or other party) in his/her capacity as a holder of equity instruments of the entity is **not** a share based payment transaction.

5. F Ltd. grants 20 share appreciation rights to M, an employee, entitling him to receive cash payment for the increase in quoted price of F's shares from the exercise price of ₹ 300 per share after 3 years. What is the type of transaction and type of vesting condition? How the transaction should be recognized?

Answer:

The transaction should be recognized as cash-settled share based payment transaction. The vesting condition is identified as a market condition as it is related to market price of share. The transaction will be recognized at fair value of the rights on the grant date in each financial statements falling in the vesting period proportionate to the period expired to total vesting period.[see problem 10 for its application]

Long Questions (on application)

6. **Z Ltd. grants 80 share options to each of its 300 employees conditional on their continuing in service for 3 years. Fair value of share option on the grant date is ₹ 25.**

   What amount of expenses will be recognized in each year?

Answer:

Calculation of Cumulative Remuneration expense and Remuneration expense for 3 years

Year	Calculation	Cumulative remuneration expense (₹)
1	300 × 80 × 25 × 1/3	2,00,000
2	300 × 80 × 25 × 2/3	4,00,000
3	300 × 80 × 25 × 3/3	6,00,000

Year	Calculation: $\text{Cumulative}_n - \text{Cumulative}_{n-1}$	Remuneration expense recognized in each year (₹)
1	200000 – 0	2,00,000
2	400000 – 200000	2,00,000
3	600000 – 400000	2,00,000

7. **Z Ltd. grants 80 share options to each of its 300 employees conditional on their continuing in service for 3 years. Fair value of share option on the grant date is ₹ 25.**

Answer:

Z Ltd. estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the share options.

Year	Calculation	Cumulative remuneration expense (₹)	Remuneration expense recognized in each year (₹) $Cumulative_n - Cumulative_{n-1}$
1	300 × 80 × 25 × 80% × 1/3	1,60,000	1,60,000
2	300 × 80 × 25 × 80% × 2/3	3,20,000	1,60,000
3	300 × 80 × 25 × 80% × 3/3	4,80,000	1,60,000

8. **D Ltd. offers the employees shares at a discount in recognition of their past services. In total 60000 shares of ₹ 10 each were accepted (and paid) by the employees at weighted average price of ₹ 40 when weighted average market price of the shares on the purchase date was ₹ 60. Pass journal entries.**

Answer:

As for past services employee expense will be fully recognized immediately.

Market value of shares = 60000 × ₹ 60 = ₹ 36,00,000. Concession in share price is same as share option = ₹ 20 (i.e., 60 – 40). Hence service received is measured at ₹ 20 × 60000 = ₹ 12,00,000; Amount paid per share = ₹40; for 60000 shares total bank received by the company = ₹ 24,00,000; Premium per share = market price – paid up value = 60 – 10 = 50; Security premium total credited and to be shown under Other Equity = ₹ 50 × 60000 = 3000000.

Journal :

Bank	Dr.	24,00,000	
Employee expense	Dr.	12,00,000	
To Equity Share Capital	Cr.		6,00,000
To Other Equity (Security Premium)			30,00,000

(Employee expense recognized for share based payment by issue of equity at concession)

9. **Z Ltd. grants 100 share options to each of its 400 employees conditional on their continuing in service for 3 years. Fair value of share option on the grant date is ₹ 30. Z Ltd. estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the share options.**

   During year 1, 18 employees leave. The entity revises its estimate of total employee departures over the three-year period from 20 per cent to 16 per cent.

   During year 2, a further 20 employees leave. The entity revises its estimate of total employee departures over the three-year period from 16 per cent to 13 per cent.

   During year 3, a further 14 employees leave.

All the continuing employees exercised the option to subscribe in the equity shares of ₹ 10 each at ₹ 50 only, when market price stands at ₹ 80. The fair value of the option at the grant date is taken at ₹ 30 only.

Pass journal entries with working notes.

Answer:

Calculation of Expenses recognized during the vesting period:

Year	Calculation	Cumulative remuneration expense (₹)	Remuneration expense recognized in each year (₹)
1	400 × 100 × 30 × 84% × 1/3 (Note #)	3,36,000	3,36,000[1]
2	400 × 100 × 30 × 87% × 2/3 (Note #)	6,96,000	3,60,000[2]
3	348 × 100 × 30 × 3/3 (Note #)	10,44,000[4]	3,48,000[3]
	Total		10,44,000[4]

Note #: At the end of year 1, 16% is revised estimated departure, balance 84% is taken for calculation, at the end of year 2, 13% is revised estimated departure, balance 87% is taken for calculation and at the end of year 3, 52 is actual departure, and balance 348 is taken for calculation.

Journal entries (without narration) in the books of Z Ltd.:

During the vesting period:

Year 1: Employee Expenses	Dr.	3,36,000	
To, Share based payment reserve (Other Equity)	Cr.		3,36,000[1]
Year 2: Employee Expenses	Dr.	3,60,000	
To, Share based payment reserve (Other Equity)	Cr.		3,60,000[2]
Year 3: Employee Expenses	Dr.	3,48,000	
To, Share based payment reserve (Other Equity)	Cr.		3,48,000[3]

At the time option is exercised:

Bank [348 × 100 × 50]	Dr.	17,40,000	
Share based payment reserve (Other Equity)	Dr.	10,44,000[4]	
To Equity Share Capital [348 × 100 × 10]	Cr.		3,48,000
To Other Equity (Security Premium) [348 × 100 × 70]	Cr.		24,36,000

10. MLL Ltd. grants 80 cash share appreciation rights (SARs) to each of its 400 employees, on condition that the employees remain in its employment for the next three years. During year 1, 30 employees leave. The entity estimates that a further 50 will leave during years 2 and 3. During year 2, 40 employees leave and the entity estimates that a further 30 will leave during year 3. During year 3, 40 employees leave. At the end of year 3, 100 employees exercise their SARs, another 120 employees exercise their SARs at the end of year 4 and the remaining employees exercise their SARs at the end of year 5.

    The entity estimates the fair value of the SARs at the end of each year in which a liability exists as shown below. At the end of year 3, all SARs held by the remaining employees vest. The intrinsic values of the SARs at the date of exercise (which equal the cash paid out) at the end of years 3, 4 and 5 are also shown below.

At the end of Year	Fair Value ₹	Intrinsic Value ₹
1	15	
2	16	
3	18	15
4	21	20
5		24

    Pass journal entries and working notes.

Answer:

(a) Basis of Calculation

At the end of Year	[Actual]+Estimated reduction in no. of employees	Expense and liability recognized for	SAR exercised by	Remaining Employees
1	[30]+50 = 80	320 employees at ₹ 15		
2	[30+40]+30 = 100	300 employees at ₹ 16		
3	[30+40+40] = 110	290 employees at ₹ 18	100 employees at ₹15	190
4			120 employees at ₹20	70
5			70 employees at ₹24	0

(b) Calculation of employee expense and liability

Year	Calculation		Expense	Liability
1	(400 – 80) × 80 × 15 × 1/3		128000	128000L1
2	(400 – 100) × 80 × 16 × 2/3 – L1		128000	256000L2
3	(400 –110 –100) × 80 × 18 – L2	17600		273600L3
	100 × 80 × 15	120000	137600	
4	(190 – 120) × 80 × 18 – L3	-156000		117600L4
	120 × 80 × 20	192000	36000	
5	0 – L4	-117600		0
	70 × 80 × 24	134400	16800	
			446400	

(c) Journal:

Year 1:	Employee Expense	Dr.	1,28,000	
	To Share based Payment Liability	Cr.		1,28,000
	(Fair value of SAR recognized)			
Year 2:	Employee Expense	Dr.	1,28,000	
	To Share based Payment Liability	Cr.		1,28,000
	(Fair Value of SAR recognized and remeasured)			
Year 3:	Employee Expense	Dr.	1,37,600	
	To Share based Payment Liability	Cr.		1,37,600
	(Fair Value of SAR recognized and remeasured)			
	Share based payment Liability	Dr.	1,20,000	
	To Cash	Cr.		1,20,000
	(SAR settled for 100 employees)			

Year 4:	Share based payment Liability	Dr.	1,56,000	
	Employee Expense	Dr.	36,000	
	To Cash	Cr.		1,92,000
	(SAR settled for 120 employees)			
Year 5:	Share based payment Liability	Dr.	1,17,600	
	Employee Expense	Dr.	16,800	
	To Cash	Cr.		1,34,400
	(SAR settled for 70 employees)			

Study Note – 7

REPORTING THROUGH XBRL (Extended Business Reporting Language)

Learning Objective:

- *To gain concept of XBRL, related terms.*
- *To acquire knowledge of the features and the benefits of XBRL Reporting.*
- *To acquire knowledge of users of XBRL and XBRL in Indian context of economy.*

OBJECTIVE TYPE QUESTIONS:

1. Choose the correct alternative:

(i) What is the full form of XBRL?

(a) eXtensible Business Reporting Language

(b) Expanded Business Reporting Language

(c) Exempted Business Reporting Language

(d) Exploratory Business Reporting Language

(ii) Today XBRL is used in

(a) Accounting (individual transactions tagged with XBRL Global Ledger);

(b) Internal Reporting (for drafting of management reports);

(c) External Reporting (for drafting of financial statements, regulatory reports, corporate tax filings, statistical reports etc.)

(d) All of the above

(iii) XBRL is based on

(a) Hypertext Mark-up Language

(b) External Mark-up Language

(c) eXtensible Mark-up Language

(d) Hyper eXtensible Mark-up Language

(iv) Which of the following is not a recognised taxonomy?

(a) India Banking GAAP Taxonomy 2010

(b) BRAZIL GAAP Commercial and Industrial Taxonomy

(c) Indonesia Stock Exchange (IDX) Taxonomy 2014

(d) India Insurance GAAP Taxonomy

(v) Which of the following is not true?

(a) XBRL is not a set of Accounting Standards

(b) XBRL is not a GAAP translator

(c) XBRL does not help in automatic data processing

(d) XBRL is not a proprietary technology

(vi) Which of the following is not a feature of XBRL?

(a) Clear definitions

(b) Testable business rules

(c) Single language support

(d) Strong software support

(vii) Which of the following is not a benefit of XBRL?

(a) More accurate and efficient:

(b) Data review

(c) Manual data processing

(d) improved reporting quality

(viii) Apart from those already covered by the2011 Rules, which of the following classes of companies need(s) to file the financial statement through XBRL?

(a) All companies listed in India and their subsidiaries;

(b) All companies having a paid up capital of Rs. 5 crore and above; or

(c) All companies having turnover of Rs. 100 crore or above

(d) All of the above

(ix) As per the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015, which of the following companies are exempted from filling their financial statements in XBRL?

(a) Banking Companies

(b) Insurance Companies

(c) Power sector Companies

(d) All of the above

Answer:

(i) (a)

The full form of XBRL is eXtensible Business Reporting Language

(ii) (d)

Today XBRL is used in accounting, internal as well as external reporting.

(iii) (c)

XBRL is based on eXtensible Mark-up Language. It is basically a family of XML.

(iv) (d)

There is no XBRL taxonomy for insurance sector in India.

(v) (c)

In XBRL, data processing is done automatically.

(vi) (c)

XBRL provides multi-language support

(vii) (c)

In XBRL, data processing is done automatically and not manually.

(viii) (d)

All the three options (a), (b) and (c) are correct.

(ix) (d)

All the three types of companies are exempted.

Study Note – 8

GOVERNMENT ACCOUNTING

Learning Objective:

- *Governmental financial statements are quite a bit different from commercial financial statements. Main objectives to learn Government Accounting is to acquire knowledge of different types of funds used in governmental accounting, including why, when, and how to use each.*
- *To understand bases and methods of accounting standards issued by the Government Accounting Standards Board (GASB).*
- *To be aware of the sources and applications of Government Funds and their justifications.*

OBJECTIVE TYPE QUESTIONS:

1. Choose the correct alternative:

(i) Which of the following is not a feature of Government Accounting?

(a) Reporting of Utilisation of Public Funds

(b) Government Regulations:

(c) Budget Heads

(d) Single Entry System

(ii) Which of the following is the objective of Government Accounting?

(a) To record financial transactions of revenues and expenditure relating to the government organizations.

(b) To provide reliable financial data and information about the operation of public fund.

(c) To record the expenditures as per the appropriate Act, Rules, and legal provisions as set by the government.

(d) All of the above

(iii) Which of the following is not a general principle of Government Accounting?

(a) Classification of expenditures

(b) Based on budget

(c) Cash basis of accounting

(d) Quarterly Accounting

(iv) Audit of the Government Accounts is done by

(a) an independent auditor appointed by the public

(b) Ministry of corporate affairs

(c) Auditor General Office

(d) Ministry of finance

(v) Which of the following is the apex accounting body in Government of India?

(a) Institute of Chartered Accountants of India

(b) Institute of Cost Accountants of India

(c) Institute of Company Secretaries of India

(d) Comptroller General of India

(vi) Which of the following is not a software package used in Government Accounts?

(a) GAINS

(b) CONTACT

(c) TALLY

(d) IMPROVE

(vii) Which of the following is not a part of Government Accounts in India?

(a) RBI Fund

(b) Consolidated Fund,

(c) Contingency Fund and

(d) Public Account

(viii) IGAS 1 stands for

(a) Guarantees given by Governments: Disclosure Requirements

(b) Accounting and Classification of Grants-in-aid

(c) Loans and Advances made by Governments

(d) None of the above

Answer:

(i) (d)

Government accounting is based on Double Entry System.

(ii) (d)

All the above are the objectives of Government Accounting.

(iii) (d)

Government accounting is done on annual basis i.e. from 1st April to 31st March.

(iv) (c)

The audit the books of accounts maintained by government departments, offices or institutions are to be audited by a recognised department of the government (namely, the Auditor General Office).

(v) (d)

Controller General of Accounts (CGA) is the apex accounting body in the Government of India. It is the principal Accounts Adviser to the Government of India.

(vi) (c)

At the three levels, namely the Controller General of Accounts, Principal Accounts Offices and the field Pay and Accounts Offices software packages, namely GAINS (Government Accounting Information System), CONTACT (Controller's Accounts) and IMPROVE (Integrated Multimodule Processor for Voucher Entries), are being used to consolidate Government of India Accounts.

(vii) (a)

The Constitution of India provides for the manner in which the accounts of the Government have to be kept. The accounts of Government are kept in three parts namely, Consolidated Fund, Contingency Fund and Public Account.

(viii) (a)

IGAS 1 stands for Guarantees given by Governments: Disclosure Requirements.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Website : www.icmai.in
Email: studies@icmai.in
Toll Free: 1800 345 0092 / 1800 110 910

Follow us on

HEADQUARTERS
CMA Bhawan
12, Sudder Street, Kolkata - 700 016
Ph: +91-33-2252-1031/34/35/1602/
1492/1619/7373/7143
Fax: +91-33-2252-7993/1026/1723

DELHI OFFICE
CMA Bhawan
3, Institutional Area, Lodhi Road
New Delhi - 110003
Ph: + 91-11-24666100/24666124/24666122
Fax: +91-11-43583642

Behind Every Successful Business Decision, there is always a CMA