CORPORATE FINANCIAL REPORTING

GROUP - IV
PAPER - XVII

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

SYLLABUS - 2016

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 edition. Thus, we are delighted to inform our students about the **e-distribution of the second 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 integrate the key components of the subjects. In the second edition, we expanded the coverage in some areas and condensed others.

It is our hope and expectation that this second 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

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

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

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

4. 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 employees who 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

5. 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

6. 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

7. **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)	**₹ 45,00,000**
Profit as per Income Tax Act	**₹ 5,00,000**
Tax Rate	**30%**
MAT Rate	**10%**

(a) ₹ 14,50,000

(b) ₹ 18,00,000

(c) ₹ 13,50,000

(d) None of the above

8. **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:

1. (b) 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. (d) All of the above
3. (b) 3 lakhs will be treated as Goodwill
4. (c) 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.
5. (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 ₹ 14,50,000.

6. (a) 4630

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

7. (b) ₹ 18,00,000

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

Tax as per Income Tax profit: 5,00,000 x 30% = 1,50,000

Tax as per MAT: 45,00,000 x 10% = 4,50,000

Tax expense = Current tax + Deferred tax

15,00,000 = 1,50,000 + Deferred tax

Therefore, Deferred Tax Liability as on 31.3.2015 = ₹ 15,00,000 – ₹ 1,50,000 = ₹ 13,50,000.

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

= 1,50,000 + 13,50,000 + (4,50,000 – 1,50,000)

= 18,00,000

8. (d) ₹ 4 lakhs

As per para 23 of AS-26, intangible assets should be measured initially at cost therefore. J Ltd. should amortize the trademark 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 over a maximum period of 10 years as per AS-26. Therefore, the maximum amortization expense and accumulated amortization is ₹ 4 lakhs (₹40 lakhs/10).

<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

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

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:

1. (c) 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. (c) Reportable Segment = more than 10% of higher of absolute value of Profit or Loss

   = more than 10% of 600 = 60
3. (d) cash flows

Write the answer of the following questions:

<u>Questions based on AS</u>

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 treatment was correct in view of AS-9, which states that if uncertainty exists as to collectability, the revenue recognition should be postponed. Since, the claim is passed for payment of ₹12 lakhs in March, 2017, it should be recognized as revenue in the financial statements prepared for the year ended 31.3.17.

As per AS-5 Revised, the claim amount received will not be treated as extraordinary item. AS-5 Revised further states that when items of income and expense within profit 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 nature and amount of such items should be disclosed separately. Accordingly, the nature and amount of this item should be 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 ₹ 55x14% = ₹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 demerger or 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.

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

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 entity's 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)	$\frac{3,00,000}{9,81,000}$ *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) 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)

No. of new shares to be issued = (1,20,000 × 24)/48 = 60,000.

(ii) (b)

No. of new 9% debentures to be issued by A Ltd. = (2,40,000×110%)/(100×120%) = 2,200.

(iii) (a)

Net Assets = (51,20,000+25,00,000-22,60,000) = ₹ 53,60,000

Purchase Consideration = ₹ 48,00,000

Since P.C<Net Assets, Capital Reserve = 53,60,000 – 48,00,000 = ₹ 5,60,000.

(iv) (b)

Purchase consideration to be discharged = (10,000×62.25 + 1,30,000×16) = ₹ 27,02,500

Intrinsic value per share = ₹ 46

No. of equity shares issued by P Ltd. to R Ltd. will be = 2702500/46 = 58750

(v) (a)

Total trade receivable = 30+16 = ₹ 46 lakhs

Inter co. trade receivable = ₹ 5 lakhs

Trade receivable to be shown in the balance sheet = 46 – 5 = ₹ 41 lakhs.

Questions based on IND AS

2. 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 ₹ 12,00,000 paid by equity at par. Fair Value (FV) of B's net assets at time of acquisition amounts ₹ 9,00,000. The value of goodwill will be.

(a) ₹ 3,00,000

(b) ₹ 4,80,000

(c) ₹ 4,50,000

(d) ₹ 5,00,000

(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)

As per Ind AS 103, Goodwill = Consideration + Non controlling Interest – Net assets

Here, Consideration = ₹ 1200000; Net Assets (fair value) = ₹ 900000. Value of non-controlling interest = 9,00,000×20% = ₹ 1,80,000

So, Goodwill = 12,00,000+1,80,000-9,00,000 = ₹ 4,80,000

(iv) (a)

Net assets = 2000 – 1000 = ₹ 1000 lakhs

Consideration = ₹ 900 lakhs

Non controlling interest = 40% of Net Assets = 40% of ₹ 1000 = ₹ 400

So, Goodwill = 900+400-1000 = ₹ 300 lakhs.

(v) (a)

As per Ind AS 103, the journal entry for recording non controlling interest is as follows:

Assets A/c……………. Dr.

To Consideration A/c

To Liabilities A/c

To Non Controlling Interest A/c

N.B. Any difference is to be attributed to either Goodwill A/c or Gain on Bargain Purchase A/c.

(vi) (b)

Net Assets (fair value) = 925 – 150 = ₹ 775 lakhs.

Fair value of the 20 per cent non controlling interest in P is ₹ 90 lakh.

Consideration = ₹ 600 lakhs.

Since (Consideration + Non controlling interest) < Net assets, there is gain on bargain purchase.

So, Gain on bargain purchase = 775 – 600 – 90 = ₹ 85 lakhs.

(vii) (b)

Total purchase consideration=Immediate payment + Fair value of contingent consideration = ₹ 50 + [2.5×+ 2.5×+ 2.5×₹ 56.215 lakhs.

3. Short Theoretical Questions on Ind AS 103.

(a) Under Acquisition Method, how will an acquirer recognize and measure the identifiable assets acquired, liabilities assumed and non-controlling interest in acquire?

(b) Under Acquisition Method, how will an acquirer recognize and measure the goodwill or gain on bargain purchase?

(c) How can the control of a business be acquired as per Ind AS 103?

(d) How can you measure consideration in case of business combinations under Ind AS 103?

Answer:

Under Acquisition Method the acquirer —

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

• Based on Recognition principle:

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

• Based on Measurement principle:

The acquirer shall measure the —

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

(b) Under Acquisition Method the acquirer shall recognise —

• Goodwill on the acquisition date as excess of (A) over (B) and

• Gain from bargain purchase as excess of (B) over (A) as stated below:

(A) The aggregate of

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

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

(c) Control of business can be obtained by —

(a) acquiring assets and assuming liabilities (such assets and liabilities must constitute a business, otherwise it is not a business combination).

(b) by acquisition of shares. or

(c) by other legal process.

N.B: If no NCI exists, recording be done in the financial statements of the Acquirer.

If NCI exists, recording be done in the consolidated financial statements of the Acquirer.

(d) Consideration transferred should be measured as per the requirement of Ind AS 103 as follows:

- The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.
- The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or a business of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognize the resulting gains or losses, if any, in profit or loss.
- Further, any items that are not part of the business combination be accounted separately from business combination (example: acquisition related costs)

- Contingent consideration (Obligation by the acquirer to transfer additional assets or equity interest, if specified future events occur or conditions are met), if any, should also be measured at fair value at acquisition date.

Sums solved as per AS 14:

4. The following are the Balance Sheets of A Ltd. and B Ltd. as on 31st December, 2011

Share Capital:

Liabilities	A Ltd. (₹)	B Ltd. (₹)	Assets	A Ltd. (₹)	B Ltd. (₹)
Share Capital:			Land and Building	6,00,000	3,50,000
Equity Shares of ₹ 10 each	5,00,000	2,00,000	Investment: 4,000 Shares in B Ltd.	 6,00,00	
10% Preference Share of ₹ 100	1,00,000	1,00,000	3,000 Shares in A Ltd.		80,000
Reserve and Surplus	2,00.000	1,50,000	Current Assets :		
12% Debentures	1,00.000	1,00,000	Stock	3,00,000	1,70,000
Current Liabilities:			Debtors	1,60,000	90,000
Sundry Creditors	3.40.000	1,60,000	Bills Receivable	50,000	10,000
Bills Payable	20,000	20,000	Cash at Bank	90,000	30,000
	12,60,000	7,30,000		12,60,000	7,30,000
Contingent Liability for Bill Discounted	20,000				

Land and Building of both the companies are to be revalued at 20% above book value. Both the companies are to pay 10% equity dividend, preference dividend having been already paid.

After the above transactions are given effect to, A Ltd. will absorb B Ltd., on the following terms:

(a) 6 Equity shares of ₹ 10 each will be issued by A Ltd. at par against 5 shares of B Ltd.

(b) 10% Preference shareholders of B Ltd. will be paid at 10% discount by issue of 11% preference shares of ₹ 100 each at par in A Ltd.

(c) 12% Debenture holders of B Ltd. are to be paid at 8% premium by 13% Debentures in A Ltd. issued at 10% discount.

(d) ₹ 20,000 is to be paid by A Ltd. to B Ltd., for liquidation expenses. Sundry Creditors of B Ltd. include ₹ 30,000 due to A Ltd., Bills receivable discounted by A Ltd. were all accepted by B Ltd.

Prepare: (1) Vendors Accounts and Investment Account and required journal in the books of A Ltd.

(2) Balance Sheet of A Ltd. after absorption.

Answer:

(1) In the books of A Ltd.

Dr. Vendors Account Cr.

Particulars	₹	Particulars	₹
To Equity Share Capital A/c	1,62,000	By Business Purchase A/c	2,52,000
To 11% Preference Share Capital A/c	90,000		
	2,52,000		**2,52,000**

Dr. Investment in B Ltd. Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	60,000	By Sundries (Cancellation on absorption)	60,000
	60,000		**60,000**

Working Notes:

(1) Number of Additional Shares to be issued by A Ltd.

Particulars	Nos.
No of shares in B Ltd. Less. Held by A Ltd.	20,000 4,000
Held by outside shareholders	16,000
No. of shares to be issued to outside shareholders (16000/5)*6	19,200
Less. Already held by B Ltd.	3,000
Additional shares to be issued	16,200

(2) Calculation of Purchase Consideration

Particulars	₹
(i) For outside Shareholders Equity Shares in A Ltd. of ₹ 10 each	1,62,000
(ii) For 10% Preference Shareholders 11% Preference Shares in A Ltd. of ₹ 100 each	90,000
	2,52,000

A Ltd.

Journal Entry **Dr.** **Cr.**

Date	Particulars	L.F	Amount	Amount
Dec.31 2011	Business Purchase A/c …………………Dr.		2,52,000	
	To Vendors A/c			2,52,000
	Land and Building A/C…………Dr		4,20,000	
	Stock A/C…………………………Dr		1,70,000	
	Debtors A/C………………………Dr		90,000	
	Bills Receivable A/C………………Dr		10000	
	Cash and Bank A/c………………Dr		13000	
	To 12% Debentures in B Ltd A/c			1,08,000
	To Sundry Creditors A/c			1,60,000
	To Bills Payables A/c			20,000
	To Business Purchase A/C			2,52,000
	To Investment in B Ltd A/c			60,000
	To Capital Reserve A/c			1,03,000
	Vendors A/c……………..Dr.		2,52,000	
	To Equity Share Capital A/c			162000
	To 11% Preference Share Capital A/c			90000
	12% Debentures in B Ltd. A/c…………Dr		1,08,000	
	Capital Reserve A/c……………………..Dr		12,000	
	To 13% Debentures A/c			1,20,000
	Capital Reserve A/c ……………Dr		20,000	
	To Bank A/c			20,000

Balance Sheet as at 31st December, 2011

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds :		
(a) Share Capital	(1)	8,52,000
(b) Reserves and Surplus	(2)	3,45,000
(c) Money Received against Share Warrants		
(2) Share Application Money Pending Allotment:		
(3) Non-current Liabilities:		
(a) Long-term Borrowings	(3)	2,20,000

(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 (d) Short-term Provisions	(4)	5,10,000
Total		19,27,000
Assets		
(1) Non-current Assets: (a) Fixed Assets (i) Tangible Assets (ii) Intangible Assets (iii) Capital Work-in-progress (iv) Intangible Assets under Development (b) Non-current Investments (c) Deferred Tax Assets (Net) (d) Long-term Loans and Advances (e) Other Non-current Assets	(5)	11,40,000
(2) Current Assets: (a) Current Investments (b) Inventories (c) Trade Receivables (d) Cash and Cash Equivalents (e) Short-term Loans and Advances (f) Other Current Assets	(6) (7) (8)	4,70,000 2,80,000 37,000
Total		1927000

Notes to Accounts:

(1) Share Capital	
66200 equity shares of ₹ 10 each	6,62,000
11% preference shares	90,000
10% preference shares	1,00,000
	8,52,000

(2) Reserve and Surplus	
Profit and loss account (200000 -50000+4000)	1,54,000
Capital reserve (103000 -12000-20000)	71,000
Revaluation Reserve	1,20,000
	3,45,000
(7) Trade Receivable	
Debtors	2,20,000
Bills receivable	60,000
	2,80,000

	Land and Building (5)	Stock (6)	Debtors	B.R	Bank	Creditors	B.P
Balance	6,00,000	3,00,000	1,60,000	50,000	24,000*	3,40,000	20,000
Taken over	3,50,000	1,70,000	90,000	10,000	13,000	1,60,000	20,000
	9,50,000	4,70,000	2,50,000	60,000	37,000	5,00,000	40,000
Add. Revaluation 20%	1,90,000						
Less. Mutual debt			30,000			30,000	
	11,40,000	4,70,000	2,20,000	60,000	37,000	4,70,000	40,000

* ₹ 90,000 (-) 50,000 Dividend (-) 20,000 Realisation exp.(+)Dividend from B Ltd. 24,000

5. B Ltd. and C Ltd. were competing companies both of which had incurred losses in recent year. Both companies were wound up and a new company A Ltd. was formed through the process of amalgamation to take over both the businesses.

The Balance Sheets of B Ltd. and C Ltd. immediately before their winding up were as follows:

Liabilities	B Ltd. (₹)	C Ltd. (₹)	Assets	B Ltd. (₹)	C Ltd. (₹)
Issued Capital: Shares of ₹ 10 each	**1,00,000**	**60,000**	**Goodwill**	**----**	**10,000**
Profit & Loss Account	**-**	**640**	**Patents**	**2,500**	**8,000**
Sundry Creditors	**18,560**	**8,310**	**Plant**	**40,000**	**21,000**
Bank Overdraft	**6,050**		**Furniture**	**4,600**	**3,280**
			Stock	**42,460**	**16,990**
			Debtors	**15,630**	**9,550**
			Cash	**—**	**130**
			Profit & Loss Account	**19,420**	**—**
	1,24,610	**68,950**		**1,24,610**	**68,950**

1. **A Ltd. took over the floating assets of both companies at book values (except the cash of C Ltd.) and the fixed assets at the following valuations:**

	B Ltd.	C Ltd.
Goodwill	1,000	1,000
Patents	500	2,000
Plant	27,000	11,000
Furniture	3,000	2,300

2. **The consideration for the assets of B Ltd. was satisfied by the issue of 1,200 10% Preference Shares of ₹ 10 each and ₹ 64,490 in Equity Shares of ₹ 10 each of A Ltd. and the balance by payment of cash.**

   For the assets of C Ltd., A Ltd. issued ₹ 10 equity shares of ₹ 34,300 and paid the balance by cash.

3. **The liquidator of B Ltd. transferred the Preference Shares to a loan creditor for ₹ 12,000 to discharge his claim and the equity shares were distributed Pro rata among the shareholders of each of the liquidating companies, the cash being just sufficient to satisfy the creditors of each company and the expenses of liquidation which had been ₹ 500 for B Ltd. and ₹ 300 for C Ltd.**

4. **In order to provide necessary cash, A Ltd. issued 100, 11% Debentures of ₹ 100 each at ₹ 95 each and 1,800 10% Preference Shares of ₹ 10 each at par. These were fully paid.**

Prepare the Opening Balance Sheet of A Ltd. Prepare statements showing cash positions (considering receipts and payments) of all the companies. Also show the Shareholders' A/C in the books of B and C Ltd.

Answer:

Notes:

1. For finding out cash positions, amounts received or paid by each company should be ascertained. For this purpose, at the least the Realization A/c and Creditors A/c [which have been discharged by the vendor companies] should be opened.
2. B Ltd. and C Ltd. discharged their creditors and paid liquidation expenses. B Ltd. had to pay off its own Bank Overdraft also.
3. Purchase consideration paid by cash by A Ltd. must be ascertained as this will be the starting point for making any other calculation.

4. Purchase consideration

	B Ltd. (₹)	C Ltd. (₹)
A. Take Over Basis		
Assets taken over:		
Goodwill	1,000	1,000
Patents	500	2,000
Plant	27,000	11,000
Furniture	3,000	2,300
Stock	42,460	16,990
Debtors	15,630	9,550
	89,590	42,840
B. Discharged By :		
10% Preference Shares (given)	12,000	—
Equity Shares (given)	64,490	34,300
Cash (Balancing Amount)	13,100	8,540
	89,590	42,840

5. **Books of B Ltd.**

Dr. Realization Account Cr.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Patents A/c -	2,500	By Creditors A/c (Discount)	108
" Plant A/c	40,000	" A Ltd. A/c	9,590
" Furniture A/c	4,600	(Purchase consideration)	
" Stock A/c	42,460	" Shareholders A/c (loss)	16,090
" Debtors A/c	15,630		
" Cash A/c (Liquidation expenses)	500		
	1,05,690		**1,05,690**

Dr. Creditors Account Cr.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To 10% Prefer. Sh. in A Ltd. A/c	12,000	By Balance b/f	18,560
" Cash A/c [Note 7]	6,550		
" Realization A/c (Disc. Reed)	10		
	18,560		18,560

6. **Books of C Ltd.**

Dr. **Realization Account** **Cr.**

Particulars	Amount. (₹)	Particulars	Amount (₹)
To Goodwill A/c	10,000	By A Ltd. A/c	42,840
Patents A/c	8,000	(Purchase consideration)	
Plant A/c	21,000	By Shareholders A/c (loss)	26,340
Furniture A/c	3,280		
Stock A/c	16,990		
Debtors A/c -	9,550		
Creditors A/c	60		
Cash A/c (Liquidation expenses)	300		
	69180		**69180**

Dr. **Creditors Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash A/c [Note 7]	8,370	By Balance b/f	8,310
		" Realization A/c (Loss)	60
	8,370		8,370

7. Statements of Cash Positions of B Ltd. and C Ltd.

	B Ltd. (₹)	C Ltd. (₹)
Balance Retained	-----	130
Cash Received out of Purchase consideration [Note 4]	13,100	8,540
	13,100	8,670
Less : Bank Overdraft	6,050	-----
	7,050	8,670
Less : Liquidation Expenses	500	300
Amounts paid to creditors	6,550	8,370

8. Statement of Cash Position of A Ltd.

Particulars	Amount (₹)	Amount (₹)
A. Amount Received :		
Issue of 10% Preference Shares	18,000	
Issue of 11% Debentures [100 x ₹ 95]	9,500	27,500
B. Amounts Paid:		
B Ltd. [Note 4]	13,100	
C Ltd. [Note 4]	8,540	21,640
Balance		5,860

Balance Sheet of A Ltd. as at……………

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
Share Capital	1	
2. Share Application Money Pending Allotment		—
3. Non-Current Liabilities		
Long-term Borrowings	2	10,000
4. Current Liabilities		—
Total		1,38,790
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	3	43,300
(ii) Intangible Assets	4	4,500
(b) Other Non-Current Assets	5	500
2. Current Assets		
(a) Inventories (Stock)		59,450
(b) Trade Receivables		25,180
(c) Cash and Cash Equivalents		5,860
Total		1,38,790

Notes to Accounts:

	₹	₹
1. Share Capital		000
Authorized Capital		
Issued and Subscribed Capital		
9,879 Equity Shares of ₹ 10 each fully paid	98,790	
3,000, 10% Preference Shares of ₹ 10 each issued as fully paid for consideration other than cash	30,000	
2. Long-term Borrowings		
11% Debenture		10,000
3. Tangible Assets		
Plant	38,000	
Furniture	5,300	
		43,300
4. Intangible Assets		
Goodwill	2,000	
Patents	2,500	
		4,500
5. Other Non-Current Asset		
Debenture Discount		500

Note: Debenture Discount may be set off aganist Securities Premium Account. But there is no Securities Premium in this problem. So it has to be amortised. If any amount is to be amortised within 12 months from the Current Balance Sheet, that should be shown as 'Other Current Asset'. But if the amortisation is to be made not within next 12 months, it should be shown as 'Other Non-Current Asset'. Here it has been assumed that the amortisation will be made after 12 months.

6. A Ltd. and B Ltd. were merged into AB Ltd. when their Balance Sheets stood as follows:

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Eq. Sh. Capital (₹ 10)	3,00,000	2,00,000	Investments	1,20,000	25,000
Securities Premium	15,000	10,000	Goodwill	30,000	10,000
General Reserve	20,000	10,000	Buildings	1,00,000	50,000
Profit & Loss A/c	50,000	—	Plant	2,00,000	1,00,000
Debenture Redemption Fund	40,000	—	Furniture	10,000	5,000
10% Debenture	1,00,000	—	Stock	85,000	45,000
Provident Fund (Employees)	30,000	20,000	Debtors	90,000	60,000
Depreciation Fund	40,000	20,000	Cash at Bank	50,000	20,000
Sundry Creditors	1,00,000	60,000	Preliminary Expenses	10,000	2,000
			Profit & Loss A/c	—	3,000
	6,95,000	3,20,000		6,95,000	3,20,000

The terms of amalgamation were as follows:

For A Ltd.:

1. **Equity Shareholders were issued 6 Equity Shares of ₹10 each of AB Ltd. issued at 10% Premium and 5, 6% Preference Shares of ₹ 10 each at par of AB Ltd, against surrender of every 10 equity shares.**
2. **AB Ltd. would take over Debentures, Creditors and Provident Fund liabilities.**
3. **A Ltd. would retain ₹ 5,000 out of its Bank balance of meeting its liquidation expenses and its Building would be valued at ₹ 1,00,000.**
4. **Before amalgamation, A Ltd. would declare and pay dividend at 10%.**

For B Ltd.:

1. **Goodwill to be valued at Nil.**
2. **Its liquidation expenses ₹ 3,000 are to be borne by AB Ltd.**
3. **Its assets to be revalued as stock ₹ 40,000, Investments ₹ 15,000 and Debtors ₹ 50,000, Other Assets and Liabilities being considered at their book values.**
4. **Equity Shareholders were issued Equity Shares of ₹10 each at par.**

AB Ltd. paid formation expenses ₹ 10,000 and issued 10,000 Equity Shares of ₹10 each at 10% Premium for cash. A Ltd. sold out one-fourth of the Equity Shares received from AB Ltd. at ₹12 per share for cash.

You are required to:

1. **Give the Journal Entries and the Opening Balance Sheet of AB Ltd.**

Answer:

Notes:

1. For A Ltd. the total payments made by AB Ltd. are given. As such the net assets taken over may or may not be separately calculated, Goodwill/Capital Reserve if any, arising from the payments, shall be found out as a balancing amount.

   For B Ltd. the takeover basis must be shown as requisite number of Equity Shares issued by AB Ltd. is to be found from that.

2. A Ltd. declared and paid 10% dividend on ₹ 3,00,000 before amalgamation. As a result its Profit & Loss A/c Balance and Cash at Bank should be taken as reduced by ₹ 30,000 each.

3. Liquidation expenses have been paid by A Ltd. out of amount retained out of Bank Balance. In case of B Ltd. such expenses are borne by AB Ltd.

4. **Calculation of Purchase Consideration.**

   (a) Payments made to A Ltd.

	Number	Rate ₹	Value ₹
Equity Shares in exchange of Equity Shares	6/10 x 30,000 = 18,000 Sh.	11	1,98,000
6% Prefer. Sh. in exchange of Equity Shares	5/10 x 30,000 = 15,000 Sh.	10	1,50,000
			3,48,000

   (b) Net Assets taken over from B Ltd.

	₹	₹
Total Assets taken over:		
Buildings	50,000	
Plant	1,00,000	
Furniture	5,000	
Stock	40,000	
Debtors	50,000	
Cash at Bank	20,000	
Investments	15,000	2,80,000
Less: Provident Fund	20,000	
Sundry Creditors	60,000	80,000
Payable by shares of ₹ 10 each		2,00,000
Add : Liquidation Expenses borne in Cash		3,000
		2,03,000

5. Profit and Loss A/C = ₹ 50,000 – Dividend ₹ 30,000 = ₹ 20,000

   Bank balance transferred = ₹ 50,000 – Dividend ₹ 30,000 – Retained ₹ 5,000 = ₹ 15,000

6. One-fourth of the equity shares received from AB Ltd. were sold for ₹ 12 each.

   Sale proceeds = ¼ ×18,000×12 = ₹ 54,000; Profit on sale = ¼ ×18,000×1 = ₹ 4,500

Books of AB Ltd.

Journal Entries

Date	Particulars		L.F	Dr. Amount	Cr. Amount
	Buildings A/c	Dr.		1,50,000	
	Plant A/c	Dr.		2,00,000	
	Furniture A/c	Dr.		10,000	
	Stock A/c	Dr.		85,000	
	Debtors A/c	Dr.		90,000	
	Investments A/c	Dr.		1,20,000	
	Bank A/c	Dr.		15,000	
	To Provident Fund A/c				30,000
	" Sundry Creditors A/c				1,00,000
	" 10% Debenture A/c				1,00,000
	" Liquidator of A Ltd. A/c				3,48,000
	" Capital Reserve A/c (Bal. Amt.)				92,000
	[Sundry assets and liabilities taken over from A Ltd. for amalgamation]				
	Liquidator of A Ltd. A/c	Dr.		3,48,000	1,80,000
	To Equity Share Capital A/c				18,000
	" Share Premium A/c				1,50,000
	" 6% Preference Share Capital A/c				
	[Purchase consideration discharged by issue of 6% Preference Shares and Equity Shares as per agreement]				
	Buildings A/c	Dr.		50,000	
	Plant A/c	Dr.		1,00,000	
	Furniture A/c	Dr.		5,000	
	Stock A/c	Dr.		40,000	
	Sundry Debtors A/c	Dr.		50,000	
	Bank A/c	Dr.		20,000	
	Investments A/c	Dr.		15,000	
	To Provident Fund A/c				
	" Sundry Creditors A/c				20,000
	" Liquidator of B Ltd. A/c				60,000
	[Sundry Assets and liabilities taken over from B Ltd. for amalgamation]				2,00,000
	Liquidator of B Ltd. A/c	Dr.		2,00,000	2,00,000
	To Equity Share Capital A/c				
	[Purchase consideration satisfied by issue of shares]				
	Bank A/c	Dr.		1,10,000	1,00,000
	To Equity Share Capital A/c*				10,000
	" Share Premium A/c				

	[10,000 Shares of ₹ 10 each issued at 10% premium as per Board's Resolution No... dated....]			
	Preliminary Expenses A/c Dr. To Bank A/c [Formation expenses paid]		10,000	10,000
	Goodwill A/c Dr. To Bank A/c [Expenses of B. Ltd. paid]		3,000	3,000

Balance Sheet of AB Ltd. as at...............

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
Share Capital	1	6,30,000
Reserve and Surplus	2	1,07,000
2. Share Application Money Pending Allotment		
3. Non-Current Liabilities		
Long-term Borrowings	3	1,00,000
4. Current Liabilities	4	2,10,000
Total		10,47,000
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets	5	5,15,000
(i) Tangible Assets		
(ii) Intangible Assets	6	1,35,000
(b) Non-Current Investment	7	3,97,000
2. Current Assets		
Total		10,47,000

Notes to Accounts:

	₹	₹
1. Share Capital		000
Authorized Capital		
Issued and Subscribed Capital		
48000 Equity Shares of ₹ 10 each fully paid	4,80,000	
15,000, 6% Preference Shares of ₹ 10 each issued as fully paid	1,50,000	
		6,30,000

2. Reserve and Surplus Capital Reserve (92000 – Set off 3000- Prel. Exp. 10000) Share Premium	79,000 28,000	
		1,07,000
3. Long-term Borrowings 10% Debenture		1,00,000
4. Current Liabilities S. Creditors Provident Fund	 1,60,000 50,000	
		2,10,000
5. Tangible Assets Buildings (150000+50000) Plant (200000+100000) Furniture (10000+5000)	 2,00,000 3,00,000 15,000	
		5,15,000
6. Non-current Investment (120000 + 15000)		1,35,000
7. Current Asset Stock (85000 + 40000) Debtors (90000 + 50000) Bank (15000 + 20000 + 110000 - 10000 - 3000)	 1,25,000 1,40,000 1,32,000	
		3,97,000

7. Bright Ltd. acquired the business of Clumsy Ltd. on 31st March, 2017 when the Balance Sheets of the two companies stood as:

Liabilities	Bright Ltd. (₹)	Clumsy Ltd. (₹)	Assets	Bright Ltd. (₹)	Clumsy Ltd. (₹)
Share Capital:			**Fixed Assets**	**500000**	**50000**
5,000 Equity Shares of ₹ 100 each fully paid	**5,00,000**	**----**	**Inventories**	**250000**	**50000**
2,000 Equity Shares of ₹ 50 each fully paid		**1,00,000**	**Cash and Bank**	**100000**	**50000**
Reserves and Surplus	**300000**	**25000**			
Sundry Creditors	**50000**	**25000**			
	850000	**150000**		**850000**	**150000**

The shares of the companies quoted at the stock exchange on that date were: Bright Ltd. ₹ 160 and Clumsy Ltd. ₹ 45 per share. The terms of absorption were:

1. **Bright Ltd. to take over all assets and liabilities from Clumsy Ltd. except Cash and Bank balances;**
2. **The assets of Clumsy were considered 90% worth their book values;**

3. **Bright Ltd. would issue one equity share at market value for 5 Equity Shares of Clumsy Ltd. and pay the balance by cash.**
4. **On acquisition of the business of Clumsy Ltd. bonus shares would be issued in the ratio of one share for every two shares held.**
5. **The authorised Share Capital of Bright Ltd. would go up to ₹ 10,00,000 in shares of ₹ 100 each.**
6. **The balance of unissued shares to be issued at 40% premium.**
7. **The sundry creditors would be discharged in full out of collections made.**

Assuming that, all these arrangements were duly made, prepare the Balance Sheet of Bright Ltd.

Answer:

Working Notes:

1. Calculation of Purchase Consideration

	₹
A. Take Over Basis:	
Sundry Assets taken over [90% of (₹ 50,000+50,000)]	90,000
Less : Liabilities taken over	25,000
	65,000

B. Payment Basis :	
Issue of Shares in exchange of Shares	64,000
[No. of Shares = 1/5 x2,000, Value = 400 x 160]	
Less : Settlement by cash (Balance)	1,000
	65,000

2. Share Capital-structure of Bright Ltd. (after absorption)

Descriptions	Authorised	Issued as Purchase Consideration	Issued as Bonus	Existing	Issued for Cash	Remarks
No. of Shares	10,000 x ₹ 100	400 X ₹ 100	½ of 5,400 = 2,700 x ₹ 100	5,000 X ₹100	10,000-8,100 = 1,900 x ₹ 100	
Amount of Capital	10,00,000	40,000	2,70,000	5,00,000	1,90,000	
Share Premium		400 x ₹ 60 = 24,000	—	—	1,900x ₹ 40 = 76,000	Total Premium = 1,00,000
Total	10,00,000	64,000	2,70,000	5,00,000	2,66,000	1,00,000

3. Final Position of Cash and Bank balances of Bright Ltd.

	₹	₹
Balances as per last Balance Sheet		1,00,000
Add : Proceeds of share issue [Note 2]		2,66,000
		3,66,000
Less : Paid as Purchase Consideration [Note 1]	1,000	
Creditors paid off (as per instruction)	75,000	76,000
Balance to be taken to new Balance Sheet		2,90,000

Balance Sheet of Bright Ltd. as at 1st April 2017

Particulars	**Note No.**	**Amount (₹)**
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
Share Capital	1	10,00,000
Reserve and Surplus	2	1,30,000
2. Share Application Money Pending Allotment		
3. Non-Current Liabilities		
Long-term Borrowings		
4. Current Liabilities		
Total		
		11,30,000
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	3	5,45,000
(ii) Intangible Assets		
(b) Other Non-Current Assets		
2. Current Assets	4	5,85,000
Total		11,30,000

Notes to Accounts:

	₹	₹
1. Share Capital		000
Authorized Capital		
Issued and Subscribed Capital		
10000 Equity Shares of ₹ 100 each fully paid		
		10,00,000
2. Reserve and Surplus	30,000	
General Reserve (300000 – Bonus Dividend 270000)	1,00,000	
Share Premium (Note 2)		

		1,30,000
3. Tangible Assets Fixed Asset (500000+90% of 50000)		5,45,000
7. Current Asset Stock (250000+ 90% of 50000) Cash at Bank (Note 3)	2,95,000 2,90,000	
		5,85,000

8. The Balance Sheets of Melody Ltd. and Symphony Ltd. as on 31st March, 2014 were as follows:

Liabilities	Melody Ltd. (₹)	Symphony Ltd (₹)	Assets	Melody Ltd. (₹)	Symphony Ltd (₹)
Share Capital (Shares of ₹ 10 each)	**2,00,000**	**1,00,000**	**Plant & Machinery**	**80,000**	**40,000**
Profit & Loss Account	**60,000**	**30,000**	**Furniture & Fittings**	**40,000**	**15,000**
Sundry Creditors	**40,000**	**70,000**	**Investments**		
			200 shares of Symphony Ltd.	**25,000**	**---**
			100 shares of Melody Ltd.	**---**	**12,000**
			Stock	**70,000**	**40,000**
			Debtors	**65,000**	**73,000**
			Cash at Bank	**20,000**	**20,000**
	3,00,000	**2,00,000**		**3,00,000**	**2,00,000**

The two companies agreed to amalgamate on the following terms:

1. **A new company is to be formed called Orchestra Ltd. The nominal value of shares of this company should be ₹ 10 each.**
2. **The Goodwill of the liquidating companies are to be valued as Melody Ltd. ₹ 50,000 and Symphony Ltd. ₹25,000.**

Prepare the Balance Sheet of Orchestra Ltd. immediately after the merger. Necessary calculations regarding mutual shareholdings are to be shown clearly.

Answer:

Points to be noted:

1. The purchase considerations are to be based on net assets.

2. As each company holds some shares of the other company, its value of the net assets is influenced by the value of net assets of the other company.

Working Notes:

1. Net Assets [Excluding inter-company investments]

	Melody Ltd. ₹	Symphony Ltd, ₹
Total Assets taken over :		
Goodwill	50,000	25,000
Plant and Machinery	80,000	40,000
Furniture & Fittings	40,000	15,000
Stock	70,000	40,000
Debtors	65,000	73,000
Bank	20,000	20,000
	3,25,000	2,13,000
Less : Sundry Creditors	40,000	70,000
Net Assets	2,85,000	1,43,000

2. **Net worth** (including inter-**company investments)**

Melody Ltd. holds 200 shares out of 1,000 shares of Symphony Ltd. So, Rate of Shareholding = 200/1000 = 1/5

Similarly, Symphony Ltd. holds 100 out of 2,000 shares of Melody Ltd. So, Rate of shareholding =1/20

Net worth of Melody Ltd. = ₹ 2,85,000 + 1/5 th of the net worth of Symphony Ltd. and

Net worth of Symphony Ltd. = ₹ 1,43,000 + 1/20 th of the net worth of Melody Ltd-

Now, if net worth is denoted by x and y respectively for Melody Ltd. and Symphony Ltd., we may write that

x = 2,85,000 +1/5 of y……………..(i)

and y = 1,43,000 +1/20 of x………………(ii)

Solving the above simultaneous equations, we get, x = ₹ 316768 and y = ₹ 158838

3. Value of shares to be issued to outside shareholders:

Melody Ltd. = For 1,900 shares out of 2,000 shares = 3,16,768 x 19/20 = 3,00,930

Symphony Ltd. = For 800 out 1,000 shares = 1,58,838 x 8/10 = 1,27,070

So, Shares to be issued

To Melody Ltd. = 300930/10 = 30093

and To Symphony Ltd. = 127070/10 = 12707

Total Shares issued = 30093+12707 = **42,800**

Balance Sheet of Orchestra Ltd. as at April 1, 2014

Particulars	Note No.	Amount
EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	4,28,000
(b) Reserves & Surplus		
2. **Share** Application **Money Pending Allotment**		
3. **Non-Current Liabilities**		
4. **Current Liabilities** (a) Trade Payables	2	1,10,000
Total		
II. ASSETS		
1. Non-Current Assets (a) Fixed Assets (i) Tangible Assets (ii) Intangible Assets	 3 4	 1,75,000 75,000
***2.* Current Assets**		
(a) Inventories	5	1,10,000
(b) Trade Receivables	6	1,38,000
(c) Cash and Cash Equivalents	7	40,000
Total		

Notes to Accounts:

1. Share Capital		
Authorised Capital		000
Issued and Subscribed Capital		
42,800 Equity Shares of ₹ 10 each		4,28,000
(All these shares have been allotted as fully paid for consideration other than cash)		
2. Trade Payable - Sundry Creditors		1,10,000
3. Tangible (Fixed) Assets Plant & Machinery Furniture & Fittings	 1,20,000 55,000	 1,75,000
4. Intangible (Fixed) Assets		
Goodwill		75,000
5. Inventories		
Stock-in-Trade		1,10,000
6. Trade Receivables Debtors		1,38,000
***7.* Cash and Cash Equivalents**		
Cash at Bank		40,000

9. 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

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

M/s X Ltd (and Reduced)

Balance Sheet as at 31st December, 2012

Particulars	Note	₹
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds:		
(a) Share Capital	(1)	6,70,000
(b) Reserves and Surplus		
(c) Money Received against Share Warrants		
(2) Share Application Money Pending Allotment:		
(3) 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
II. ASSETS		
(1) Non-current Assets:		
(a) Fixed Assets		
(i) Tangible Assets	(3)	4,20,000
(ii) Intangible Assets		
(iii) Capital Work-in-progress		
(iv) Intangible Assets under Development		
(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

Notes to Accounts:

(1) 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
50,000.8% Preference Shares of ₹ 10 each	5,00,000
	6,70,000

(2) Other Current Liabilities

Particulars	₹
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

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

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) 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. acquired 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) RS. 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)

Cost of investment	6,00,000
Less. Face value of shares (16000×10)	1,60,000
Less. share of capital profit (242000+320000-70000)×16000/20000	3,93,600
Goodwill	46,400

(ii) (a)

Minority Interest

Face value of 20% of shares	1,60,000
Share of capital profit (80000+120000+215000-40000)×20%	75,000
	23,5,000

(iii) (c)

Unrealized profit on stock = 80000×25% = Rs. 20000

(iv) (b)

Cost of investment	2,00,000
Less. Face value of shares (250000×2000/2500)	2,00,000
Less. share of capital profit	56,000
Capital reserve	56,000

(v) (a)

Minority Interest

Face value of 40% of shares	40,000
Share of capital profit (300000+100000)×40%	160,000
	2,00,000

(vi) (a)

According to AS 23, investment in associates is accounted for under Equity method.

(vii) (a)

According to AS 23, investor's share in post acquisition profit of the associate is reduced from the carrying amount of investment.

(viii) (c)

As per AS 27, a separate legal entity is created only in case of Jointly Controlled Entities

(ix) (c)

As per AS 27, jointly controlled entities must prepare separate financial statements.

QUESTIONS BASED ON IND AS

2. 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 not true as per Ind AS 105?

(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) As per Ind AS 110, 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) As per Ind AS 112, an entity needs to disclose its interest in

(a) Subsidiaries

(b) Joint arrangements (i.e. joint operations and joint ventures)

(c) Associates

(d) All of the above

(vii) 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.

(viii) 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) (d)

(viii) (b)

3. Short Theoretical Questions on Ind AS

(a) Write a short note on: Fair Value as per Ind AS 113

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is a market-based measurement, not an entity-specific measurement. The use value or entry value to the entity is not relevant; rather the exit value in the market is important. It is the exit price to the holder of asset or bearer of liability. That exit price may be directly observed in the market or it may be estimated from the market information or by using a valuation technique. Fair value in any circumstance remains to be the exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Thus, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

(b) How will you measure the fair value of a transaction?

As per Ind AS 113, the transaction of exchange of the asset or liability is not an actual but an assumed transaction. It is required that the transaction must be an orderly transaction (it is not a forced transaction, forced liquidation or distress sale).

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.

In the absence of evidence to the contrary, the market in which the entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

(a) If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

(b) The principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity.

The **market participants** are assumed to act in their economic best interest.

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.*

(c) Write a short note on: Fair Value Hierarchy

Ind AS 113 establishes a fair value hierarchy that categorises into three levels of the inputs to valuation techniques for measuring fair value.

(i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

(ii) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

(iii) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (*Level 3 inputs).*

(d) Discuss the disclosure requirement w.r.t. non-controlling interest as per Ind AS 112.

An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:

(i) the name of the subsidiary.

(ii) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.

(iii) the proportion of ownership interests held by non-controlling interests.

(iv) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.

(v) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.

(vi) accumulated non-controlling interests of the subsidiary at the end of the reporting period.

(vii) summarised financial information about the subsidiary.

(e) Write a short note on: Types of joint arrangements as per Ind AS 111

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

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

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

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

(f) Discuss the items a joint operator shall recognize in relation to its interest in a joint operation.

A joint operator shall recognise in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;

(b) its liabilities, including its share of any liabilities incurred jointly;

(c) its revenue from the sale of its share of the output arising from the joint operation;

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expenses incurred jointly.

(g) Discuss the consolidation procedure as per Ind AS 110

Consolidated financial statements:

(a) combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.

(b) offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary (Note that Ind AS 103 explains how to account for any related goodwill).

(c) eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements.

An entity shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The entity shall also attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Note: Thus, measurement for Goodwill/ Bargain Purchase is done as per Ind AS 103 at the time of acquirement of control. However, the measurement of Non-Controlling Interest is done on the date of consolidation.

(h) When shall an entity classify a non-current asset as held for sale as per Ind AS110? When shall an entity classify a non-current asset as held for distribution to owners?

An entity shall classify a non-current asset (or disposal group) **as held for sale** if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

To qualify for classification as held for sale, a non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups). A non-current asset (or disposal group) is available for immediate sale if an entity currently has the intention and ability to transfer the asset (or disposal group) to a buyer in its present condition.

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

(i) What do you mean by the term 'significant influence' as per Ind AS 28? What is 'equity method'?

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power (or currently exercisable potential voting rights) of the investee, it is presumed that the entity has significant influence.

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

(j) Discuss the requirement of preparing a separate financial statement as per Ind AS 27?

A company shall prepare financial statements for every financial year as required by law. A **parent** company in a group of companies shall prepare **consolidated financial statements** as per Ind AS 110, and further it shall prepare **separate financial statements** as per Ind AS 27. A company having investments in associates or joint ventures prepares financial statements using **equity method** of accounting as per Ind AS 28; in addition it shall also prepare separate financial statements as per Ind AS 27.

Thus a company presenting consolidation or applying equity method shall in addition present separate financial statements. A company exempted from consolidation or from applying equity method may prepare separate financial statements as its only financial statements.

PROBLEMS SOLVED BASED ON AS

4. **A Ltd. is a holding company and B Ltd. and C Ltd. are subsidiaries of A Ltd. Their summarized Balance Sheets as on 31.12.2013 are given below:**

(Amount in ₹)

Liabilities	A Ltd	B Ltd	C Ltd	Assets	A Ltd	B Ltd	C Ltd
Share Capital	3,00,000	3,00,000	1,80,000	Fixed Assets	60,000	1,80,000	1,29,000
Reserves	1,44,000	30,000	27,000	Investments:			
Profit and Loss	48,000	36,000	27,000	Shares in B Ltd	2,85,000		
Account				Shares in C Ltd.	39,000	1,59,000	
Sundry				Stock in Trade	36,000		
Creditors	21,000	15,000		Sundry Debtors	78,000	63,000	96,000
C Ltd. Balance	9,000			B Ltd. Balance	24,000		
A Ltd. Balance		21,000		A Ltd. Balance			9,000
	5,22,000	4,02,000	2,34,000		5,22,000	4,02,000	2,34,000

The following particulars are given:

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

(ii) **A Ltd. held 24,000 shares of B Ltd. and 3,000 shares of C Ltd.**

(iii) **B Ltd. held 12,000 shares of C Ltd.**

(iv) **All these investments were made on 30.06.2013.**

(v) **On 31.12.2012, the position was as shown below:**

(Amount in ₹)

	B Ltd	C Ltd
Reserve	24,000	22500
Profit & Loss Account	12,000	9,000
Sundry Creditors	15,000	3,000
Fixed Assets	1,80,000	129000
Stock in trade	12,000	106500
Sundry Debtors	144000	99000

(vi) **The whole of stock in trade of B Ltd. as on 30.06.2013 ₹12000 was later sold to A Ltd. for ₹ 13200 and remained unsold by A Ltd. as on 31.12.2013.**

(vii) **Cash in transit from B Ltd. to A Ltd. was ₹ 3,000 as at the close of the year.**

You are required to prepare a Consolidated Balance Sheet of A Ltd. and its subsidiaries B Ltd. and C Ltd. as at 31.12.2013.

Answer:

Consolidated Balance Sheet of A Ltd. with subsidiaries B Ltd. And C Ltd. (As an 31st March, 2014)

Particulars		Note No.	Amount (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(a) Share Capital		1	3,00,000
(b) Reserves and Surplus		2	2,10,915
(C) Minority Interest			1,13,460
(2) Current Liabilities			
(a) Sundry Creditor (21,000 + 15,000)			36,000
(b) Inter Co. Debt	30,000		
Contra	(30,000)		
Total			**6,60,375**
II. ASSETS			
(1) Non Current Assets			
(a) Fixed Assets		3	3,69,000
(b) Goodwill		4	16,575
(2) Current Assets			
(a) Stock (36,000-Unrealised Profit i.e. 1,200)			34,800
(b) Sundry debtor			2,37,000
(c) Cash in Transit			3,000
Total			**6,60,375**

[Relevant Notes]

Note No: 1. Share Capital (₹)	
Authorized, Issued, Subscribed and Paid-up Share Capital:-	
30,000 Equity Shares of ₹10 Each	3,00,000
Total	**300000**
Note No: 2. Reserves and Surplus	
Reserves	147975
Profit & Loss A/c	62940
Total	**210915**
Note No: 3. Tangible Assets	
Fixed Assets	369000
Total	**369000**
Note No: 4. Intangible Assets	
Goodwill	16575
Total	**16575**

Working Notes:

(i) Position on 30.06.2013 (Amount in ₹)

	B Ltd.		C Ltd.	
Reserves P & L A/c Reserves P & L A/c				
Balance as on 31.12.2013	30,000	36,000	27,000	27,000
Less: Balance as on 31.12. 2012	24,000	12,000	22500	9,000
Increase during the year	6,000	24,000	4500	18,000
Estimated increase for half year	3,000	12,000	2250	9,000
Balance as on 30.06.2013	27,000	24,000	24750	18,000

(ii) Analysis of Profit of C Ltd. (Amount in ₹)

	Capital Profit	Revenue Reserve	Revenue Profit
Reserve on 30.06.2013	24,750		
Profit and Loss A/c on 30.06.2013	18,000		
Increase in reserves		2,250	
Increase in profit			9,000
Total	42,750	2,250	9,000
Less: Minority Interest (1/6)	7,125	375	1500
Balance	35,625	1,875	7,500
Shares of A Ltd. (1/6)	7,125	375	1,500
Shares of B Ltd. (4/6)	28,500	1,500	6,000

(iii) Analysis of Profit of B Ltd. (Amount in `)

	Capital Profit	Revenue Reserve	Revenue Profit
Reserve on 30.06.2013	27,000		
Profit and Loss A/c on 30.06.2013	24,000		
Increase in reserves		3,000	
Increase in profit			12,000
Share in C Ltd.		1,500	6,000
Total	51,000	4,500	18,000
Less: Minority Interest (1/5)	10,200	900	3,600
Shares of A Ltd. (4/5)	40,800	3,600	14,400

(iv) Cost of Control (Amount in ₹)

	₹	₹
Investment in B Ltd.	2,85,000	
C Ltd.	1,98,000	
Less: Paid up value of investment in		4,83,000
B Ltd.	2,40,000	
C Ltd	1,50,000	
Less: Capital profits in		(3,90,000)
B Ltd.	40,800	
C Ltd.	35,625	
		(76,425)
Goodwill		16,575

(v) Minority Interest (Amount in ₹)

	₹	₹
Share Capital:		
B Ltd.	60,000	
C Ltd.	30,000	
		90,000
Share of profit and reserve (pre and post acquisition)		
B Ltd.	14,700	
C Ltd.	9,000	23,700
Less: Provision for unrealized profit (20% of 2,400)		(240)
		1,13,460

(vi) Reserves A Ltd.

	₹
Balance as on 31.12. 2013	1,44,000
Shares in - B Ltd.	3,600
C Ltd.	375
Total	**1,47,975**

(vii) Profit and Loss A/c A Ltd.

	₹
Balance as on 31.12. 2013	48,000
Share in — B Ltd.	14400
C Ltd.	1500
Total	**63900**
Provision for Unrealized profit on stock: [80% of (26,400 - 24,000)]	960
Total	**62940**

5. The Balance Sheet of B Ltd., S Ltd. and L Ltd. as at 1st March, 2013 are given below:

	B Ltd.	S Ltd.	L Ltd.
Equity and Liabilities			
Shareholders' Funds			
Share Capital			
Equity Shares of ₹ 10 each, fully paid up	1,00,000	50,000	30,000
Reserves and Surplus			
General Reserve	30,000	25,000	20,000
Profit and Loss A/c	25,000	20,000	15,000
Current Liabilities			
Trade Payables	17,500	15,000	20,000
B Ltd.		7,500	2,500
Total	1,72,500	1,17,500	87,500
Assets			
Non-current Assets			
Tangible Assets			
Plant and machinery	40,000	55,000	57,500
Non-current investments (at cost)			
Equity shares in S Ltd.	45,000		
Equity shares in L Ltd.	20,000	30,000	
Current Assets			
Inventories	30,000	17,500	17,500
Trade receivables	17,500	10,000	7,500
S Ltd:	9,000		
L Ltd.	3,500		
Cash and cash equivalents	7,500	5,000	5,000
Total	1,72,500	1,17,500	87,500

(i) B Ltd. held 4000 shares of S Ltd. and 1800 shares of L Ltd.

(ii) S Ltd. held 1800 shares of L Ltd.

(iii) All investments were made on July 2012

(iv) The following balances were there on July 2012:

	S Limited	L Limited
Reserve	12,500	7,500
Profit and Loss A/c	15,000	12,500

(v) S Ltd. invoiced goods to B Ltd. at cost + 25% in December 2012. The closing stock of B Ltd. includes goods with invoice value ₹ 3,000.

(vi) L Ltd. sold to S Ltd. an equipment costing ₹ 12,000 at a profit of 25% on selling price on January 2013.

Depreciation at 10% p.a. was provided by S Ltd. on this equipment.

(vii) B Ltd. proposes dividend at 10%.

Prepare the Consolidated Balance Sheet of the group as at 31 March 2013 by the direct approach. Workings should form part of the answer.

Answer:

(a) Consolidated Balance Sheet of B Ltd. and its subsidiaries S Ltd. and L Ltd. as at 31st March, 2013

Notes to Accounts: Note -1: Share Capital

Reconciliation of Share Capital For Enquiry Share

	Particulars	**Note No.**	**Amount (₹ in Lakhs)**
1.	Equity and Liabilities		
	(a) Share Capital	1	1,00,000
	(b) Reserves and Surplus	2	78,710
	1. Minority Interest (W.N. 4)		26,790
	2. Current Liabilities		
	(a) Trade payables	3	52,500
	(b) Short- term provisions	4	10,000
	Total (1 +2 + 3)		2,68,000
II.	Assets		
	1. Non- Current Assets		
	Fixed Assets		
	- Tangible Assets	5	1,48,600
	2. Current Assets		
	(a) Inventories	6	64,400
	(b) Trade receivables	7	35,000
	(c) Cash and cash equivalents	8	17,500
	(d) Other current assets	9	2,500
	Total (1 +2)		2,68,000

Notes to Accounts:

Note -1: Share Capital

	As on 31st March, 2013 (₹)
Authorized, Issued, Subscribed and paid-up Share capital: 10,000 Equity Shares of ₹ 10 each fully paid	1,00,000
Total	1,00,000

Reconciliation of Share Capital

For Enquiry Share

	As at 31st March, 2013	
	Nos.	**Amount (₹)**
Opening Balance as on 01 .04.12	10,000	1,00,000
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share		
issued other than cash)		
Less: Buy Back of Share		
Total	**10,000**	**1,00,000**

Note 2. Reserve & Surplus

	As on 31st March, 2013
Capital Reserve (W.N. 3)	12,000
Revenue Reserve (W.N. 7)	49,750
Profit and Loss A/c (W.N. 6)	16,960
Total	**78,710**

Note 3. Trade Payables

	As on 31st March, 2013
Sundry Creditors (17,500 + 15,000 + 20,000)	52,500
Total	52,500

Note 4. Short -term provisions

	As on 31st March, 2013
Proposed dividend	10,000
Total	**10,000**

Note 5. Tangible Assets

		As on 31st March, 2013
Fixed Assets less depreciation — B Ltd.	40,000	
S Ltd.	55,000	
L Ltd.	57,500	
		1,52,500
Less: Unrealised Profit (W.N. 5)		3,900
Total		**1,48,600**

Note 6. Inventories

	As on 31st March, 2013
Stock (30,000 + 17,500 + 17,500)	65,000
Less: Unrealised Profit	600
Total	**64,400**

Note 7. Trade Receivables

	As on 31st March, 2013
Debtors (more than six months considered good)- (17,500+ 10,000+ 7,500)	35,000
Total	**35,000**

Note 8. Cash and Cash equivalents

	As on March, 31st 2013
Cash and Bank Balance (7,500 + 5,000 + 5,000)	17,500
Total	**17,500**

Note 9. Other Current Assets

	As on March, 31st 2013
Bills receivables — (9,000 + 3,500)	12,500
Less.: Mutual debts (7,500 + 2,500)	10,000
Total	**2,500**

Working Notes:

1. Analysis of Profit of L Ltd.

Particulars	Capital Profits (₹)	Revenue Reserves (₹)	Revenue Profits (₹)
Reserve on 01.07.2012	7,500		
Profit and Loss A/c on 01.07.2012	12,500		
Increase in Reserves		12,500	
Increase in Profit			2,500
	20,000	12,500	2,500
Less: Minority Interest (10%)	(2,000)	(1,250)	(250)
	18,000	11,250	2,250
Share of B Ltd. (30%)	6,000	3,750	750
Share of S Ltd. (60%)	12,000	7,500	1,500

2. Analysis of Profit of S Ltd. (by direct approach)

Particulars	Capital Profits (₹)	Revenue Reserves (₹)	Revenue Profits (₹)
Reserve on 01.07.2012	12,500		
Profit and Loss A/c on 01 .07,201 2	15,000		
Increase in Reserves		12,500	
Increase in Profit		-	5,000
	27,500	12,500	5,000
Share in L Ltd.		7,500	1,500
	27,500	20,000	6,500
Less: Minority Interest (20%)	(5,500)	(4,000)	(1,300)
Share of B Ltd. (80%)	22,000	16,000	5,200

3. Cost of Control:

Particulars	Amount	Amount
Invest in S Ltd.		45,000
Invest in L Ltd.		50,000
		95,000
Less: Paid up value of Investment		
In S Ltd.	40,000	
In L Ltd.	27,000	67,000
Capital Profit		
In S Ltd.	22,000	
In L Ltd.	18,000	40,000
Capital Reserve		12,000

4. Minority Interest

Particulars	S Ltd.	L Ltd.
Share Capital	10,000	3,000
Capital Profit	5,500	2,000
Revenue Reserves	4,000	1,250
Revenue Profit	1,300	250
	20,800	6,500
Less: Unrealized profit on stock	120	
(20%of ₹6,000 x 25/125)		
Unrealized profit on equipment (10% of ₹ 7,800)		390
	20,680	6,110

5. Unrealized Profit on equipment sold

Selling Price (12000 *100/75)	16,000
Less: Cost	12,000
Profit	4,000
Unrealized Profit = ₹ (4,000-4,000 x 10/100 x 3/12) = ₹ 3,900	

6. Profit and Loss Account – B Ltd.

Particulars	(₹)
Balance	25,000
Less: Proposed dividend	(10,000)
	15,000
Add: Share in S Ltd.	5,200
Share in L Ltd.	750
	20,950
Less: Unrealized profit on equipment (90% of ₹ 7,800)	(3,510)
	17,440
Less: unrealized profit on stock (₹ 6,000 x 25/125 x 80%)	(480)
	16,960

7. Revenue Reserves - B Ltd.

Balance	30,000
Share in S Ltd	16,000
Share in L Ltd.	3,750
	49750

6. The following is an abstract of the Balance Sheets of H Ltd., S Ltd. and D Ltd. as on March 31, 2012:

Particulars	H Ltd	S Ltd	D Ltd
Liabilities:			
Share Capital:			
Equity Shares of ₹ 10 each fully paid	**10,00,000**	**5,00,000**	**3,00,000**
Reserves and Surplus:			
Reserves	**90,000**	**1,00,000**	**72,000**
Profit & Loss A/c	**1,00,000**	**20,000**	**51,000**
Current Liabilities & Provisions:			
Creditors	**30,000**	**30,000**	**10,000**
	12,20,000	**6,50,000**	**4,33,000**
Assets:			
Fixed Assets	**5,50,000**	**3,00,000**	**4,00,000**
Investments:			
37500 shares in S Ltd.	**5,00,000**	**—**	**—**

7500 shares in D Ltd.	**1,00,000**	**—**	**—**
20,000 shares in D Ltd.	**—**	**2,80,000**	**—**
Current Assets, Loans & Advances:			
Stock	**60,000**	**50,000**	**28,000**
Cash at Bank	**10,000**	**20,000**	**5,000**
	12,20,000	**6,50,000**	**4,33,000**

H Ltd. purchased the shares in S Ltd. and in D Ltd. on September 30, 2011, and S Ltd. also purchased the shares in D Ltd. on the same day. The following are the balances at the beginning of the year (1.4.2011):

	S Ltd.	D Ltd.
Reserves	**90,000**	**60,000**
Profit & Loss A/c	**10,000**	**8,400**

You are to assume that profits accrue uniformly every month.

Required:

Prepare a Consolidated Balance Sheet of H Ltd: and its Subsidiaries as at March 31, 2012.

Answer:

Consolidated Balance Sheet As at 31st March, 2012

Particulars	Note No.	Amount
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	10,00,000
(b) Reserves & Surplus	2	2,17,975
(c) Minority Interest		1,94,800
2. Current Liabilities(60,000+60,000+20,000)		70,000
Total		**14,82,775**
II. Assets		
1. Non Current Assets		
Fixed Assets		
(a) Tangible Assets		12,50,000
(b) Intangible Assets – Goodwill	**3**	59,775
2. Current Assets		
(a) Stock (1,20,000 + 1,00,000 + 56,000)		1,38,000
(b) Cash at Bank (20,000 + 40,000 +10,000)		35,000
Total		**14,82,775**

Notes to Accounts:

	As on 31st March, 2012 (₹)
Note -1: Share Capital	
(a) Authorised Share Capital: (b) Issued, Subscribed & fully paid-up (1,00,000 shares of ₹10 each)	10,00,000
Total	**10,00,000**
Note - 2: Reserves & Surplus	
General Reserve	98,250
Surplus	1,19,725
Total	2,17,975
Note -3: Tangible Asset	
Fixed Assets of H Ltd.	5,50,000
Fixed Assets of S Ltd.	3,00,000
Fixed Assets of D Ltd.	4,00,000
Total	12,50,000

Working Notes:

(1) Analysis (Amount in ₹)

Particulars	Capital Profits	Revenue Reserves	Revenue Profits
(i) D Ltd.:			
Reserve as on 1.4.2011	60,000		
Profit & Loss as on 1.4.2011	8,400		
Increase in Reserve during the year	6,000	6,000	
Increase in P &L during the year	21,300		21,300
	95,700	6,000	21,300
Less: Share of H Ltd. (1/4)	23,925	1,500	5,325
Less Minority interest (1/12)	7,975	500	1,775
Shares of S Ltd.	1,500	4,000	14,200

Particulars	Capital Profits	Revenue Reserves	Revenue Profits
(ii) S Ltd.:			
Reserve as on 1.4.2011	90,000		
Profit & Loss A/c	10,000		
Balance as on 1.4.2011	5,000		
Increase in Reserve during the year 2011-12	5,000	5,000	
Increase in profit & Loss A/c during the year 2011-12			5,000
From D Ltd.		4,000	14,200
	1,10,000	9,000	19,200
Less Minority interest (1/4)	27,500	2,250	4,800
Shares of S Ltd.	82,500	6,750	14,400

(2) Cost of Control (Amount in ₹)

Cost of Investment in S Ltd.		5,00,000
Cost of Investment in D Ltd.		3,80,000
		8,80,000
Paid up Value of Shares in S Ltd.	3,75,000	
Paid up Value of Shares in D Ltd.	2,75,000	
Capital Profit in S Ltd.	82,500	
Capital Profit in D Ltd.	87,725	
		8,20,225
Goodwill		59,775

(3) Minority Interest

	S Ltd	C Ltd
Shares Capital	1,25,000	25,000
capital Profits	27,500	7,975
Revenue Reserve	2,250	500
Revenue Profit	4,800	1,775
	1,59,550	35,250

(4)

	Reserves (₹)	Profit & Loss (₹)
H. Ltd. Balance	90,000	1,00,000
Shares in S Ltd.	6,750	14,400
Shares in D. Ltd.	1,500	5,625
	98,250	1,19,725

7. Following are the summarized Balance Sheets of A Ltd., B Ltd. and C Ltd. as on 31.03.2015.

Liabilities	A Ltd. (₹)	B Ltd. (₹)	C Ltd. (₹)	Assets	A Ltd. (₹)	B Ltd. (₹)	C Ltd. (₹)
Equity Share Capital (₹10)	10,00,000	5,00,000	4,00,000	Shares in B Ltd.	6,00,000	Nil	Nil
				Shares in C Ltd.	50,000	3,92,000	Nil
P/L Balance	3,00,000	2,00,000	1,00,000	Debentures in B Ltd.	1,00,000	Nil	Nil
10%Debentures (₹100)	Nil	1,00,000	Nil				
				Fixed Assets	4,00,000	2,50,000	3,50,000
Current Liability	3,00,000	1,50,000	90,000	Stock	2,00,000	2,00,000	1,00,000
				Debtors	2,00,000	1,00,000	1,00,000
				Cash	50,000	8,000	40,000
	16,00,000	**950,000**	**5,90,000**		**16,00,000**	**9,50,000**	**5,90,000**

Additional information:

1. **A Ltd acquired 30000 shares in B Ltd. on 1.4.2014 and further 10000 shares on 1.10.2014. A Ltd. also acquired 80% debentures of B Ltd. on 1.4.2014.**
2. **A Ltd acquired 2000 shares in C Ltd. on 1.4.2014 and further 2000 shares on 1.10.2014.**
3. **B Ltd acquired 28000 shares in C Ltd. on 1.4.2014 and further 4000 shares on 1.1.2015.**
4. **All the companies have proposed a dividend @ 10% on 31.03.2015.**
5. **P/L balances of B Ltd. and C Ltd. on 1.4.2014 were ₹1,00,000 and ₹50,000 respectively.**
6. **All the companies have earned profit evenly during the year.**

You are required to prepare a Consolidated Balance Sheet as on 31.3.2015.

Answer:

Notes:

1. Share of holding company and minorities

	Date	B Ltd.	C Ltd.
Share of A Ltd	1.4.2014 1.10.2014	30000/50000 = 3/5 10000/50000 = 1/5	2000/40000 =1/20 2000/40000 = 1/20
		= 4/5	= 1/10
Share of B Ltd.	1.4.2014 1.1.2015	---------	28000/40000 = 7/10 4000/40000 = 1/10
			= 8/10
Share of Minorities		1/5	1/10

2. Analysis of Profit (Amount in ₹)

C Ltd.

	Capital Profit	Revenue Profit
P/L up to 1.4.2014 P/L after 1.4.2014 (100000-50000)	50,000	 50,000
	50,000	50,000
Less. Share of A Ltd. (1/10)	5,000	5,000
	45,000	45,000
Less. Share of Minorities (1/10)	5,000	5,000
Apparent Share of B Ltd. (8/10) Add/Less. Adjustment for understatement of capital profit and overstatement of revenue profit for 4000 shares purchased on 1.1.2015 (50000×9/12×4000/40000)	40,000 3,750	40,000 (3,750)
Final share of B Ltd.	43,750	36,250

Final share of A Ltd from C Ltd.

	Capital Profit	Revenue Profit
Apparent share of A Ltd from C Ltd	5000	5000
Add/Less. Adjustment for understatement of capital profit and overstatement of revenue profit for 2000 shares purchased on 1.10.2014 (50000*6/12*2000/40000)	1250	(1250)
Final share of A Ltd.	6250	3750

B Ltd.

	Capital Profit	Revenue Profit
P/L up to 1.4.2014	100000	
P/L after 1.4.2014 (200000-100000)		100000
Add. Share from C Ltd	43750	36250
	143750	136250
Less. Share of Minorities (1/5)	28750	27250
Apparent Share of B Ltd. (8/10)	115000	109000
Add/Less. Adjustment for understatement of capital profit and overstatement of revenue profit for 10000 shares purchased on 1.10.2014 (100000*6/12*10000/50000)	10000	(10000)
Final share of B Ltd.	125000	99000

3. Calculation of Goodwill/ Capital Reserve (Amount in ₹)

	₹	₹
Cost of investment:		
By A in B	600000	
By A in C	50000	
By B in C	392000	
		1042000
Less. Face value of shares held		
By A in B	400000	
By A in C	40000	
By B in C	320000	
		(760000)
Less. Share of capital profit		
From B	125000	
From C	6250	
		(131250)
Goodwill		150750

4. Minority Interest (Amount in ₹)

	B Ltd	C Ltd
Face value of shares	100000	40000
Share of capital profit	28750	5000
Share of revenue profit	27250	5000
	156000	50000

Total Minority interest = 2,06,000

5. Consolidated Profit and Loss: (Amount in ₹)

	₹	₹
Balance of A Ltd.		300000
Add. Share of revenue profit		
From B	990000	
From C	3750	102750
		402750
Less. Cost of investment in debentures	100000	
Less. Face value of debentures	80000	20000
		382750

6. Consolidated Balance Sheet of A Ltd. and its subsidiaries (Amount in ₹)

As at 31.03.2015

Particulars	₹
I. Equity and Liabilities:	
a. Shareholders Fund	
Equity Share Capital (₹10)	10,00,000
Consolidated Profit and Loss	3,82,750
b. Minority Interest	2,06,000
c. Non-current Liabilities	
10% debentures (100000-80% of 100000)	20,000
d. Current Liability (300000+150000+90000)	5,40,000
Total	21,48,750
II. Assets:	
a. Non-current Assets	
(i) Tangible Assets	
Fixed Assets	10,00,000
(ii) Intangible Assets	
Goodwill	1,50,750
b. Current Assets	
Inventories (200000+200000+100000)	5,00,000
Debtors (200000+100000+100000)	4,00,000
Cash and Cash Equivalent (50000+8000+40000)	98,000
Total	21,48,750

Note: Contingent Liability for Proposed Dividend:

A Ltd. (1000000*10%)	1,00,000
Minorities of B Ltd. = (100000*10%)	10,000
Minorities of C Ltd. = (40000*10%)	4,000
	1,14,000

8. **The following is an abstract of the Balance Sheet as on 31st March, 2013 of H LTD. and its two Subsidiaries (B LTD. and C LTD).**

Particulars	H Ltd.	B Ltd.	C Ltd.
Liabilities:			
Share Capital:			
Authorised and Issued Equity Shares of ₹100 each fully paid	**25,00,000**	**12,50,000**	**5,00,000**
Reserves and Surplus:	**2,50,000**	**75,000**	**50,000**
Capital Reserve	**5,00,000**	**3,75,000**	**3,00,000**
Revenue Reserve			
Current liabilities & Provisions:	**10,00,000**	**5,00,000**	**1,50,000**
Creditors	**2,50,000**	**1,75,000**	**1,50,000**
Income Tax			
	45,00,000	**23,75,000**	**11,50,000**
Assets:			
Fixed Assets (at cost less depreciation)	**16,00,000**	**8,00,000**	**1,50,000**
Investments:			
Shares in B Ltd. at cost	**22,50,000**		
Shares in C Ltd. at cost	**2,50,000**	**5,00,000**	**—**
Stock	**1,00,000**	**4,50,000**	**3,50,000**
Debtors	**2,00,000**	**5,25,000**	**5,75,000**
Bank Balance	**1,00,000**	**1,00,000**	**75,000**
	45,00,000	**23,75,000**	**11,50,000**

Additional Information:

(a) B Ltd. acquired 3000 shares in C Ltd. on 01.4.2011 when the balance on Capital Reserve had been ₹50,000 and Revenue Reserve ₹ 1,75,000.

(b) H Ltd. purchased 10000 shares in B Ltd. on 01.4.2012 when the latter's balance on Consolidated Revenue Reserve had been ₹ 2,75,000. The Balance of Capital Reserve in B Ltd. at that time was ₹75,000.

(c) H Ltd. also acquired 1500 shares in C Ltd. on 01.4.2012 when the balance on Capital Reserve had been ₹ 50,000 and Revenue Reserve ₹ 1,75,000.

Required:

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiaries as on March 31, 2013 together with consolidation schedules.

Answer:

H Ltd. and its subsidiaries B Ltd. and C Ltd.
Consolidated Balance Sheet As on 31st March, 2013

Particulars	Note No.	Amount
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	25,00,000
(b) Reserve & Surplus	2	9,75,500
(c) Minority Interest		4,52,000
2. Current Liabilities		
(a) Creditor		16,50,000
(b) Income Tax		5,75,000
Total		61,52,500
II. Assets		
1. Non Current Assets		
Fixed Assets		
- Tangible Fixed Assets		25,50,000
- Intangible Fixed Assets		11,27,500
2. Current Assets		
(a) Stock		9,00,000
(b) Debtors		13,00,000
(c) Bank Balance		2,75,000
Total		61,52,500

Notes to Accounts:

	As on 31st March, 2013
Note No: 1. Share Capital (₹)	
((a) Authorised Share Capital: 25,000 Equity Shares @ ₹100 each	
(b) Issued, Subscribed & Paid-up Capital:	
(25,000 Equity Shares @ ₹100 each)	25,00,000
Total	**25,00,000**
Note No: 2. Reserves and Surplus	
Capital Reserve	2,50,000
Revenue Reserve	7,25,500
Total	**9,75,500**

Working Notes:

1. Analysis of Profit of C Ltd:

	Capital Profit (₹)	**Revenue Profit (₹)**
(a) From the view point of H Ltd:		
Capital Reserve as on 01.04.2012:	50,000	
Revenue Reserve as on 01 .04.201 2:	1,75,000	
Increase in Revenue Reserve	—	1,25,000
	2,25,000	1,25,000
Share of H Ltd. (3/10)	62,500	37,500
(b) Minority Interest in C Ltd.		
Capital Reserve (1/10):		5,000
Revenue Reserve (1/10):		30,000
		35,000
(c) From the view point of B Ltd:		
Capital Reserve as on 01.04.2011:	50,000	
Revenue Reserve as on 01 .04.2011:	75,000	
Increase in Revenue Reserve	—	2,25,000
	1,25,000	2,25,000
Share of B Ltd. (3/5)	75,000	1,35,000

Share of Capital Profit of B in C will be taken to cost of control. However, share of Revenue Profit of B Ltd. in C Ltd. will be divided between Capital and Revenue from the point of view of H Ltd. as follows:

Increase in Capital Reserves of C Ltd. from 01.04.2011 to 01.04.2012 (1,75,000 — 75,000)	1,00,000
Increase in Capital I Revenue Reserves of C Ltd. from 01.04.2012 to 31.03.2013 (3,00,000 — 1,75,000)	1,25,000

The derived Revenue profits of ₹ 1,35,000 of B Ltd. from C Ltd. will therefore be divided between Capital and Revenue in the ratio of 20 : 25 i.e., 4 : 5

Capital Profit : 1,35,000 x 4/9 = ₹ 60,000

Revenue Profit : 1,35,000 x 5/9 = ₹ 75,000

2. Analysis of profit of B Ltd. from the view point of H Ltd.

Particulars	Capital Profit (₹)	Revenue Profit (₹)
Consolidated Reserve on 01.04.2012: (including ₹ 60,000 from C Ltd., its own being only ₹ 2,15,000).	2,75,000	—
Capital Reserve 01.04.2012	75,000	
Increase in Revenue Reserved since 01 .04.2012 i.e. (3,75,000 – 2,15,000)		1,60,000
Derived Revenue Profit from C Ltd:		75,000
	3,50,000	2,35,000
Less: Minority Interest (1/5):	70,000	47,000
H Share of B Ltd.	2,80,000	1,88,000

3. Cost of Control: (₹)

Amount Paid for Shares by H Ltd.: In B Ltd.		22,50,000
Amount Paid for Shares by H Ltd.: In C Ltd.		2,50,000
Amount Paid for Shares by B Ltd. : In C Ltd.		5,00,000
		30,00,000
Less: Paid up Value of Shares		
3,00,000+10,00,000+1,50,000:	14,50,000	
Capital Profit in C Ltd.		
Share of H Ltd.:	67,500	
Share of B Ltd.:	75,000	
Share of H Ltd. in Capital Profit of B Ltd.:	2,80,000	
		18,72,500
Goodwill:		11,27,500

4. Consolidated Revenue Reserve

Revenue Reserve of H Ltd.:	5,00,000
Share of H Ltd. in C Ltd.:	37,500
Share of H Ltd. in B Ltd.:	1,88,000
	7,25,500

5. Minority Interest

Pai up value of Shares	
In B Ltd.	2,50,000
In C Ltd	50,000
Share of Capital Profits	
In B Ltd	70,000
In C Ltd.	5,000
Share of Revenue Profits	
In B Ltd.	47,000
In C Ltd.	30,000
	4,52,000

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**

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.

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 CSRspending 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)

MCQ: On Ind AS 32

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.

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

Particulars		₹
Sundry Assets:		
Land and Buildings	2,40,000	
Plant and Machinery	2,40,000	
Sundry Debtors	30,000	
Investment	1,20,000	
Cash at Bank	21,0,000	8,40,000
Less: Current Liabilities		
Sundry Creditors		60,000
Average Tangible Capital Employed		7,80,000

Computation of Average Maintainable Super Profits

Particulars	₹
Average annual profit for the last seven years	1,20,000
Less : interest on investment (10% on ₹60,000)	6,000
	1,14,000
Add : interest on debenture (9% on ₹60000)	5,400
	11,90,000
Less: Normal return on capital employed. (10%on ₹ 780000)	78,000
Average Annual Super profit	41,400

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

<table>
<tr><th>Year</th><th>Earnings (₹)</th><th>Weights (₹)</th><th>Weighted earnings</th><td rowspan="5">Therefore, Weighted Average Earnings = ₹ 37,30,000/6 = ₹ 6,21,667
Weighted Average Rate of Earnings = ₹ 6,21,667/20,00,000 × 100 = 31 % (approx.)
Value of Each Equity Shares = {weighted average rate of earnings/normal return} × Paid up value of each share
= (31/15)×10 = ₹ 20.67</td></tr>
<tr><td>2016</td><td>4,00,000</td><td>1</td><td>4,00,000</td></tr>
<tr><td>2017</td><td>6,00,000</td><td>2</td><td>12,00,000</td></tr>
<tr><td>2018</td><td>7,10,000</td><td>3</td><td>21,30,000</td></tr>
<tr><td></td><td></td><td>6</td><td>37,30,000</td></tr>
</table>

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.

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.

Answer:

Year	Calculation	Cumulative remuneration expense (₹)	Remuneration expense recognized in each year (₹) $\text{Cumulative}_n - \text{Cumulative}_{n-1}$
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 X ₹ 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 × 60,000 = ₹ 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 × 60,000 = 30,00,000.

Journal

Bank	Dr.	24,00,000	
Employee expense	Dr.	12,00,000	
To Equity Share Capital			6,00,000
To Other Equity (Security Premium) (Employee expense recognized for share based payment by issue of equity at concession)			30,00,000

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	128000_{L1}
2	(400 – 100)×80×16×2/3 – L1		128000	256000_{L2}
3	(400 -110 -100)×80×18 – L2	17600		273600_{L3}
	100×80×15	120000	137600	
4	(190 – 120)×80×18 – L3	-156000		117600_{L4}
	120×80×20	192000	36000	
5	0 – L4	-117600		0
	70×80×24	134400	16800	
			446400	

(c) **Journal** ***Dr.*** ***Cr.***

Year 1	Employee Expense	Dr.	1,28,000	
	To Share based Payment Liability (Fair value of SAR recognized)			1,28,000
Year 2	Employee Expense	Dr.	1,28,000	
	To Share based Payment Liability (Fair Value of SAR recognized and remeasured)			1,28,000
Year 3	Employee Expense	Dr.	1,37,600	
	To Share based Payment Liability (Fair Value of SAR recognized and remeasured)			1,37,600
	Share based payment Liability		1,20,000	
	To Cash (SAR settled for 100 employees)			1,20,000
Year 4	Share based payment Liability Employee Expense	Dr. Dr.	1,56,000 36,000	
	To Cash (SAR settled for 120 employees)			1,92,000
Year 5	Share based payment Liability Employee Expense	Dr. Dr.	1,17,600 16,800	
	To Cash (SAR settled for 70 employees)			1,34,400

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.

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