

# VIDYA SAGAR

CAREER INSTITUTE LIMITED

## Answer Key Financial Reporting (FR)

Dated: 02.06.2024

### SECTION "A"

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>A</b>	<b>D</b>	<b>D</b>	<b>B</b>	<b>A</b>
<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
<b>B</b>	<b>C</b>	<b>C</b>	<b>A</b>	<b>B</b>
<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>
<b>A</b>	<b>B</b>	<b>D</b>	<b>A</b>	<b>B</b>

## Section "B"

### Answer 1

#### Consolidated Balance Sheet of Professional Ltd as on 1st April, 20X2

(₹ in Lakhs)	
	Amount
<b>Assets</b>	
<b>Non-Current Assets:</b>	
Property, plant and equipment	650
Investment	500
<b>Current assets:</b>	
Inventories	400
Financial assets:	
Trade receivables	750
Cash and cash equivalents	300
Others	<u>630</u>
<b>Total</b>	<b><u>3,230</u></b>
<b>Equity and Liabilities</b>	
<b>Equity</b>	
Share capital- Equity shares of ₹ 100 each	514
Other Equity	1128.62
NCI	154.95
<b>Non-Current liabilities:</b>	
Long term borrowings	450
Long term provisions (50+70+28.93)	148.93
Deferred tax	28.5
<b>Current Liabilities:</b>	
Short term borrowings	250
Trade payables	550
Provision for Law suit Damages	<u>5</u>
<b>Total</b>	<b><u>3230</u></b>

#### Notes:

- a. Fair value adjustment- As per Ind AS 103, the acquirer is required to record the assets and liabilities at their respective fair value. **Accordingly, the PPE will be recorded at ₹ 350 lakhs.**
  
- b. The value of replacement award is allocated **between consideration transferred and post combination expense**. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. **Accordingly, 2.5 (5 x 2/4) is considered as a part of purchase consideration and is credited to Professional Ltd equity as this will be settled in its own equity.** The balance of 2.5 will be recorded as employee expense in the books of Dynamic Ltd over the remaining life, which is 1 year in this scenario.

- c. There is a difference between contingent consideration and deferred consideration. In the given case 35 is the minimum payment to be paid after 2 years and accordingly will be considered as deferred consideration. The other element is if company meet certain target then they will get 25% of that or 35 whichever is higher. In the given case since the minimum what is expected to be paid the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.
- d. The additional consideration of ₹ 20 lakhs to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the income statement of Dynamic Ltd.

Working for Purchase consideration

₹ in lakhs

Particulars		Amount
Share capital of Dynamic Ltd		400
Number of shares	4,00,000	
Shares to be issued 2:1	2,00,000	
Fair value per share		<u>40</u>
PC (2,00,000 x 70% x ₹ 40 per share) (A)		56.00
Deferred consideration after discounting ₹ 35 lakhs for 2 years @ 10% (B)		28.93
Replacement award Market based measure of the acquiree award (5) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (4) of the acquiree award ie (5 x 2 / 4) (C)		
PC in lakhs (A+B+C)		<u>2.50</u>
		<u>87.43</u>

Purchase price allocation workings

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property, plant and equipment	500	350	(150)
Investment	100	100	-
Inventories	150	150	-
Financial assets:			-
Trade receivables	300	300	-
Cash and cash equivalents	100	100	-
Others	230	230	-
Less: Long term borrowings	(200)	(200)	-
Long term provisions	(70)	(70)	-
Deferred tax	(35)	(35)	-
Short term borrowings	(150)	(150)	-
Trade payables	(300)	(300)	-
Contingent liability	-	(5)	(5)
Net assets (X)	625	470	(155)

Deferred tax Asset on FV adjustment (155 x 30%) (Y)		46.50	155
<b>Net assets (X+Y)</b>		<b>516.5</b>	
Non-controlling interest (516.50 x 30%) rounded off		154.95	
<b>Capital Reserve (Net assets – NCI – PC)</b>		<b>274.12</b>	
Purchase consideration (PC)		87.43	

### Consolidation workings

	Professional Ltd	Dynamic Ltd (pre-acquisition)	PPA Allocation	Total
<b>Assets</b>				
<b>Non-Current Assets:</b>				
Property, plant and equipment	300	500	(150)	650
Investment	400	100		500
<b>Current assets:</b>				
Inventories	250	150		400
Financial assets:				
Trade receivables	450	300		750
Cash and cash equivalents	200	100		300
Others	<u>400</u>	<u>230</u>		<u>630</u>
<b>Total</b>	<u>2,000</u>	<u>1,380</u>	<u>(150)</u>	<u>3230</u>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Share capital- Equity shares of ₹ 100 each				
Shares allotted to Dynamic Ltd. (2,00,000 x 70% x ₹ 10 per share)	500		14	514
Other Equity	810		318.62	1128.62
<b>Non-controlling interest</b>	0		154.95	154.95
<b>Non-Current liabilities:</b>				
Long term borrowings	250	200		450
Long term provisions	50	70	28.93	148.93
Deferred tax	40	35	(46.5)	28.5
<b>Current Liabilities:</b>				
Short term borrowings	100	150		250
Trade payable	250	300	0	550
Liability for lawsuit damages	<u>—</u>	<u>—</u>	<u>5</u>	<u>5</u>
<b>Total</b>	<u>2,000</u>	<u>755</u>	<u>475</u>	<u>3230</u>

<b>Other Equity</b>				
Other Equity	810			810
Replacement award			2.5	2.5
Security Premium Reserve (2,00,000 shares x 70% x ₹ 30)			42	42
Capital Reserve			<u>274.12</u>	<u>274.12</u>
	<u>810</u>		<u>318.62</u>	<u>1128.62</u>

## Answer 2 (a)

[Note: For simplification purposes, the table calculates revenue for the year independently based on costs incurred during the year divided by total expected costs, with the assumption that total expected costs do not change.]

Fixed consideration	A	1,000,000				
Estimated costs to complete*	B	950,000				
		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Total estimated variable consideration	C	100,000	100,000	100,000	250,000	250,000
Fixed revenue	D=A x H/B	52,632	184,211	421,053	289,474	52,632
<b>Variable revenue</b>	<b>E=C x H/B</b>	<b>5,263</b>	<b>18,421</b>	<b>42,105</b>	<b>72,368</b>	<b>13,158</b>
Cumulative revenue adjustment	F (see below)	—	—	—	99,370	—
<b>Total revenue</b>	<b>G=D+E+F</b>	<b>57,895</b>	<b>202,632</b>	<b>463,158</b>	<b>461,212</b>	<b>65,790</b>
Costs	H	50,000	175,000	400,000	275,000	50,000
<b>Operating profit</b>	<b>I=G-H</b>	<b>7,895</b>	<b>27,632</b>	<b>63,158</b>	<b>186,212</b>	<b>15,790</b>
<b>Margin (rounded off)</b>	<b>J=I/G</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>40%</b>	<b>24%</b>

\* For simplicity, it is assumed there is no change to the estimated costs to complete throughout the contract period.

\* In practice, under the **cost-to-cost measure of progress**, total revenue for each period is determined by multiplying the total transaction price (fixed and variable) by the ratio of cumulative cost incurred to total estimated costs to complete, less revenue recognized to date.

<b>Calculation of cumulative catch-up adjustment:</b>			
Updated variable consideration	L		250,000
Percent complete in Year 4: (rounded off)	M=N/O		95%
Cumulative costs through Year 4	N	900,000	
Estimated costs to complete	O	950,000	
Cumulative variable revenue through Year 4:	P		138,130
<b>Cumulative catch-up adjustment</b>	<b>F=L x M-P</b>		<b>99,370</b>

### Answer 2 (b)

As per paragraph 8(b) of Ind AS 40, any land held for currently undetermined future use, should be classified as an investment property. Hence, in this case, the land would be regarded as held for capital appreciation. Hence the land property should be classified by X Ltd as investment property in the financial statements as at 31 March 20X1.

As per Para 57 of the Standard, an entity can change the classification of any property to, and from, an investment property when and only when evidenced by a change in use. A change occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. Mere management's intention for use of the property does not provide evidence of a change in use.

- (a) Since X Ltd has **commenced construction of office building on it for own use**, the property should be reclassified from **investment property to owner occupied as at 31 March 20X2**.
- (b) As per Para 59, **transfers between investment property, owner occupied and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or disclosure purposes**.
- (c) No. The **change in classification to, or from, investment properties is due to change in use of the property**.  
**No retrospective application is required and prior period's financial statements need not be re-stated.**
- (d) **Mere management intentions for use of the property do not evidence change in use**.  
Since X Ltd has no plans to commence construction of the office building during 20X1-20X2, **the property should continue to be classified as an investment property** by X Ltd in its financial statements as at 31 March 20X2.

### Answer 3 (a)

**The repayment schedule for the original debt till the date of renegotiation is as below**

<b>Date / year ended</b>	<b>Opening balance</b>	<b>Interest accrual</b>	<b>Cash flows</b>	<b>Closing balance</b>
1 January 20X0	10,00,000	1,00,000	(100,000)	<b>10,00,000</b>
31 December 20X0	10,00,000	1,00,000	(1,00,000)	<b>10,00,000</b>
31 December 20X1	10,00,000	1,00,000	(1,00,000)	<b>10,00,000</b>
31 December 20X2	10,00,000	1,00,000	(1,00,000)	<b>10,00,000</b>
31 December 20X3	10,00,000	1,00,000	(1,00,000)	<b>10,00,000</b>
31 December 20X4	10,00,000	1,00,000	(1,00,000)	<b>10,00,000</b>

On 1 January 20X5, the discounted present value of the remaining cash flows of the original financial liability is ₹ 10,00,000.

(i) On this date, XYZ Ltd. will compute the present value of:

- cash flows under the new terms – i.e. ₹ 15,00,000 payable on 31 December 20Y1 and ₹50,000 payable for each of the 7 years ending 31 December 20Y1.
- any fee paid (net of any fee received) – i.e. ₹ 1,00,000

using the original effective interest rate of 10%.

**The total of these amounts to ₹ 11,13,158** (Refer Working Note).

(ii) This differs from the discounted present value of the remaining cash flows of the original financial liability by 11.32% i.e. by more than 10%. Hence, extinguishment accounting applies.

(iii) **The next step is to estimate the fair value of the modified liability.** This is determined as the present value of the future cash flows (interest and principal), using an interest rate of 11% (the market rate at which XYZ Ltd. could issue new bonds with similar terms). The estimated fair value on this basis is ₹958,097 (Refer Working Note). A gain or loss on modification is then determined as:

**Gain (loss) = carrying value of existing liability - fair value of modified liability - fees and costs incurred** i.e. ₹ 10,00,000 – ₹ 9,58,097 – ₹ 1,00,000 = **Loss of ₹58,097**

**Working Note:**

Year	Discount factor @ 10%	Discount factor @ 11%
1	0.909091	0.900901
2	0.826446	0.811622
3	0.751315	0.731191
4	0.683013	0.658731
5	0.620921	0.593451
6	0.564474	0.534641
7	<u>0.513158</u>	<u>0.481658</u>
Annuity	<u>4.868419</u>	<u>4.712196</u>

Amount	Discounting factor @ 10%	Present value	Discounting factor @ 11%	Present value
15,00,000	0.513158	7,69,737	0.481658	7,22,487
1,00,000		1,00,000		
50,000 for 7 years	4.868419	2,43,421	4.712196	2,35,610
		<b>11,13,158</b>		<b>9,58,097</b>
PV of original cash flows @ original EIR		(10,00,000)		
<b>Difference</b>		<b>1,13,158</b>		

Difference %		11.32%		
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### Answer 3 (b)

To identify the performance obligations under the contract and determine if they are distinct, an automated process can be implemented using technology. The following steps can be taken:

- a. Analyze the clauses in the contract related to the services provided (broadband services, voice call services, modem sales).
- b. Each clause should be codified using appropriate parameters or tags to capture the relevant information.
- c. Assign Boolean values (0 or 1) to each parameter or tag in the codified clauses.
- d. Use "0" to represent "No" and "1" to represent "Yes" for each parameter.
- e. Define the criteria for evaluating the performance obligations based on the parameters and their Boolean values.
- f. Consider factors such as the type of service involved, benefits derived by the customer, and promises made in the contract regarding the transfer of goods or services.
- g. Develop an automated algorithm or script that evaluates the Boolean values of the parameters according to the defined criteria.
- h. Calculate scores or weights for each parameter based on their significance in determining performance obligations.
- i. Utilize the scores or weights assigned to the parameters to determine if the performance obligations are distinct.
- j. If the total score exceeds a certain threshold, consider it a separate performance obligation.

The automated process should flag and identify these distinct performance obligations based on the evaluation results.

### Answer 4 (a)

#### Calculation of Deductible temporary differences:

Deferred tax asset	=	₹ 80,000
Existing tax rate	=	40%
Deductible temporary differences	=	80,000/40%
	=	₹ 2,00,000
<b>Calculation of Taxable temporary differences:</b>		
Deferred tax liability	=	₹ 60,000
Existing tax rate	=	40%
Deductible temporary differences	=	60,000 / 40%
	=	₹ 1,50,000

Of the total deferred tax asset balance of ₹ 80,000, ₹ 28,000 is recognized in OCI Hence,

Deferred tax asset balance of Profit & Loss is ₹ 80,000 - ₹ 28,000 = ₹ 52,000

Deductible temporary difference recognized in Profit & Loss is ₹ 1,30,000 (52,000 / 40%)

Deductible temporary difference recognized in OCI is ₹ 70,000 (28,000 / 40%)

The adjusted balances of the deferred tax accounts under the new tax rate are:

Deferred tax asset		₹
Previously credited to OCI-equity	₹ 70,000 x 0.45	31,500
Previously recognised as Income	₹ 1,30,000 x 0.45	58,500
		<b>90,000</b>
Deferred tax liability		
Previously recognized as expense	₹ 1,50,000 x 0.45	67,500

The net adjustment to deferred tax expense is a reduction of ₹ 2,500. Of this amount, ₹3,500 is recognised in OCI and ₹ 1,000 is charged to P&L.

The amounts are calculated as follows:

	Carrying amount at 45%	Carrying amount at 40%	Increase (decrease) in deferred tax expense
<b>Deferred tax assets</b>			
Previously credited to OCI-equity	31,500	28,000	(3,500)
Previously recognized as Income	<u>58,500</u>	<u>52,000</u>	<u>(6,500)</u>
	90,000	80,000	(10,000)
<b>Deferred tax liability</b>			
Previously recognized as expense	67,500	60,000	<u>7,500</u>
<b>Net adjustment</b>			<b><u>(2,500)</u></b>

An alternative method of calculation is:		₹
DTA shown in OCI	₹ 70,000 x (0.45 - 0.40)	3,500
DTA shown in Profit or Loss	₹ 1,30,000 x (0.45-0.40)	6,500
DTL shown in Profit or Loss	₹ 1,50,000 x (0.45 -0.40)	7,500

### Journal Entries

	₹	₹
Deferred tax asset	3,500	
OCI -revaluation surplus		3,500
Deferred tax asset	6,500	
Deferred tax expense		6,500
Deferred tax expense	7,500	
Deferred tax liability		7,500

Alternatively, a combined journal entry may be passed as follows:

	₹	₹

Deferred tax asset	Dr.	10,000	
Deferred tax expense	Dr.	1,000	
To OCI –revaluation surplus			3,500
To Deferred tax liability			7,500

#### Answer 4 (b)

#### Journal Entries on 1<sup>st</sup> October, 20X1

(All figures in ₹)

Loss (on death of 20 cows) (Refer W.N.) To Biological asset (Loss booked on death of 20 cows)	Dr.	5,20,000	5,20,000
Biological Asset (purchase of 20 new cows) (Refer W.N.) To Bank (Initial recognition of 20 new purchased cows at fair value less costs to sell)	Dr.	4,00,000	4,00,000

#### Journal Entries on 31<sup>st</sup> March, 20X2

Loss on remeasurement of old cows To Biological asset [(1,30,00,000 – 5,20,000) – 1,21,92,000] (Subsequent measurement of cows at fair value less costs to sell)	Dr.	2,88,000	2,88,000
Biological Asset (4,48,000 – 4,00,000) To Gain on remeasurement of new cows (Subsequent measurement of cows at fair value less costs to sell)	Dr.	48,000	48,000

Inventory (Milk) as at 31<sup>st</sup> March, 20X2 = ₹ 19,000 (1,000 x (20 – 1))

#### Working Note:

##### Calculation of Biological asset at various dates

Date	Number	Age	Fair Value (₹)	Cost to Sell (₹)	Net (₹)	Biological asset (₹)
1st April 20X1	500	3 years	27,000	1,000	26,000	1,30,00,000
1st October 20X1	(20)	3.5 years	27,000	1,000	26,000	(5,20,000)
<b>1st October 20X1</b>	20	1 year	21,000	1,000	20,000	<u>4,00,000</u>
						<b>1,28,80,000</b>
<b>31st March 20X2</b>	480	4 years	26,500	1,100	25,400	<b>1,21,92,000</b>
	20	1.5 years	23,500	1,100	22,400	<b>4,48,000</b>
						<b>1,26,40,000</b>

#### Answer 5 (a)

##### (i) If Market A is the principal market

If Market A is the principal market for the asset (i.e., the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, **after taking into account transport costs.**

## Fair Value will be

	₹
Price receivable	26
Less: Transportation cost	(2)
<b>Fair value of the asset</b>	<b>24</b>

### (ii) If neither of the market is the principal market

If neither of the market is the principal market for the asset, **the fair value of the asset would be measured using the price in the most advantageous market.**

The most advantageous market is the market **that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs** (i.e., the net amount that would be received in the respective markets).

	₹	₹
	<b>Market A</b>	<b>Market B</b>
Price receivable	26	25
Less: Transaction cost	(3)	(1)
Less: Transportation cost	(2)	(2)
<b>Fair value of the asset</b>	<b>21</b>	<b>22</b>

Since the entity would maximise the net amount that would be received for the asset in **Market B** i.e. ₹ 22, **the fair value of the asset would be measured using the price in Market B.**

### Fair value

	₹
Price receivable	25
Less: Transportation cost	(2)
<b>Fair value of the asset</b>	<b>23</b>

### Answer 5 (b)

Dividends on preference shares paid (6000 x ₹ 5.50 per share)	₹ 33,000
Dividends on ordinary shares paid (10,000 x ₹ 2.10 per share)	₹ 21,000
<b>Basic earnings per share is calculated as follows:</b>	₹                      ₹
Profit attributable to equity holders of the parent entity	100,000
Less: <b>Dividends paid:</b>	
Preference	33,000
Ordinary	21,000
	(54,000)
<b>Undistributed earnings</b>	<b>46,000</b>
<b>Allocation of undistributed earnings:</b>	
Allocation per ordinary share = A	
Allocation per preference share = B; B = $\frac{1}{4}$ A	
$(A \times 10,000) + (\frac{1}{4} \times A \times 6,000) = ₹ 46,000$	

$A = ₹ 46,000 \div (10,000 + 1,500)$		
$A = ₹ 4.00$		
$B = \frac{1}{4} A$		
$B = ₹ 1.00$		
<b>Dividend per share:</b>		
	Preference shares	Ordinary shares
Distributed earnings	₹ 5.50	₹ 2.10
Undistributed earnings	₹ 1.00	₹ 4.00
<b>Totals</b>	<b>₹ 6.50</b>	<b>₹ 6.10</b>

**Answer 5 (c)**

**Items impacting the Statement of Profit and Loss for the year ended 31<sup>st</sup> March, 20X1 (₹ )**

Current service cost	2,57,000
Gains and losses arising from translating the monetary assets in foreign currency	1,25,000
Income tax expense	35,000
Share based payments cost	3,35,000

**Items impacting the other comprehensive income for the year ended 31<sup>st</sup> March, 20X1 (₹ )**

Remeasurement of defined benefit plans	75,000
Changes in revaluation surplus	175,000
Gains and losses arising from translating the financial statements of a foreign operation	65,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	1,00,000

**OR**

**Answer 5 (c)**

- (a) **The loan is not due for payment at the end of the reporting period.** The entity and the bank have agreed for the said roll over prior to the end of the reporting period **for a period of 5 years.** Since the entity has an **unconditional right to defer the settlement of the liability for at least twelve months after the reporting period,** the loan should be **classified as non-current.**
- (b) **Yes,** the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period, since assessment is required to be made based on terms of the existing loan facility. **As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.** Hence the loan is to be **classified as current.**
- (c) **Yes,** loan facility arranged with new bank cannot be treated as refinancing, as the loan with the earlier bank would have to be settled which may coincide with loan facility arranged with a new bank. In this case, **loan has to be repaid within a period of 9 months from the end of the reporting period, therefore, it will be classified as current liability.**

- (d) Yes, the answer will be different and the **loan should be classified as current**. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

### Answer 6 (a)

- (i) Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (₹)	Rate of interest		Amount of interest (₹)
7,00,000	12%	=	84,000
<u>9,00,000</u>	11%	=	<u>99,000</u>
<u>16,00,000</u>			<u>1,83,000</u>
<b>Weighted average rate of interest</b> (1,83,000/16,00,000) x 100		=	<b>11.4375%</b>

- (ii) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of Incurrence of expenditure	Amount spent	Financed through	Calculation	₹
1 <sup>st</sup> April, 20X1	1,50,000	Specific borrowing	1,50,000 × 9% × 10/12	11,250
1 <sup>st</sup> August, 20X1	2,00,000	Specific borrowing	50,000 × 9% × 10/12	3,750
		General borrowing	1,50,000 × 11.4375% × 6/12	8,578.125
1 <sup>st</sup> October, 20X1	3,50,000	General borrowing	3,50,000 × 11.4375% × 4/12	13,343.75
1 <sup>st</sup> January, 20X2	1,00,000	General borrowing	1,00,000 × 11.4375% × 1/12	<u>953.125</u>
				<b><u>37,875</u></b>

**Note:** Since construction of building started on 1<sup>st</sup> April, 20X1, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

- (iii) Total expenses to be capitalized for building

	₹
Cost of building ₹ (1,50,000 + 2,00,000 + 3,50,000 + 1,00,000)	8,00,000
Add: Amount of interest to be capitalized	37,875
	<b>8,37,875</b>

- (iv) Journal Entry

Date	Particulars		₹	₹
31.1.20X2	Building account	Dr.	8,37,875	
	To Bank account			8,00,000
	To Interest payable (borrowing cost)			37,875

	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			
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**Note:** In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.20X2.

**Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:**

Date	Particulars		₹	₹
31.1.20X2	Building account To Bank account (Being expenditure incurred on construction of building and borrowing cost thereon capitalized)	Dr.	8,37,875	8,37,875

#### **Answer 6 (b)**

The given scenario presents a twofold conflict of interest:

##### **(i) Pressure to obtain finance and chartered accountant's personal circumstances**

The chartered accountant is under pressure to provide the bank with a projected cash flow statement that will meet the bank's criteria when in fact the actual projections do not meet the criteria.

The chartered accountant's financial circumstances mean that he cannot lose his job,

thus the ethical and professional standards required of the accountant are at odds with the pressures of his personal circumstances.

##### **(ii) Duty to shareholders, employees and bank**

The directors have a duty to act in the best interests of the company's shareholders and employees, and a duty to present fairly any information the bank may rely on .

The injection of capital to modernise plant and equipment appears to be for capacity expansion which will lead to greater profits, thus being in the interests of the shareholders and the employees.

However, if such finance is obtained based on misleading information, it could actually be detrimental to the going concern status of the company.

It could be argued that there is a conflict between the short-term and medium-term interests of the company (the need to modernise the company) and its long-term interests (the detriment to the company's reputation if its directors do not conform to ethics).

**Answer 6 (c)****(1) Goodwill / capital reserve on the date of acquisition**

The cost of the investment is higher than the net fair value of the investee's identifiable assets and liabilities. **Hence there is goodwill.** Amount of goodwill is calculated as follows

	₹
Cost of acquisition of investment	1,25,000
Blue Ltd.'s share in fair value of net assets of Green Ltd. on the date of acquisition (4,00,000 *25%)	<u>(1,00,000)</u>
<b>Goodwill</b>	<b><u>25,000</u></b>

Above goodwill will be **recorded as part of carrying amount of the investment.**

**(2) Share in profit and other comprehensive income of Gren Ltd.**

	₹
<b>Share in profit</b> of Green Ltd. (40,000 x 25%)	10,000
Adjustment for depreciation based on fair value (1,00,000 ÷ 20) x 25%	<u>(1,250)</u>
<b>Share in profit after adjustment</b>	<b>8,750</b>
<b>Share in other comprehensive income</b> (10,000 x 25%)	<b>2,500</b>

**(3) Closing balance of investment at the end of the year**

	₹
Cost of acquisition of investment ( <b>including goodwill of ₹ 25,000</b> )	1,25,000
Share in profit after adjustments	8,750
Share in other comprehensive income	<u>2,500</u>
<b>Closing balance of investment</b>	<b><u>1,36,250</u></b>

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