

FINAL EXAMINATION

June 2024

*P-18(CFR)
Syllabus 2022*

CORPORATE FINANCIAL REPORTING

Time Allowed: 3 hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.
Wherever considered necessary, suitable assumptions may be made
and clearly indicated in the answer.
All working notes must form part of the answer.*

SECTION - A (Compulsory)

1. Choose the correct option from the four alternatives given.

2×15=30

(i) As per Ind AS 112 certain disclosures are required to be made about non-controlling interests. Some items of disclosures are given below:

- (a) The name of the subsidiary.
- (b) Accumulated non-controlling interest at the beginning of the reporting period.
- (c) The proportion of ownership interests held by non-controlling interests.
- (d) Accumulated non-controlling interest at the end of the reporting period.

Choose correct option:

- (A) All the items are to be disclosed.
- (B) Items (a), (b) and (c) are to be disclosed.
- (C) Items (b), (c) and (d) are to be disclosed.
- (D) Items (a), (c) and (d) are to be disclosed.

(ii) With respect to Integrated Reporting which of the following is not true?

- (A) An integrated report is necessarily to be a stand-alone report.
- (B) The framework of integrated reporting is written primarily for private companies.
- (C) A report prepared as required by local law containing a management commentary or other report that provides context for its financial statements can serve the purpose of integrated reporting.
- (D) All of the above

- (iii) Which of the following is not an objective of Government Accounting?
- (A) To provide reliable data regarding the operation of the public funds.
 - (B) To avoid excess expenditure beyond the budgetary approval.
 - (C) To prevent misappropriation of government properties.
 - (D) To facilitate tax collection by the concerned government department.
- (iv) Indian Government Accounting Standard (IGAS)-1 deals with _____.
- (A) Guarantees given by Governments: Disclosure Requirements
 - (B) Accounting and Classification of Grants-in-Aid
 - (C) Loans and Advances made by Government
 - (D) Foreign Currency Transactions and Loans or Gain by Exchange Rate Variation
- (v) Which of the following is not a part of an earnings call?
- (A) Safe harbour statement.
 - (B) Presentation and discussion of the financial results.
 - (C) Question and answer session.
 - (D) Examination of audit report.
- (vi) Lease Rental and Hire-Purchase Assets will be treated as Non-Performing Assets (NPA) in case of NBFCs for the financial year ended 31st March, 2024 if _____.
- (A) overdue for 3 months as on 31st March, 2024
 - (B) overdue for 6 months as on 31st March, 2024
 - (C) overdue for 9 months as on 31st March, 2024
 - (D) overdue for 4 months as on 31st March, 2024

- (vii) DAWN Ltd. has acquired 100% of the equity of NIGHT Ltd. on March 31, 2024. The purchase consideration comprises of an immediate payment of ₹ 20 lakh and three further payments of ₹ 2 lakh each if the return on equity exceeds 16% in each of the subsequent three financial years. On the acquisition date, the aggregate value of DAWN's identifiable net assets is ₹ 22,00,000. Calculate purchase consideration and Goodwill/ gain on bargain purchase. Assume discount rate @10%.
- (A) Purchase consideration ₹ 20,00,000 and gain on bargain purchase ₹ 2,00,000
(B) Purchase consideration ₹ 26,00,000 and goodwill ₹4,00,000
(C) Purchase consideration ₹ 24,97,360 and goodwill ₹ 4,97,360
(D) Purchase consideration ₹ 24,97,360 and goodwill ₹ 2,97,360
- (viii) ABC Ltd. reports quarterly and in the quarter ended 30.06.2023, it earned pre-tax profit of 3 crore but it expects to incur losses of ₹ 1 crore in each of three remaining quarter of the financial year. The tax rate on income is 30%. The management believes that since the company has zero income for the financial 2023-24, its income-tax expenses for the year will be zero. Calculate the amount of tax expenses to be reported in the first and fourth quarters.
- (A) ₹ 90 lakh and ₹ Nil
(B) ₹ Nil and ₹ Nil
(C) ₹ 90 lakh and ₹ (30) lakh
(D) None of the above
- (ix) EARTH Ltd. purchased an equipment for ₹ 51 lakh on April 1, 2023. The useful life of the equipment is 5 years and the residual value is estimated to be ₹ 1 lakh. The company adopts straight line method of depreciation. On March 31, 2024, a test for impairment was conducted after obtaining the following information:
- Fair value less costs to sell ₹ 36 lakh
Value in use ₹ 32 lakh
- Having regard to Ind AS 36, calculate the impairment loss to be recognized for the year ending March 31,2024.
- (A) ₹ 4,00,000
(B) ₹ 9,00,000
(C) ₹ 5,00,000
(D) None of the above

(x) On April 1, 2019, RIHAND Ltd. purchased heavy-duty equipment for ₹ 4,00,000. On the date of installation, it was estimated that the machine has a useful life of 10 years and a residual value of ₹ 40,000. Accordingly, the annual depreciation worked out to ₹ 36,000 = $[(₹ 4,00,000 - ₹ 40,000) / 10]$. On April 1, 2023, after four years of using the equipment, the company decided to review the useful life of the equipment and its residual value. Technical experts were consulted. According to them, the remaining useful life of the equipment at April 1, 2023 was seven years and its residual value was ₹46,000. Compute the revised annual depreciation for the year 2023-24 and future years.

(A) ₹ 40,000

(B) ₹ 36,000

(C) ₹ 50,571

(D) ₹ 30,000

(xi) Narmada Ltd. owns a machinery which is carried in its Balance Sheet at the carrying amount of ₹ 15 million. The fair value of the machinery is ₹ 22.5 million. It exchanges this machinery for a building having a fair value of ₹ 30 million and pays additional cash of ₹ 4.5 million. As per the relevant Ind AS, the profit on exchange of machinery is:

(A) ₹ 7.5 million

(B) ₹ 12 million

(C) ₹ 19.5 million

(D) None of the above

(xii) Harish Ltd. has taken a loan of USD 22,000 @ 5% p.a., for constructing a plant, interest payable on which is annual. On 1st April, 2023, the exchange rate was ₹ 45 per USD. The exchange rate on 31st March, 2024 is ₹ 48 per USD. Had Harish Ltd. borrowed the corresponding amount from Union Bank of India, the rate of interest would have been 11% p.a. The borrowing cost to be capitalized for the year ended 31st March, 2024 as per the relevant Ind AS is:

(A) ₹ 52,800

(B) ₹ 1,08,900

(C) ₹ 56,100

(D) ₹ 66,000

(xiii) On 1st April, 2023, Rita Ltd. invested in the equity shares of Sita Ltd. at a cost of ₹ 2,00,000 to acquire 25% share in the voting power of Sita Ltd. Rita Ltd. concluded that Sita Ltd. is now an associate of Rita Ltd. On 31st March, 2024, Sita Ltd. earned the net profit of ₹ 20,000 and other comprehensive income of ₹ 4,000. In the year 2023-24, Sita Ltd. also declared dividend of ₹ 8,000. The carrying amount of investment in Sita Ltd. as at 31st March, 2024 as per the relevant Ind AS is:

- (A) ₹ 2,00,000
- (B) ₹ 2,05,000
- (C) ₹ 2,06,000
- (D) ₹ 2,04,000

(xiv) Surendra Ltd., a parent, sold goods costing ₹ 400 lakh to its 80% subsidiary, Narendra Ltd. at ₹ 480 lakh. 50% of these goods are lying in stock as at 31st March, 2024. Narendra Ltd. has measured this inventory at cost i.e., at ₹ 240 lakh. The tax rate is 30%. The deferred tax to be shown in the consolidated financial statements is:

- (A) ₹ 12 lakh
- (B) ₹ 60 lakh
- (C) ₹ 72 lakh
- (D) ₹ 120 lakh

(xv) Mohan Ltd. held 50% of the voting power of Sohan Ltd. which is a joint venture of Mohan Ltd. The carrying value of the investment in Sohan Ltd. is ₹ 1,50,000. Now, out of the 50% stake, Mohan Ltd. sells 20% stake in Sohan Ltd. to a third party for a consideration of ₹ 1,20,000. The fair value of the retained 30% interest is ₹ 1,80,000. The gain or loss recorded by Mohan Ltd. in its profit or loss is:

- (A) Gain of ₹ 1,50,000
- (B) Loss of ₹ 1,50,000
- (C) Gain of ₹ 90,000
- (D) None of the above

SECTION - B

(Answer any 5 questions out of 7 questions given. Each question carries 14 marks.)

14×5=70

2. (a) X Ltd., a lessee, entered into a lease agreement with Y Ltd., a lessor, to lease an entire floor of a mall for a period of 9 years. The annual lease rent of ₹ 1,40,000 is payable each year at the end of the year. To carry out its functions smoothly, X Ltd. entered into another agreement (facilities agreement) with Y Ltd. to use the facilities owned by Y Ltd. such as passenger lift, DG sets, power supply infrastructure, parking space etc., which are specifically mentioned in the agreement for annual service charges amounting to ₹ 2,00,000. The ownership of the facilities will remain with Y Ltd. The incremental borrowing rate of X Ltd. is 10%.

The facility agreement shall co-exist with the lease agreement and will terminate along with the termination of the lease agreement.

X Ltd. has assessed that the stand-alone price of the lease agreement is ₹ 2,40,000 p.a. and that of the facilities agreement is ₹ 1,60,000 p.a. X Ltd. has not elected to apply the practical expedient of not separating the lease components from non-lease components and accordingly separates the non-lease components from lease components.

Discuss how X Ltd. will account for the lease liability as at the commencement date.

[Note: The present value factors for ₹ 1 @ 10% p.a. for the years 1 to 9 are 0.909, 0.826, 0.751, 0.683, 0.621, 0.564, 0.513, 0.467, 0.424 respectively] 7

- (b) Y Ltd. is developing a new distribution system of its material. Following are the costs incurred at different stages of R&D.

Year	2019-20	2020-21	2021-22	2022-23	2023-24
Phase	Research	Research	Development	Development	Development
Cost (₹ in cr.)	16	20	60	72	80

On 31.03.2024, the company identified the level of cost savings at ₹ 32 crore p.a. expected to be achieved by the new system over a period of five years. In addition, the system developed can be marketed by way of consultancy which will earn additional cash flow of ₹ 20 crore p.a. over the five-year period. The fair value net of cost of disposal is ₹ 190 crore.

Y Ltd. demonstrated that the new system met the criteria for asset recognition on 01.04.2021. The system shall be available for use from 01.04.2024. For testing for impairment, 10% discount factor can be taken.

Determine:

- (i) The amount chargeable as expense.
- (ii) The amount to be capitalized as intangible asset up to 31.03.2024.
- (iii) Impairment loss to be recognized for 2023-24.
- (iv) The final carrying amount of the intangible on 31.04.2024 after recognizing the impairment loss.

[Given, PVIFA (10%, 5) = 3.79]

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3. (a) A machinery is sold in two different active markets at two different prices. Ram Ltd. enters into transactions in both the markets and can access the prices in those markets for the machinery at the measurement date. The details are as under:

Market X: The price that would be received is ₹ 26,000, transaction costs in the market are ₹ 3,000 and the costs to transport the machinery to that market are ₹ 2,000; and

Market Y: The price that would be received is ₹ 25,000, transaction costs in the market are ₹ 1,000 and the costs to transport the machinery to that market are ₹ 2,000.

Based on the above details, you are required to **calculate**:

- (i) the fair value of the machinery if market X is the principal market; and
- (ii) the fair value of the machinery if neither of the markets is the principal market.

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- (b) P Ltd. provides the following information as on 31.03-2024:

Equity share capital: 80,000 shares of ₹ 10 each fully paid and 50,000 shares of ₹ 10 each, ₹ 4 paid.

9% Preference share capital ₹ 6,00,000.

General Reserve ₹ 1,80,000.

12% Debentures ₹ 5,00,000.

Assets include a non-trade investment, the market value of which is ₹ 2,40,000 (Book value being ₹ 2,80,000).

Before tax profits for last three years were ₹ 1,90,000, ₹ 2,50,000 and ₹ 2,80,000 respectively (including income from non-trade investment of ₹ 20,000 on an average).

Rate of income tax is 30%.

Fair return on capital employed in this type of business is estimated at 9% after tax.

You are required to **calculate**:

- (i) The value of goodwill using 3 years' purchase of Super Profit method, and
- (ii) The value of each fully paid-up equity share under Asset Backing method.

Use closing trading capital employed for calculation of goodwill.

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4. (a) BEAS Ltd. borrows a sum of ₹ 20 crore from SINDHU Ltd. on 01.04.2023 repayable as a single bullet payment at the end of 5 years. The interest thereon @ 5% p.a. is payable at yearly rests. Since the market rate of interest is 8%. BEAS Ltd. paid an origination fee of ₹ 2.3954 crore to SINDHU Ltd. to compensate SINDHU Ltd. for the lower rate of interest. Apart from the above, there are no other transactions between the two parties.

You are required to **calculate** the amount at which BEAS Ltd. would recognize the loan and SINDHU Ltd. would recognize the annual interest income thereon.

The following Present Values of ₹ 1 at 5% and at 8% are supplied to you.

Interest Rate	Year-1	Year-2	Year-3	Year-4	Year-5
5%	0.9524	0.9070	0.8638	0.8227	0.7835
8%	0.9259	0.8573	0.7938	0.7350	0.6806

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- (b) The summarized Balance Sheet of MEGHNA Ltd. as on 31st March, 2024 was as follows:

Particulars	Note No.	Amount (₹)	Amount (₹)
A. Asset			
1. Non-current assets			
(a) Property, Plant & Equipment			
(i) Tangible assets	5	5,50,000	
(ii) Intangible assets	6	<u>1,50,000</u>	7,00,000
2. Current Assets			
(a) Inventories			1,50,000
(b) Financial Assets			
(i) Trade Receivables		1,25,000	
(ii) Loans & Advances		<u>25,000</u>	
			<u>1,50,000</u>
Total			<u>10,00,000</u>

Particulars	Note No.	Amount (₹)	Amount (₹)
B. Equity and Liabilities			
1. Equity			
(a) Share Capital	1	7,50,000	
(b) Other Equity	2	<u>(10,00,000)</u>	(2,50,000)
2. Non-current Liabilities			
(a) Long Term borrowings	3		5,00,000
3. Current Liabilities			
(a) Short Term Borrowings	4	5,00,000	
(b) Trade Payables		<u>2,50,000</u>	
Total			<u>7,50,000</u> <u>10,00,000</u>

Notes to Accounts:

		Amount (₹)	Amount (₹)
1	Share Capital Authorized, issued & fully paid 5,000 equity shares of ₹ 100 each 2,500 8% preference shares of ₹ 100 each	5,00,000 <u>2,50,000</u>	7,50,000
2	Other Equity Retained Earnings i.e Profit and Loss Account		(10,00,000)
3	Long Term borrowings 8% Debentures		5,00,000
4	Short Term Borrowings Loan from Directors Bank overdraft	3,00,000 <u>2,00,000</u>	5,00,000
5	Tangible Assets Freehold property Plant	4,00,000 <u>1,50,000</u>	5,50,000
6	Intangible Assets Goodwill Trademark	1,00,000 <u>50,000</u>	1,50,000

The following scheme of internal reconstruction was framed, approved by the Court and all the concerned parties and implemented:

- (i) The preference shares to be written down to ₹ 25 each and the equity shares to ₹ 20 each. Each class of shares is to be converted into shares of ₹ 100 each after reduction.

- (ii) The debenture holders to take over freehold property (book value ₹ 2,00,000) at a valuation of ₹ 2,50,000 in part repayment of their holdings. Remaining freehold property to be revalued at ₹ 6,00,000.
- (iii) Loan from directors to be waived off in full.
- (iv) Stock of ₹ 50,000 to be written off and ₹ 12,500 to be provided for bad debts.
- (v) Profit and Loss account balance, Trademark, goodwill and Loans & Advances are to be written off.

Prepare necessary journal entries for all the above-mentioned transactions. 7

5. On 1st April, 2023, M Ltd. acquired 30% of the ordinary shares of N Ltd. for ₹ 8,000 crore. M Ltd. accounts for its investment in N Ltd. using equity method of accounting as prescribed under Ind AS 28.

On 31st March, 2024, M Ltd. accounts for its share of net assets changes in N Ltd. as per equity method of accounting as under:

Particulars	₹ in crore
Share of profit	700
Share of exchange difference in other comprehensive income (OCI)	100
Share of revaluation reserve of PPE in other comprehensive income (OCI)	50

The carrying amount of the investment of M Ltd. in the associate, N Ltd. is, therefore, ₹ 8,850 crore (₹ 8,000 crore + ₹ 700 crore + ₹ 100 crore + ₹ 50 crore).

On 1st April, 2024, M Ltd. acquired further 70% of the ordinary shares of N Ltd. for cash amounting to ₹ 25,000 crore.

The following additional pieces of information are relevant as on 1st April, 2024:

Particulars	₹ in crore
Fair value of 30% interest of M Ltd. in N Ltd. as on 1st April, 2024	9,000
Fair value of net identifiable assets of N Ltd. as on 1st April, 2024	30,000

Based on the above pieces of information, you are required to:

- (a) **Determine** the date of acquisition for M Ltd. Justify your answer.
- (b) **Determine** the gain on previously held interest in N Ltd. and suggest the accounting treatment on acquisition date as per Ind AS 103.
- (c) **Compute** the amount of goodwill arising on the acquisition of N Ltd.
- (d) **Pass** the necessary journal entry on the acquisition date.

6. The balance sheets of H Ltd. and S Ltd. as on 31.03.2024 were as follows:

Particulars	H Ltd.	S Ltd.
	Carrying Amount (₹ in lakh)	Carrying Amount (₹ in lakh)
Assets		
Non-current Assets		
PPE	14,800	6,000
Investment in S Ltd.	5,800	—
Current Assets		
Inventories	2,600	2,000
Trade Receivables (due from S Ltd. ₹160 lakh)	4,000	2,000
Dividend Receivable	320	—
Total	27,520	10,000
Equity and Liabilities		
Equity		
Share Capital (₹ 10)	10,000	4,000
Other Equity (Retained Earnings)	16,320	5,000
Non-current Liabilities	—	—
Current Liabilities		
Trade Payables (due to H Ltd. ₹120 lakh)	1,200	600
Dividend Payable	—	400
Total	27,520	10,000

Additional Information:

- (i) On 01.04.2023, S Ltd. had 400 lakh shares of ₹ 10 each and ₹ 3,000 lakh in its Retained Earnings in Other Equity. H Ltd. acquired 80% share of S Ltd. on 01.04.2023 at a consideration of ₹ 5,800 lakh payable in cash.
- (ii) The aggregate identifiable net assets of S Ltd. as on 01.04.2020 included PPE and inventory standing in the books of S Ltd. at ₹ 2,500 lakh and ₹ 500 lakh having fair value of ₹ 2,800 lakh and ₹ 200 lakh respectively. The rate of depreciation on PPE is 10% p.a.
- (iii) NCI was to be measured at fair value based on the purchase consideration.
- (iv) Goodwill was impaired by ₹ 100 lakh.
- (v) H Ltd. sold goods worth ₹ 200 lakh to S Ltd. on credit at a profit of 20% on sales. 50% of the goods were still laying unsold.
- (vi) S Ltd. issued a cheque of ₹ 40 lakh in favour of H Ltd. as a part payment of the goods purchased from it in March, 2024. The cheque is yet to be received by H Ltd.
- (vii) Dividend payable represents the dividend declared out of pre-acquisition profit. H Ltd. credited its share of dividend from S Ltd. to its profits.

Prepare the Consolidated Balance Sheet of the Group on 31.03.2024.

7. (a) Saurav Ltd. provides you with the following data based on which you are required to calculate the Economic Value Added (EVA):

Equity share capital (42 crore equity shares of ₹ 10 each)	₹ 420 crore
15% preference share capital (1.40 crore shares of ₹ 100 each)	₹140 crore
15% debentures (11.20 crore debentures of ₹ 100 each)	₹1,120 crore
Income tax rate	30%
Beta	1.5
Market rate of return	15.5%
Equity Market risk premium	9%
Financial leverage	1.5 times
Land and building (held as investment)	₹140 crore

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- (b) Briefly mention the Corporate Social Responsibility reporting requirement as per Rule 8 of the Companies (CSR Policy) Rules, 2014. 7
8. (a) What is Public Accounts Committee (P.A.C.)? What are its objectives? How is it constituted? 5
- (b) Write a short note on Government Accounting Standards Advisory Board (GASAB) emphasizing on the structure of GASAB. 5
- (c) On 01.04.2022, H Ltd. acquired 75% shares of S Ltd. in cash at a premium of ₹ 500 lakh over market price per share of ₹ 26 each. i.e., at a fair value of ₹ 20,000 lakh. On that date, S Ltd. had an issued and subscribed capital of 1,000 lakh shares of ₹10 each fully paid and a balance of ₹ 10,000 lakh in its retained earnings under Other Equity. The aggregate identifiable net assets of S Ltd. as on 01.04.2022 included an item of PPE whose fair value was lower than the book value by ₹ 1,200 lakh. For other items, book value and fair value were same. NCI was valued at fair value calculated at the market price per share. Determine the NCI and Goodwill on the date of acquisition. If the goodwill is impaired by ₹ 1,540 lakh on 31.03.2023, how will the impairment loss be shared by H Ltd. and NCI? 4