

FINAL EXAMINATION

December 2018

*P-17(CFR)
Syllabus 2016*

Corporate Financial Reporting

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

Both the sections are to be answered subject to instructions given against each.

[All working must form part of your answer.]

Section-A

Answer the following questions.

1. (a) Choose the most appropriate answer from the four alternatives given: (1 mark for right choice and 1 mark for justification.) 2×10=20

(i) Vini Ltd. has an asset, which was purchased on 01.04.2016 at ₹ 1,000 lakhs and estimated salvage value was ₹ 100 lakhs. The life of the asset is 5 years. The Company applies straight line method for depreciation. As at 31.03.2018 value in use is ₹ 400 lakhs and the net selling price is ₹ 375 lakhs. The amount of impairment loss for 2017-2018 is

- (A) ₹ 420 lakhs
(B) ₹ 200 lakhs
(C) ₹ 240 lakhs
(D) ₹ 265 lakhs

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- (ii) XYZ Ltd. obtained a Loan from a Bank for ₹ 240 lakhs on 30.04.2016. It was utilized for construction of a shed ₹ 120 lakhs, Purchase of Machinery ₹ 80 lakhs, Working Capital ₹ 40 lakhs. Construction of shed was completed in March, 2018. The machinery was installed on the same date. Total interest charged by the Bank for the year ended 31.03.2018 was ₹ 36 lakhs. As per AS-16, interest to be debited to Profit & Loss Account will be
- (A) ₹ 36 lakhs
 - (B) ₹ 18 lakhs
 - (C) ₹ 9 lakhs
 - (D) None of the above
- (iii) As per Ind AS breach of a long-term loan covenant will lead to classification of loan as a liability payable on demand and classification in the financial statement to be made accordingly as required in the book of borrower when
- (A) such breach occurs after the end of the financial year and there is no subsequent agreement between borrower and lender.
 - (B) such breach occurs after the end of the financial year and before the issue of the financial statement.
 - (C) such breach occurs before the end of the financial year and there is an agreement between lender and borrower after the end of the financial year and before the issue of financial statement to the effect that lender shall not demand the payment.
 - (D) such breach occurs after the end of the financial year and the lender has sent a demand after requesting immediate payment before the issue of the financial statement.
- (iv) M/s Power Track Ltd. purchased a plant for US \$ 50,000 on 31st October, 2017 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 64.25 per Dollar. On 31st October, 2017 the exchange rate was ₹ 61.50 per Dollar. The profit or loss on forward contract for the year ended 31st March, 2018 is
- (A) ₹ 1,37,500
 - (B) ₹ 1,14,583
 - (C) ₹ 1,14,538
 - (D) None of the above

- (v) RAJASTHANI Co-operative Society Ltd. has borrowed a sum of US \$ 12.50 million at the commencement of the financial year 2017-2018 for its solar energy project at LIBOR (London Interbank Offered Rate of 1%) + 4%. The interest is payable at the end of the respective financial year. The loan was availed at the then rate of ₹ 45 to US dollar while the rate as on 31st March, 2018 is ₹ 48 to the US dollar. Had RAJASTHANI Co-operative Society Ltd. borrowed the Rupee equivalent in India, the interest would have been 11%. 'Borrowing Cost' and exchange difference will be
- (A) ₹ 61,87,500, ₹ 5,62,500
 (B) ₹ 67,50,000, ₹ 5,62,500
 (C) ₹ 37,50,000, ₹ 5,62,500
 (D) None of the above
- (vi) Accounting profit ₹ 15,00,000, Book profit as per MAT ₹ 8,75,000, Profit as per Income-tax Act ₹ 1,50,000, Tax rate 30%, MAT rate 7.50%. The deferred tax asset/liability as per AS-22 and amount of tax to be debited to Profit and Loss Account for the year ended 31.03.2018 are
- (A) ₹ 4,95,000, ₹ 5,15,625
 (B) ₹ 4,05,000, ₹ 4,70,625
 (C) ₹ 4,05,000, ₹ 5,15,625
 (D) None of the above
- (vii) TULSIAN Ltd. has initiated a lease for 3 years in respect of a machinery costing ₹ 6,00,000 with expected useful life of 5 years. Machinery would revert to TULSIAN Ltd. under the lease agreement. The unguaranteed residual value of the machinery after the expiry of the lease term is estimated at ₹ 80,000. The implicit rate of interest is 8%. The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of machinery. Annual lease payments are made at the end of each accounting year. (PV of ₹ 1 @ 8% for 3 years is 0.9259, 0.8573, 0.7938 respectively). The unearned finance income is
- (A) ₹ 24, 558
 (B) ₹ 2,08,186
 (C) ₹ 1,04,558
 (D) None of the above

- (viii) X Ltd. holds 51% of Y Ltd., Y Ltd. holds 51% of W Ltd., Z Ltd. holds 49% of W Ltd.
The related Parties as per AS-18 are
- (A) Z Ltd. and W Ltd.
 - (B) Z Ltd. and X Ltd.
 - (C) Z Ltd. and Y Ltd.
 - (D) None of the above
- (ix) A firm values goodwill under 'Capitalization of profits' method. Its average profits for past 4 years has been determined at ₹ 72,000. Net assets and capital employed in the business is ₹ 4,80,000 and ₹ 5,00,000 respectively and its normal rate of return is 12%. Value of Goodwill based on capitalization of profit will be
- (A) ₹ 1,60,000
 - (B) ₹ 1,32,000
 - (C) ₹ 1,20,000
 - (D) ₹ 1,00,000
- (x) X Ltd. acquired 150000 shares of Y Ltd. on August, 2016. The Equity Capital of Y Ltd. is ₹ 20 lakh of ₹ 10 per share. The machinery of Y Ltd. is revalued upwards by ₹ 4,00,000. The minority group interest shown in the consolidated Balance Sheet as on March 31, 2017 was
- (A) ₹ 6,00,000
 - (B) ₹ 4,00,000
 - (C) ₹ 1,00,000
 - (D) None of the above

Section-B

Answer any five from the following seven questions.

2. (a) State whether or not Ind AS are applicable for the following Companies/Banks. If yes, also state the effective date of applicability.
- (i) A chemical company having Net Worth below INR 250 crore already listed on National Stock Exchange in India
 - (ii) A publishing company having Net Worth below INR 250 crore in process of listing on National Stock Exchange in India
 - (iii) An Unlisted FMCG Company having Net Worth of INR 250 crore

- (iv) An Unlisted NBFCs having Net Worth of INR 500 crore
 - (v) An Unlisted NBFCs having Net Worth of INR 250 crore
 - (vi) Scheduled Commercial Banks (excluding RRB's and UCBs)
 - (vii) Insurance Companies
 - (viii) A chemical company listed on SME exchange
 - (ix) An Unlisted FMCG Company having Net Worth below INR 250 crore
 - (x) A listed NBFCs having Net Worth below INR 250 crore
 - (xi) A Regional Rural Bank having Net Worth of INR 250 crore
 - (xii) An Urban Cooperative Bank having Net Worth of INR 250 crore
- (b) Zee Ltd. purchased raw material of 20000 units at ₹ 10 per kilogram during the year 2017-2018. They provide you with the following other information for the year ended 31st March, 2018:

Particulars	Units	₹
<i>Opening inventory:</i>		
Finished goods	2000	50,000
Raw materials	2200	22,000
Labour		1,53,000
Fixed overhead		1,50,000
Sales	20000	5,60,000
<i>Closing inventory:</i>		
Finished goods	2400	
Raw materials	1800	

The expected production of the finished product for the year was 30000 units. Each unit of finished product requires one unit of Raw Material purchased. Due to a fall in the market demand, the price of the finished goods in which the raw material is incorporated is, expected to be sold at ₹ 20 per unit. The replacement cost of raw material was ₹ 9.50 per unit on the closing day of the accounting period.

You are required to value the closing inventory as on 31st March, 2018 with reference to Ind AS-2.

8+8=16

Please Turn Over

3. (a) Bharat Tushar Ltd. borrowed funds for modernization and development of its factory as follows:

Date on which Funds borrowed	Funds Borrowed (₹)	Rate of Interest
01.04.2018	12,00,000	13%
01.07.2018	40,00,000	14%
01.10.2018	16,00,000	15.5%

Expenditure incurred on Construction of a Building (₹)	Date on which it is incurred
6,00,000	01.04.2017
2,00,000	01.05.2017
3,00,000	01.07.2017
8,00,000	01.12.2017

The Construction of a Building completed on 31.12.2017. However, it was put to use only on 01.04.2018. A sum of ₹ 20 lakhs has been advanced for purchase of Plant & Machinery which was installed by 31st March, 2018. ₹ 29 lakhs has been utilized for working capital requirements. Show the treatment of Interest as per AS-16.

- (b) Discuss the following situations with reference to relevant Accounting Standard regarding treatment in the Accounts:
- An airline is required by law to overhaul its aircraft once in every three years. A company which operates aircrafts does not provide any provision as required by law in its Final Accounts.
 - A company is in a dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 900 lakhs. The Directors are of the opinion that the claim can be successfully resisted by the company.

4. (a) Given below are the extracts from the Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2018:

Particulars	P Ltd. (₹)	V Ltd. (₹)
Equity Share Capital of ₹ 10 each	6,00,000	2,00,000
General Reserve	1,50,000	20,000
Profit & Loss A/c	1,77,000	10,000
Statutory Reserves	—	5,000
10% Debentures of ₹ 100 each	—	50,000
Trade Payables	37,500	1,40,000
Goodwill	—	1,19,500
Tangible Assets	4,75,000	1,50,000
Non-Current Investments (including 100 Debentures of V Ltd. purchased @ ₹ 90)	1,09,000	—
Inventories	95,000	55,000
Trade Receivables	1,40,000	65,000
Cash at Bank	1,45,500	35,500

The business of V Ltd. is taken over by P Ltd. as on that date on the following terms:

- (i) Prior to absorption, V Ltd. and P Ltd. decide to declare and pay equity dividend @ 5%. (Ignore Dividend Distribution Tax)
- (ii) 50% of Tangible Fixed Assets are taken over at 100% more than the book value and the remaining Tangible Fixed Assets are taken over at less than the book value for ₹ 62,500.
- (iii) Goodwill of V Ltd. is to be valued at ₹ 50,000.
- (iv) Inventories are taken over at book value less 10% and Trade Receivables are taken over at book value subject to an allowance of 10% to cover doubtful debts.
- (v) Trade Payables are to be taken over subject to a discount of 5% and Unrecorded Loan Liability of ₹ 38,500 to be discharged by P Ltd. at book value.
- (vi) The purchase consideration is to be discharged to the extent of 20% in cash and the balance in the form of equity shares of ₹ 10 each, ₹ 8 paid up at a premium of ₹ 7 per shares. The market value of an equity share of P Ltd. at present is ₹ 100.
- (vii) The issue of such an amount of fully paid 14% Debentures in P Ltd. at 96 per cent as is sufficient to discharge 10% Debentures in V Ltd. at a premium of 20 per cent.
- (viii) Expenses of liquidation of V Ltd. are to be reimbursed by P Ltd. to the extent of ₹ 10,000 Actual Expenses amounted to ₹ 12,000.
- (ix) Statutory Reserves are to be maintained for 2 more years.

Prior to 31st March, 2018 V Ltd. sold goods costing ₹ 30,000 to P Ltd. for ₹ 40,000. ₹ 25,000 worth of goods were still in stock of P Ltd. Trade Receivables include ₹ 20,000

still due from P. Ltd. On the date of absorption, V Ltd. owed P Ltd. ₹ 60,000 for the purchases of stock from P. Ltd. which made a profit of 20% on cost. Four fifth of such stock were sold till 31.03.2018.

Required: (a) Prepare Realisation Account in the books of V Ltd.

(b) Pass Journal Entries in the books of P Ltd.

- (b) ABC Ltd acquires 80% of XYZ Ltd. for ₹ 12,00,000 paid by equity at par. Fair Value of XYZ Ltd.'s net assets at the time of acquisition amounts to ₹ 10,00,000.

You are required to calculate:

(a) Non controlling interest and Goodwill

(b) Journal entries in the books of ABC Ltd.

12+4=16

5. Given below are the extracts from the Balance Sheets of AH Ltd. and AS Ltd. as at 31st March, 2018:

Particulars	AH Ltd. (₹)	AS Ltd. (₹)
Equity Shares of ₹ 10 each	10,00,000	7,00,000
12% Pref. Shares of ₹ 10 each	1,00,000	50,000
General Reserve	2,00,000	4,48,000
Profit & Loss A/c	3,10,000	1,52,000
12% Debentures	2,00,000	2,00,000
Trade Creditors	3,00,000	5,35,000
Bills Payables	1,40,000	1,40,000
Land & Building	6,00,000	2,70,000
Plant & Machinery	2,00,000	3,70,000
Shares in AS Ltd.	7,10,000	—
900, 12% Debentures in AS Ltd.	80,000	—
Inventories	1,00,000	3,00,000
Trade Debtors	4,00,000	9,10,000
Bills Receivables	1,00,000	1,00,000
Cash at Bank	60,000	2,75,000

Note: Contingent liability in respect of Bills discounted by AH Ltd. ₹ 50,000.

Contingent liability in respect of Bills discounted by AS Ltd. ₹ 25,000 of which Bills of ₹ 5,000 were accepted by AH Ltd.

Additional Information:

- (a) AH Ltd. acquired 40,000 Equity Shares of AS Ltd. and 2,000. 12% Pref. Shares in AS Ltd. on 01.07.2017 at a cost of was ₹ 6,80,000 and ₹ 30,000 respectively. The credit balance of Profit and Loss Account of AS Ltd. as on 01.04.2017 was ₹ 2,00,000 and that of General Reserve on that date was ₹ 6,00,000.

- (b) On 30.09.2017 AS Ltd. declared dividend @ 20% on equity shares for the year 2016-2017. AH Ltd. credited the receipt of dividend to its Profit and Loss Account.
- (c) On 01.01.2018, AS Ltd. issued 2 shares for every 5 shares held, as Bonus shares. No entry has been made in the books of AH Ltd. for the receipt of these Bonus shares.
- (d) AH Ltd. purchased goods for ₹ 3 lakhs from AS Ltd. which made a profit of 20% on cost. 80% of these goods were sold by AH Ltd. at a profit of 20% on cost till 31.03.2018.
- (e) On 01.01.2018, AH Ltd. sold to AS Ltd. a Machine costing ₹ 2,40,000 at a profit on 25% on selling price. Depreciation at 10% p.a. was provided by AS Ltd. on this Machine.
- (f) AH Ltd. owed AS Ltd. ₹ 2,90,000 but AS Ltd. is owed ₹ 3,00,000 by AH Ltd.
- (g) The Land and Building of AS Ltd. which stood at ₹ 3,00,000 on 01.04.2017, was considered as worth of ₹ 6,92,500 on 01.07.2017, for which necessary adjustments are yet to be made.
- (h) All the Bills Payables of AS Ltd. were drawn upon by AH Ltd.
- (i) The management of AH Ltd. and AS Ltd. wish to recommend a dividend of 15% p.a. and 10% p.a. respectively on equity shares for the year 2017-2018.

Required: Prepare the Consolidated Balance Sheet of AH Ltd. and its subsidiary, as at 31st March, 2018. 16

6. (a) At the beginning of year 1, an enterprise grants 300 options to each of its 1000 employees. The contractual life of option granted is 6 years.

Other relevant information is as follows:

Vesting Period	3 years	Exercise Period	3 years
Expected Life	5 years	Exercise Price	₹ 50
Market Price	₹ 50	Expected forfeitures per year	3%

The option granted vest according to a graded schedule of 25% at the end of the year 1, 25% at the end of the year 2 and the remaining 50% at the end of the year 3.

You are required to calculate total compensation expenses for the options expected to vest and cost and cumulative cost to be recognised at the end of all the 3 years assuming that expected forfeiture rate does not change during the vesting period when,

- (i) The fair value of these options, computed based on their respective expected lives, are ₹ 10, ₹ 13, ₹ 15 per options, respectively.
- (ii) The intrinsic value of the options at the grant date is ₹ 6 per options.

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

	₹ in Lakhs
200 lakhs Equity Shares of ₹ 10 each	2,000
10 Lakhs, 10% Preference Shares of ₹ 100 each	1,000
General Reserve	1,600
Profit and Loss Account	1,400
12% Debentures	1,000
Creditors	800
Goodwill	1,000
Land and Buildings	2,500
Plant and Machinery	1,500
Investment in 10% Stock	500
Stock-in-trade	1,600
Debtors	400
Cash and Bank	220
Preliminary expenses	100

Additional information are given below:

- (I) Nominal value of investment is ₹ 500 lakhs and its market value is ₹ 520 lakhs.
(II) Following assets are revalued:

	₹ in Lakhs
(i) Land and Building	3,200
(ii) Plant and Machinery	1,800
(iii) Stock-in-trade	1,450
(iv) Debtors	360

- (III) Average profit before tax of the company is ₹ 2,400 lakhs, rate of taxation is 30%.
(IV) Fair return on closing capital employed is 12%.
(V) Goodwill may be valued at two year's purchase of super profits.

You are required to calculate the value of goodwill.

8+8=16

7. (a) Make a detailed comparison between Government Accounting and Commercial Accounting.
- (b) Write a note on disclosure requirements under IGAS 1 (Guarantees given by Government)
- 8+8=16
8. Write short notes on *any four* of the following: 4×4=16
- (a) Financial Reporting vis-à-vis Triple Bottom line Reporting
- (b) Objectives of IND AS-103
- (c) Accounting treatment of Borrowing Cost as per AS-16
- (d) Functions of Comptroller and Auditor General in case of grants/loans given to other Authorities/Bodies
- (e) Government Accounting Standard Advisory Board (GASAB)
-