

## 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.

Question No.1 in Section A is compulsory. Also, answer any five questions from the remaining seven questions of Section B.

## Section-I

1. (a) Choose the correct option and write the correct option in full and justification in the answer sheet. (1 mark for correct choice and 1 mark for the justification.)  $2 \times 10 = 20$
- (i) EARTH Ltd. purchased an equipment for ₹ 51 lakhs on April 1, 2022. 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, 2023, a test for impairment was conducted after obtaining the following information:
- Fair value less costs to sell = ₹ 36 lakhs  
Value in use = ₹ 32 lakhs
- What will be the impairment loss to be recognized for the year ending March 31, 2023?
- (A) ₹ 4,00,000  
(B) ₹ 9,00,000  
(C) ₹ 5,00,000  
(D) None of the above
- (ii) C Ltd. acquires 60% of N Ltd. for ₹ 97,50,000. The fair value of its identifiable net assets is ₹ 1,50,00,000. The fair value of 40% of the equity shares owned by the non-controlling shareholders is ₹ 65,00,000. Carrying amount of N Ltd.'s net assets is ₹ 1,20,00,000. Calculate the value of goodwill when NCI is measured as proportionate share of identifiable net assets.
- (A) ₹ 12,50,000  
(B) ₹ 30,00,000  
(C) ₹ 7,50,000  
(D) ₹ 32,50,000

(iii) An entity purchases plant from a foreign supplier for \$3 million on January 31, 2023, when the exchange rate was ₹ 79 = \$1. At the entity's year-end of March 31, 2023, the amount has not been paid. The closing exchange rate was ₹ 82 = \$1. The entity's functional currency is the INR. Which of the following statements is correct?

- (A) Cost of plant ₹ 237 million, exchange loss ₹ 9 million, trade payable ₹ 246 million.
- (B) Cost of plant ₹ 246 million, exchange loss ₹ 9 million, trade payable ₹ 246 million.
- (C) Cost of plant ₹ 237 million, exchange loss ₹ 9 million, trade payable ₹ 237 million.
- (D) Cost of plant ₹ 237 million, exchange loss ₹ nil, trade payable ₹ 237 million.

(iv) On April 1, 2018, R 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, 2022, 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, 2022 was seven years and its residual value was ₹ 46,000. The revised annual depreciation for the year 2022-23 is \_\_\_\_\_.

- (A) ₹ 30,000
- (B) ₹ 36,000
- (C) ₹ 46,000
- (D) ₹ 35,000

(v) Normal dividend expected on equity shares of A Ltd. is 8% while fair return is 10%. The profit available to equity shareholders is ₹ 3,83,125 and value of net assets for equity shareholders is ₹ 40,82,000. Calculate value of each equity share under fair value method if number of outstanding equity share is 1,00,000 and face value is ₹ 10.

- (A) ₹ 38.41
- (B) ₹ 44.36
- (C) ₹ 47.89
- (D) ₹ 40.82

(vi) Consider the following statements:

- I. The Consolidate Funds of India is constituted under Article 266 (1) of the Constitution of India.
- II. The Public Accounts of India is Constituted under Article 266(2) of the Constitution of India.
- III. The Contingency Funds of India is constituted under Article 266(3) of the Constitution of India.

Which of the following is correct?

- (A) Statement I is correct but II is wrong.
- (B) All the statements are correct.
- (C) Statements II & III are correct.
- (D) Statements I & II are correct.

(vii) In the year 2019-20, Rajesh Ltd. had the net profit of ₹ 6 crores and hence fulfilled the corporate social responsibility (CSR) as per section 135 of the Companies Act, 2013 and the rules thereunder. However, it did not fulfil any of the criteria of section 135 in the years 2020-21, 2021-22 and 2022-23. So, in the years 2020-21, 2021-22 and 2022-23, Rajesh Ltd.:

- (A) is not required to fulfil CSR obligations.
- (B) is required to fulfil CSR obligations.
- (C) may or may not fulfil CSR obligations as per its discretion.
- (D) is required to fulfil CSR obligations in only one of the three years.

(viii) On 1st January 2023, BUILDING Ltd. borrowed ₹ 50 Lakh at an interest rate of 12% p.a. to finance the costs of construction of factory building amounting to ₹ 50 Lakhs. Construction commenced on 1st January 2023. Not all the cash borrowed was used immediately, so interest income of ₹ 75,000 was generated by temporarily investing some of the borrowed funds prior to use. The project was completed on 31st October 2023. What is the carrying amount of the building at 31st October 2023?

- (A) ₹ 55,00,000
- (B) ₹ 54,25,000
- (C) ₹ 55,75,000
- (D) ₹ 54,20,000

- (ix) 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

- (x) SKY Ltd. operates a production line which is treated as a cash generating unit for impairment review purposes. As at 31st March 2023, the carrying amounts of assets are as follows:

Goodwill	₹ 50,000
Plant & Machinery	₹ 2,00,000
Total	₹ 2,50,000

The recoverable amount is estimated at ₹ 1,75,000. The revised carrying amount of assets in accordance with appropriate accounting standard is:

- (A) Goodwill ₹ 35,000 and Plant & Machinery ₹ 1,40,000
- (B) Goodwill ₹ NIL and Plant & Machinery ₹ 1,75,000
- (C) Goodwill ₹ NIL and Plant & Machinery ₹ 2,50,000
- (D) Goodwill ₹ 50,000 and Plant & Machinery ₹ 1,75,000

### Section – II

2. (a) The following information is available relating to Omega Ltd. for the financial year 2022-2023:

Net profit attributable to equity shareholders	₹ 90,000
Number of equity share outstanding	16,000
Average fair value of equity shares during the year	₹ 90

Potential Ordinary Shares:

Options	900 options with exercise price of ₹ 75
Convertible Preference Shares	7,500 shares entitled to a cumulative dividend of ₹ 9 per share. Each preference share is convertible into 2 equity shares.
10% Convertible Debentures of ₹ 100 each	₹ 10,00,000 and each debenture is convertible into 4 equity shares.

Tax rate applicable is 25%.

You are required to calculate Basic and Diluted EPS of the company for the financial year 2022-2023.

(b) R Ltd. availed itself of a lease from S Ltd. The terms and conditions of the lease are as under:

- (i) The lease period is 3 years from 01.04.2020 for an equipment costing ₹ 20,00,000. The equipment has an economic life of 5 years.
- (ii) The fair value of the equipment is also ₹ 20,00,000.
- (iii) The property reverts back to the lessor on the termination of the lease.
- (iv) The unguaranteed residual value is estimated at ₹ 2,00,000 at the end of the lease period i.e., on 31.03.2023.
- (v) 3 equal annual lease payments are made at the end of each year.
- (vi) The internal rate of return may be considered at 10%.

The present value of ₹ 1 due at the end of the 3rd year @ 10% p.a. interest is ₹ 0.7513. The present value of annuity of ₹ 1 due at the end of the 3rd year @ 10% p.a. internal rate of return is ₹ 2.4868.

Based on the above, you are required to decide as per the relevant accounting standard whether the lease under consideration is an operating lease or is a finance lease and to compute the unearned finance income. 6

3. (a) A major depreciable asset of OCEAN Ltd. was purchased at a cost of ₹ 45,000 million on 1st July, 2020. The asset has useful life till 31st March, 2028 (i.e., for 7.75 years). The estimated residual value is ₹ 650 million. The selling price of the asset on 31st March, 2023 is expected to be ₹ 25,000 million and the cost of disposal as on this date is expected to be ₹ 500 million. The expected cash flows from the asset are as under:

Financial year	Cash Flow (₹ in million)
2023-2024	7,500
2024-2025	7,000
2025-2026	6,500
2026-2027	6,000
2027-2028	5,000

The company expects the discount rate of 9%. The company provides depreciation on straight line basis. You are required to determine the following as at 31st March, 2023.

- (i) Carrying amount of asset
- (ii) The value in use of the asset
- (iii) The impairment loss, if any
- (iv) The revised carrying amount for the financial year ending 31st March, 2022 (Discount factor @ 9% for 1, 2, 3, 4 and 5 years are 0.917, 0.842, 0.772, 0.708 and 0.650 respectively).

- (b) M Ltd. has four subsidiaries viz., A Ltd., B Ltd., C Ltd. & D Ltd. All the four subsidiaries are acquired on 01.04.2022. The details of their share capital and retained earnings are as under.

Subsidiary Company	% of Shares Owned by M Ltd.	Purchase Consideration (₹)	On the Date of Acquisition i.e., 1.4.2022	
			Share Capital (₹)	Other Equity (₹)
A Ltd.	90%	2,90,000	2,00,000	1,00,000
B Ltd.	85%	2,08,000	2,00,000	60,000
C Ltd.	80%	1,12,000	1,00,000	40,000
D Ltd.	100%	2,00,000	1,00,000	80,000

You are required to determine, for each subsidiary, the Non-controlling Interest and Goodwill/Gain on Bargain Purchase on the date of acquisition. Assume NCI is measured at 'proportionate share of identifiable net assets' method. 8

4. (a) AOL Ltd. and BOL Ltd. both engaged in the same chemical business since 2018. As a part of its expansion strategy, AOL Ltd. proposes to absorb the business of BOL Ltd. The summarized Balance Sheets of two companies as on 31.03.2023 are as follows:

Particulars			AOL Ltd. (₹)	BOL Ltd. (₹)
(I)	Assets			
	(1)	Non-current assets		
		Property, Plant and Equipment	40,00,000	24,00,000
		Non-current investments	4,00,000	4,00,000
	(2)	Current assets		
		Inventories	14,40,000	9,60,000
		Trade receivables	12,40,000	9,68,000
		Cash at bank	1,20,000	72,000
		Total	72,00,000	48,00,000

(II)	Equity and Liabilities			
	(1)	Equity		
		(a)	Share capital	
			Equity shares of ₹ 10 each	28,80,000
			10% Preference share capital of ₹ 100 each	9,60,000
			12% Preference share capital of ₹ 100 each	4,80,000
		(b)	Other Equity	
			Statutory reserve	80,000
			General reserve	20,00,000
	(2)	Non-current liabilities		
			15% Debentures	4,00,000
			12% Debentures	4,00,000
	(3)	Current liabilities		
			Trade payables	8,80,000
			Total	72,00,000
				48,00,000

The following terms and conditions were agreed for absorption:

- (i) 12% Preference shareholders of BOL Ltd. will receive 10% Preference shares of AOL Ltd. in sufficient number to increase their present income by 20%.
- (ii) The equity shareholders of BOL Ltd. will receive equity shares in AOL Ltd. on the following terms:
  - (1) The equity shares of BOL Ltd. will be valued at ₹ 24 per share.
  - (2) The market price of equity shares of AOL Ltd. is ₹ 40 per share.
  - (3) The number of shares to be issued to equity shareholders of BOL Ltd. will be based on 80% of market price.
- (iii) 12% Debentureholders of BOL Ltd. are to be paid at 8% premium by 15% Debentures in AOL Ltd. issued at a discount of 10%.
- (iv) Trade Payables of BOL Ltd. include ₹ 16,000 due to AOL Ltd.
- (v) ₹ 12,800 is to be paid by AOL Ltd. to BOL Ltd. for liquidation expenses.

(vi) Property, Plant and Equipment of both the companies are to be valued at 20% above book value. Inventory in trade is taken over at 10% less than their book value.

(vii) Statutory reserve has to be maintained for two more years.

You are required to:

- i. Compute the amount of the purchase consideration.
- ii. Compute the value of Goodwill or Gain from bargain purchase (if any).

Workings should form part of your answer. 12

(b) Explain briefly the principle of control under Ind AS 110. 4

5. (a) Prepare the Consolidated Balance Sheet as on 31.03.2023, of a group of companies comprising A Limited, B Limited and C Limited. Their summarized Balance Sheets on that date are given below:

(₹ in lakhs)

Particulars	A Ltd.	B Ltd.	C Ltd.
<b>I. Assets</b>			
<u>Non-Current Assets</u>			
Property, Plant and Equipment	160	180	150
Investment:			
16 lakh shares in B Ltd.	170	-	-
12 lakh shares in C Ltd.	-	140	-
<u>Current Assets</u>			
Inventories	110	35	25
Trade Receivables	130	50	110
Bills Receivable		-	
B. Ltd.	36		
A. Ltd.			15
Cash in hand and at Bank	114	20	20
<b>Total</b>	<b>720</b>	<b>425</b>	<b>320</b>

<b>II. Equity and Liabilities</b>			
<u>Equity</u>			
Share capital (₹ 10 per share)	300	200	160
Other Equity: Reserves	90	50	40
Retained earnings	80	25	30
<u>Non-current Liabilities</u>			
<u>Current Liabilities</u>			
Trade Payables	235	115	90
Bills Payable			
A Ltd.	-	35	-
C Ltd.	15	-	-
Total	720	425	320

The following additional information is available:

- A Ltd. holds 80% shares in B Ltd. and B Ltd. holds 75% shares in C Ltd. Their holdings were acquired on 30th September, 2022.
- On 01.04.2022, the following balances stood in the books of B Ltd. and C Ltd.

(₹ in lakh)

	B Ltd.	C Ltd.
Reserves	40	30
Retained earnings	10	15

- ₹ 5 Lakh included in the inventory figure of B Limited, is inventory which has been purchased from C Ltd. at cost plus 25%. Assume that the sale of goods by C Ltd. is done after acquisition of shares by B Ltd.
- The parent company has adopted an accounting policy to measure non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market prices of B Ltd. and C Ltd. are the same as respective face values.

Working should form part of your answer.

12.

- Explain the accounting treatment prescribed in Ind AS 110, Consolidated Financial Statements, in case a parent loses control over a subsidiary.

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6. (a) The following is the summarized Balance Sheet of J Ltd. as on 31.03.2023:

Particulars	₹
<b>I. Assets</b>	
(1) Non-current assets	
(a) Property, Plant and Equipment	5,40,000
(b) Non-current investment [Face Value ₹ 2,00,000]	3,00,000
(2) Current Assets	
(a) Inventories	1,60,000
(b) Trade receivables: Debtors	1,80,000
(c) Cash and cash equivalents: Bank	2,60,000
<b>Total</b>	<b>14,40,000</b>
<b>II. Equity and Liabilities</b>	
(1) Equity	
(a) Share capital	8,00,000
(b) Other Equity	2,60,000
(2) Non-current Liabilities	Nil
(3) Current liabilities	
(a) Trade payables: Sundry creditors	2,40,000
(b) Short-term provisions	1,40,000
<b>Total</b>	<b>14,40,000</b>

Additional information:

- (i) The net profits of the company after tax were –  
2020-21: ₹ 5,04,000; 2021-22: ₹ 4,53,600; 2022-23: ₹ 4,62,000.
- (ii) Of the investments, 80% is non-trading and the balance is trading investments by nature. All trade investments are to be valued at 20% below cost. A uniform rate of dividend of 10% is earned on all investments.

(iii) Having regard to the type of business, a 10% return on capital employed is considered as reasonable.

(iv) Assume tax rate at 30%.

Ascertain the value of goodwill on the basis of three years' purchase of annual super profits. For this purpose, average operating capital employed is to be considered for goodwill valuation. Workings should form part of your answer. 8

(b) B Ltd. grants 100 share options to each of its 800 employees conditional on their continuing in service for 3 years.

Fair value of share option on the grant date is ₹ 60. 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, 36 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 40 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 28 employees leave.

All the continuing employees exercised the option to subscribe in the equity shares of ₹ 10 each at ₹ 100 only, when market price stands at ₹ 160. The fair value of the option at the grant date is taken at ₹ 60 only.

Pass necessary journal entries with working notes. 8

7. (a) What do you mean by XBRL? How is reporting under XBRL better than the traditional form of reporting? 9

(b) Differentiate between Government Accounting and Commercial Accounting. 7

8. Write short notes on *any four* of the following: 4×4=16

(a) Objectives of Government Accounting

(b) Government Accounting Standards Advisory Board (GASAB)

(c) Meaning and Benefits of Integrated Reporting

(d) Applicability of CSR Reporting in India

(e) Users of XBRL

