

FINAL EXAMINATION

December 2023

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

*Answer to Question No.1 in Section-A is compulsory.
Further answer any five from Question No. 2 to Question No.8 in Section-B*

Section - A (Compulsory)

1. Choose the correct option:

2×15=30

- (i) A joint arrangement where parties have joint control of the arrangement and have rights to the net assets of the arrangement is called:
- (A) Joint operation
 - (B) Partnership
 - (C) Joint venture
 - (D) None of the above
- (ii) 4P Bottom Line Reporting concept requires an organization to report on:
- (A) Social, Environmental, Sustainability and Spiritual dimension
 - (B) Social, Environmental, Economic and Political dimension
 - (C) Social, Environmental, Economic and Spiritual dimension
 - (D) None of the above
- (iii) In India, Government Accounting Standards are issued by _____.
- (A) Government Accounting Standards Advisory Board
 - (B) Government Accounting Standards Applicability Board
 - (C) Government Auditing Standards Advisory Board
 - (D) Government Accounting for States Advisory Board
- (iv) When objective of holding financial assets does not include collection of cash flows by selling of financial assets, such financial assets are measured at-
- (A) Fair value through other comprehensive income (OCI)
 - (B) Amortized cost
 - (C) Fair value through profit and loss (P&L)
 - (D) None of the above

- (v) Market value added (MVA) is.
- (A) the difference between the current book value of a company and capital contributed by investors (both the shareholders and debt holders).
 - (B) the difference between the current total market value of a company and capital contributed by investors (both the shareholders and debt holders).
 - (C) the difference between the current total market value of a company and capital contributed by investors (i.e., the shareholders).
 - (D) None of the above
- (vi) PEARL Ltd. changes its method of valuation of inventories from weighted-average method to first-in, first-out (FIFO) method. The Accountant opines that Ind AS 8 is applicable. PEARL Ltd. should account for this change as:
- (A) A change in estimate and account for it prospectively.
 - (B) A change in accounting policy and account for it prospectively.
 - (C) A change in accounting policy and account for it retrospectively.
 - (D) Account for it as a correction of an error and account for it retrospectively.
- (vii) CORE Ltd. has a plant with a carrying amount of ₹ 1,20,000 as on April 1, 2022. Useful life is 10 years of which 4 years remains on the date. The company decides to revalue the plant to ₹ 2,00,000 on April 1, 2022 and recognize revaluation reserve of ₹ 80,000. Calculate depreciation to be accounted for in the Statement of Profit or Loss in 2022-23.
- (A) ₹ 30,000
 - (B) ₹ 50,000
 - (C) ₹ 12,000
 - (D) ₹ 10,000
- (viii) GALAXY Ltd. is developing a new production process. During the financial year ended 31st March, 2022, the total expenditure incurred was ₹ 50 lakhs. This process met the criteria for recognition as an intangible asset on 1st December, 2021. Expenditure incurred till this date was ₹ 22 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2023 was ₹ 80 lakhs. As at 31st March, 2023, the recoverable amount of knowhow embodied in the process is estimated to be ₹ 72 lakhs. This includes estimates of future cash outflows as well as inflows. The amount of impairment loss for the year ended 31st March, 2023 is:
- (A) ₹ 80 lakhs
 - (B) ₹ 36 lakhs
 - (C) ₹ 28 lakhs
 - (D) ₹ 72 lakhs

- (ix) ORBIT Ltd. provides you following data regarding defined benefit pension plan for the year ended 31.03.2023

Particulars	₹
Benefits paid	2,00,000
Employer contribution	2,80,000
Fair market value of plan assets on 31.03.23	11,40,000
Fair market value of plan assets as on 31.03.22	8,00,000

The amount of actual return of plan assets is:

- (A) ₹ 2,80,000
 (B) ₹ 2,60,000
 (C) ₹ 2,00,000
 (D) ₹ 4,60,000
- (x) Normal dividend expected on equity shares of A Ltd. is 8%. The profit available to equity shareholders is ₹ 3,83,125 and value of net asset 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) ₹ 44.36
 (B) ₹ 46.26
 (C) ₹ 47.89
 (D) None of the above
- (xi) On 01.04.2022 AURA Ltd. granted 100 share options to each of its 200 employees. The options will vest on 31.03.2025 subject to the condition that they remained as employees for the three years ending 31.03.2025. On 01.04.2022, the fair value of one share option was ₹ 200 and this had increased to ₹ 240 by 31.03.2023. On 01.04.2022, the directors estimated that 180 employees would qualify for these options. At 31.03.2023, this estimate was 190 employees. Calculate the amount to be recognised as expense for the year ended 2022-23.
- (A) ₹ 13,33,330
 (B) ₹ 12,66,667
 (C) ₹ 15,20,000
 (D) None of the above

(xii) On April 1, 2022 GANGA Ltd. purchased a 30% interest in SAGAR Ltd. for ₹ 2,50,000. On that date SAGAR's shareholders' equity was ₹ 5,00,000. The carrying value of SAGAR's identifiable net assets was equal to book value. GANGA correctly reports this significant influence investment using equity method. Both companies have a March 31 year end. For the year ended 31.03.2023, SAGAR Ltd. reported net income of ₹ 1,50,000 and paid total dividends of ₹ 40,000. Calculate the amount that GANGA Ltd. would report as its investment in SAGAR Ltd. on March 31, 2023.

- (A) ₹ 3,60,000
- (B) ₹ 2,95,000
- (C) ₹ 2,83,000
- (D) ₹ 2,50,000

(xiii) X has acquired 100% of the equity of Y on March 31, 2023. The purchase consideration comprises of an immediate payment of ₹ 100 lakhs and three further payments of ₹ 5.0 lakhs if the Return on Equity exceeds 20% in each of the subsequent three financial years. A risk adjusted discount rate of 20% is used. The value of total consideration at the acquisition date is _____.

- (A) ₹ 100 lakhs
- (B) ₹ 110.532 lakhs
- (C) ₹ 110 lakhs
- (D) ₹ 115 lakhs

(xiv) Q Ltd. acquired a 60% interest in R Ltd. on January 1, 2022. Q Ltd. paid ₹ 1,800 Lakhs in cash for their interest in R Ltd. The fair value of R Ltd.'s assets is ₹ 4,000 Lakhs, and the fair value of its liabilities is ₹ 2,000 Lakhs. If NCI is valued at fair value, goodwill amounts to:

- (A) ₹ 600 lakhs
- (B) ₹ 500 lakhs
- (C) ₹ 1000 lakhs
- (D) ₹ 700 lakhs

(xv) ALAKANANDA Ltd. is engaged in manufacturing and selling of designer furniture. It sells goods on extended credit. ALAKANANDA Ltd. sold furniture for ₹ 80,00,000 to a customer on 01.04.2023, the payment against which was receivable after 12 months with interest at the rate of 3% per annum. The market interest rate on the date of transaction was 8% per annum. Calculate the amount of revenues to be recognized for the above transaction in 2023-24 financial year.

- (A) Revenue from sale ₹ 80,00,000 and Interest income ₹ 2,40,000
- (B) Revenue from sale ₹ 80,00,000 and Interest income ₹ 6,40,000
- (C) Revenue from sale ₹ 76,29,630 and Interest income ₹ 6,10,370
- (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) BEAS Ltd. has leased equipment over its useful life that costs ₹ 7,46,55,100 for a three-year lease period starting from 01.04.2022. After the lease term the asset would revert to the Lessor. You are informed that:

- The estimated unguaranteed residual value would be ₹ 1 lakh only.
- The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.
- Implicit interest rate is 10%.

Ascertain the annual lease payment and the unearned finance income.

(P.V. factor @10% for years 1 to 3 are 0.909, 0.826 and 0.751 respectively.)

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- (b) KOEL Ltd. acquired a machine on 1st April, 2017 for ₹ 14 crores that had an estimated useful life of 7 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2021, the carrying value of the machine was reassessed at ₹ 10.20 crores and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March 2023, conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only ₹ 1.58 crores. The company had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of KOEL Ltd.

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3. (a) On 31.03.2022 A Ltd. enter into a contract with a customer for sale of goods of ₹ 6,000 granting 50% discount voucher to be availed in future purchase up to ₹ 4,500 within 30 days. Ordinarily 10% discount is allowed on sales. Ordinary discount will not be available to avail the 50% discount voucher. There is 60% probability that the customer will redeem the discount voucher and the estimated amount of purchase is ₹ 3,000. In April 2022, the discount vouchers are redeemed for purchase of additional goods of ₹ 4,200. Find revenue recognition in 2021-22 and in 2022-23.

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(b) The following figures have been extracted from the Balance Sheet of R Ltd. as on 31.03.2023:

Particulars	₹
1,12,000 Equity shares of ₹ 10 each	11,20,000
2,800, 13% Preference Shares of ₹ 100 each	2,80,000
Other Equity (Retained earnings and Reserves)	7,00,000
12% Debentures (₹ 100)	2,80,000
Trade Payables	1,40,000
Total Equity and Liabilities	25,20,000
Property, Plant and Equipment	16,80,000
Goodwill	1,40,000
Non-current Investments (Non-trading)	1,40,000
Current Assets	5,60,000
Total Assets	25,20,000

Additional information:

- (i) Profit before tax for the year 2022-23 amounted to ₹ 8,40,000 including ₹ 14,000 as interest on investment.
- (ii) An additional amount of ₹ 70,000 p.a. shall be required to be spent for smooth running of the business.
- (iii) Market value of property, plant and equipment are estimated at ₹ 26,60,000. In order to match the above figures, a further depreciation to the extent of ₹ 56,000 should be taken into consideration (additional depreciation is not tax deductible).
- (iv) Income tax rate is 50%.
- (v) Return on capital @ 20% before tax may be considered normal for this business at the present stage.
- (vi) For the purpose of determining the rate of return, the profit for this year after the aforesaid adjustments may be taken as the expected average profit. Consider average trading capital employed for determining the normal profit.

Based on the above details, you are required to compute the value of goodwill based on the 4 years' purchase of super profit. Working should form part of your answer. 7

4. (a) MOON Ltd. issued 1,00,000, 8% Debentures of face value ₹ 100 each on par value basis on 1st January, 2023. These debentures are redeemable at 12% premium at the end of 2026 or exchangeable for ordinary shares of MOON Ltd. on 1:1 basis. The interest rate for similar debentures that do not carry conversion entitlement is 12%. You are required to calculate the value of the debt portion and equity portion of the above compound financial instrument and show the journal entry at the inception of the financial instrument.

The present value of Re. 1 at the end of years 1 to 4 at 8% and 12% discount rate are supplied below:

	8%	12%
End of year 1	0.926	0.893
End of year 2	0.857	0.797
End of year 3	0.794	0.712
End of year 4	0.735	0.636

- (b) The following is the Balance Sheet of SARASWATI Ltd. as at 31.03.2023:

Particulars	Notes	₹
Assets		
<i>Non-current assets</i>		
Property, plant and equipment		1,25,00,000
Non-current investment	5	10,00,000
Current assets		<u>1,00,00,000</u>
Total		<u>2,35,00,000</u>
Equity and Liabilities		
<i>Equity</i>		
Share capital	1	1,50,00,000
Other Equity	2	(6,00,000)
<i>Non-current liabilities</i>		
Long-term borrowings	3	40,00,000
<i>Current liabilities</i>		
Trade Payables		50,00,000
Short term provisions	4	<u>1,00,000</u>
Total		<u>2,35,00,000</u>

Notes to accounts:

	Particulars	₹
1.	Share Capital	
	1,00,000 Equity Shares of ₹ 100 each	1,00,00,000
	50,000 12% Preference shares of ₹ 100 each	<u>50,00,000</u>
		1,50,00,000
2.	Other Equity	
	Retained Earnings: Debit balance of Profit and Loss Account	<u>(6,00,000)</u>
		(6,00,000)
3.	Long-term borrowings	
	40,000, 10% debentures of ₹ 100 each	40,00,000
		<u>40,00,000</u>
4.	Short term provisions	
	Provision for taxation	1,00,000
		<u>1,00,000</u>
5.	Non-current investments	
	Investments	10,00,000
		<u>10,00,000</u>

The following scheme of reconstruction is duly approved and sanctioned by the appropriate authority.

- (i) All the existing equity shares are reduced to ₹ 40 each.
- (ii) All preference shares are reduced to ₹ 60 each.
- (iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.
- (iv) One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.
- (v) Property, plant and equipment are to be written down by 30%.
- (vi) Current assets are to be revalued at ₹ 45,00,000.
- (vii) The taxation liability of the company is settled at ₹ 1,50,000.

(viii) Investments are to be written down to their market value which is ₹ 9,50,000.

(ix) It is decided to write off the debit balance of Profit and Loss Account in full.

Pass journal entries to give the effect of the scheme of reconstruction.

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5. Following are the extract from the Balance Sheets of two companies, BETA Ltd. and DELTA Ltd. as at 31st March, 2023.

Particulars	BETA Ltd.	DELTA Ltd.
	(₹)	(₹)
Assets		
Non-current Assets		
Property, Plant & Equipment	10,00,000	5,00,000
Financial Assets		
20,000 Shares in BETA Ltd.	—	2,00,000
Current Assets		
Inventory	2,00,000	1,00,000
Financial Assets		
Trade Receivables	3,00,000	1,00,000
	<u>15,00,000</u>	<u>9,00,000</u>
Total Assets		
Equity and Liabilities		
Equity Share Capital (₹ 10)	10,00,000	6,00,000
Other Equity		
Reserve	2,00,000	1,10,000
Current Liabilities		
Trade Payables	3,00,000	1,90,000
	<u>15,00,000</u>	<u>9,00,000</u>
Total Equity and Liabilities		

BETA Ltd. was to absorb DELTA Ltd. on the basis of intrinsic value of the shares, the purchase consideration was to be discharged in the form of fully paid shares. A sum of ₹ 40,000 is owed by BETA Ltd. to DELTA Ltd. Also included in the stocks of BETA Ltd. ₹ 60,000 goods supplied by DELTA Ltd. at cost plus 20%. Absorption was completed on 31.03.2023.

You are required to prepare the Consolidated Balance Sheet of BETA Ltd. after acquisition of DELTA Ltd. (Workings relating to fair value of shares of the companies, purchase consideration and number of shares to be issued by BETA Ltd. and amount of goodwill or gain on bargain purchase should form part of your answer).

6. The balance sheets of H Ltd. and S Ltd. as on 31.03.2023 were as follows:

Particulars	H Ltd.	S Ltd.
	Carrying Amount (₹ in lakh)	Carrying Amount (₹ in lakh)
Assets		
Non-current Assets		
PPE	7,400	3,000
Investment in S Ltd.	2,900	—
Current Assets		
Inventories	1,300	1,000
Trade Receivables (Sundry debtors)	2,000	1,000
Dividend Receivable	160	—
Total	13,760	5,000
Equity and Liabilities		
Equity		
Share Capital (₹ 10)	5,000	2,000
Other Equity (Retained Earnings)	8,160	2,500
Non-current Liabilities	—	—
Current Liabilities		
Trade Payables (Sundry creditors)	600	300
Dividend Payable	—	200
Total	13,760	5,000

Additional Information:

- On 01.04.2022, S Ltd. had 200 lakh shares of ₹ 10 each and ₹ 1,500 lakh in its Retained Earnings in Other Equity. H Ltd. acquired 80% share of S Ltd. on 01.04.2022 at a consideration of ₹ 2,900 lakh payable in cash.
- The fair values of identifiable assets and liabilities were not different from the book values on the date of acquisition.
- NCI was to be measured at proportionate fair value of net identifiable assets.
- Dividend payable represents the dividend declared by S Ltd. out of pre-acquisition profit. H Ltd. credited its share of dividend from S Ltd. to its profits.
- H Ltd. sold goods to S Ltd. worth ₹ 100 lakh at a profit of 20% on sales. 50% of the goods are still in stock of S Ltd.

Prepare the Consolidated Balance Sheet of the Group as on 31.03.2023. Workings should form part of your answer.

7. (a) From the following information provided by Sun Ltd., prepare a Value Added Statement for the financial year 2022-23.

Particulars	₹ in lakhs
Sales	2,400
Plant and machinery (net)	1,100
Depreciation on Plant and Machinery	275
Dividends on ordinary shares	150
Sundry Debtors	195
Sundry Creditors	130
Opening stock (raw material, WIP, finished goods)	160
Closing stock (raw material, WIP, finished goods)	200
Raw material purchased	775
Cash at bank	100
Printing and Stationery	25
Auditor's remuneration	30
Retained earnings at the beginning of the year	990
Retained profits for the year	205
Rent, Rates and Taxes	170
Other expenses	90
Ordinary share capital issued	1,800
Interest on borrowing	40
Income tax for the year	280
Wages and salaries	330
Employees State Insurance	40
PF Contribution	30

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- (b) What is Integrated Reporting? Briefly discuss the objectives of integrated reporting. 7

8. (a) Briefly discuss the role of Public Accounts Committee. 5

- (b) Write a short note on: IGFRS 4 – Inventory 5

- (c) K Ltd. holds 30% stake in L Ltd. This investment in L Ltd. is accounted for as an investment in an associate as per Ind AS 28 and the carrying amount of such investment is ₹ 140 lakhs. K Ltd. purchases the remaining 70% stake in L Ltd. for a cash consideration of ₹ 980 lakhs. The fair value of the previously held 30% interest in L Ltd. is measured at ₹ 420 lakhs on the date of acquisition of 70% additional stake. The value of L Ltd.'s identifiable net assets as per Ind AS 103 on that date is ₹ 1,120 lakhs. How should K Ltd. account for the acquisition of additional stake? 4

