FINAL EXAMINATION

GROUP IV

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2018

Paper- 17: 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 x 10 = 20

(i) Vini Ltd. has an asset, which was purchased on 01.04.2016 at Rs. 1,000 lakhs and estimated salvage value was Rs.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 Rs.400 lakhs and the net selling price is Rs.375 lakhs. The amount of impairment loss for 2017 – 2018 is

(A) Rs.420 lakhs

(B) Rs.200 lakhs

(C) Rs. 240 lakhs

(D) Rs. 265 lakhs

(ii) XYZ Ltd. obtained a Loan from a Bank for Rs.240 lakhs on 30.04.2016. It was utilized for construction of a shed Rs.120 lakhs, Purchase of Machinery Rs.80 lakhs, Working Capital Rs.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 Rs. 36 lakhs. As per AS- 16, interest to be debited to Profit & Loss Account will be

(A) Rs.36 lakhs

(B) Rs. 18 lakhs

(C) Rs. 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 ends 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 3st October, 2017 payable after 6 months. The company entered into a forward contract for 6 months @ Rs.64.25 per Dollar. On 31st October, 2017 the exchange rate was Rs.61.50 per Dollar. The profit or loss on forward contract for the year ended 31st March, 2018 is**

(A) Rs.**1,37,500**

(B) Rs.**1,14,583**

(C) Rs. **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 the 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 Rs.45 to US dollar while the rate as on 31st March, 2018 is Rs.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) Rs.**61,87,500**, Rs.**5,62,500**

(B) Rs.**67,50,000**, Rs.**5,62,500**

(C) Rs.**37,50,000**, Rs. **5,62,500**

(D) **None of the above.**

(vi) **Accounting profit Rs.15,00,000, Book profit as per MAT Rs.8,75,000, Profit as per Income-Tax Act Rs.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) Rs.**4,95,000**, Rs.**5,15,625**

(B) Rs.**4,05,000**, Rs.**4,70,625**

(C) Rs.**4,05,000**, Rs. **5,15,625**

(D) None of the above.

(vii) **TULSIAN Ltd. has initiated a lease for 3 years in respect of a machinery costing Rs.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 Rs.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 Rs.1 @ 8% for 3 years is 0.9259, 0.8573, 0.7938 respectively). The unearned finance income is

(A) Rs.**24,558**

(B) Rs.**2,08,186**

(C) Rs.**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** Rs.**72,000. Net assets and capital employed in the business is** Rs.**4,80,000 and** Rs.**5,00,000 respectively and its normal rate of return is 12%. Value of Goodwill based on capitalization of profit will be**

(A) Rs.**1,60,000**

(B) Rs.**1,32,000**

(C) Rs.**1,20,000**

(D) Rs.**1,00,000**

(x) **X Ltd. acquired 150000 shares of Y Ltd. on August, 2016. The Enquiry Capital of Y Ltd. is** Rs.**20 lakh of** Rs.**10 per share. The machinery of Y Ltd. is revalued upwards by** Rs.**4,00,000. The minority group interest shown in the consolidated Balance Sheet as on March 31, 2017 was**

(A) Rs.**6,00,000**

(B) Rs.**4,00,000**

(C) Rs.**1,00,000**

(D) None of the above

Answer : 1

(i) (C)

Explanation :

Recoverable amount is higher of value in use **Rs.** 400 lakhs and net selling price **Rs.** 375 lakhs.

Recoverable amount = **Rs.** 400 lakhs

Impairment loss = Carried Amount – Recoverable amount.

Carried amount or book value as on 31.03.2018

Depreciation for two years = **Rs.** (1000 – 100) lakhs/ 5*2 = **Rs.** 360 lakhs

Carried amount = **Rs.** (1000-360) lakhs = **Rs.** 640 lakhs.

Therefore, Impairment loss = **Rs.** (640-400) lakhs = **Rs.** 240 lakhs.

(ii) (B)

Explanation :

Qualifying Asset as per AS16 = Rs. 120 lakhs (construction of a shed)

Borrowing cost to be capitalized = 36 x 120/240 = Rs. 18 lakhs

Interest to be debited to Profit or Loss Account = Rs. (36 – 18) lakhs = Rs. 18 lakhs

(iii) (C)

Explanation :

The requirement of classification of loan as payable on demand arises only when there is breach of loan covenant and due to such breach the loan become payable on demand. When such a breach occurs before the end of financial of reporting, the loan is required to be classified as loan payable on demand in the financial statements. Thus, options (A), (B)and (D) are not applicable. Furthermore, Ind AS 1 provides when as a result of breach of loan agreement if the loan becomes payable on demand, such obligation shall be classified as "Current", even if : Lender agrees between Balance Sheet date and date of authorization not to demand such loan on account of breach.

(iv) (C)

Loss for 5 months (1st November, 2017 to 31st March, 2018) = ($ 50,000 x Rs.64.25 - Rs.61.50) x 5/6 = Rs.1,14,583.

(v) (A)

	Rs.
A. Increase in liability towards principal amount [USD 12.50 x (Rs.48 - Rs.45)]	37.50
B. Interest on foreign currency borrowing [USD 12.50 x Rs.48 x 5%]	30.00
C. Exchange differences on the amount of principal of the foreign currency borrowings (A + B)	67.50
D. Interest on local currency borrowings [USD 12.50 x Rs.45 x 11%]	61.875
E. Total borrowing costs as per AS 16 (C or D whichever is less)	61.875
F. Exchange difference to be treated as per AS 11 (C-D)	5,625

(vi) (B)

Deferred Tax liability = (15,00,000 x 30%) – (1,50,000 x 30%) = Rs.4,05,000

(vii) (C)

	Rs.
Cost of the equipment	6,00,000
Less: PV of unguaranteed residual value for 3 years @ 8% (Rs.80,000 x 0.7938)	(63,504)
Fair value to be recovered from 3 years Annual Lease Payment	5,36,496
Annual Lease Payment (Rs.5,36,496/2.577 Annuity for 3 years @ 8%)	2,08,186
Total lease payments [Rs. 2,08,186 x 3]	6,24,558
Add : Residual value	80,000
Gross Investments	7,04,558
Less : Present/Fair value of Investments	(6,00,000)
Unearned Finance Income	1,04,558

(viii) (A)

Z Ltd. & W Ltd. are related to each other by virtue of Associate relationship.

(ix) (C) or **(D)**

Explanation for (C)

Capitalised Value of the Business =72,000/12% = Rs. 6,00,000

Value of Goodwill=Capitalised Value of the Business–Net Assets
= Rs. 6,00,000 – Rs.4,80,000 = Rs. 1,20,000

Explanation for (D)

Super Profit =Rs.72,000– (Rs.5,00,000*12%) =Rs. 12,000

Value of Goodwill= Super Profit/Normal rate of Return(%)
= 12,000/12% = Rs. 1,00,000

(x) (A)

No. of Shares of X Ltd.	= Rs. 20,00,000 /10 = 2,00,000	
Minority Interest	= 50,000 = 25%	
Profit on revaluation of Machinery	= Rs. 4,00,000	
Share of Minority Group of Y Ltd.	= 25% of Rs. 4,00,000 = Rs. 1,00,000	
Equity Share capital : (50000 x 10)	= Rs. 5,00,000	
Total Minority Interest		Rs. 6,00,000

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 Rs.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	Rs.
Opening inventory :		

Finished goods	**2000**	**50,000**
Raw materials	**2200**	**22,000**
Labour		**1,53,000**
Fixed overhead		**1,50,000**
Sales	**20000**	**5,60,000**
Closing inventory :		
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 Rs.20 per unit. The replacement cost of raw material was Rs.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

Answer : 2(a)

Companies	Whether applicable	with effect from
1. A chemical company having Net Worth below 250 crore already listed on National Stock Exchanges in India .	Yes	1st April, 2017 (with comparatives)
2. A publishing company having Net Worth below 250 crore in process of listing on National Stock Exchanges in India.	Yes	1st April, 2017 (with comparatives)
3. An Unlisted FMCG Company having Net Worth of INR 250 crore	Yes	1st April, 2017 (with comparatives)
4. An Unlisted NBFCs having Net Worth of INR 500 crore.	Yes	1st April, 2018 (with comparatives)
5. An Unlisted NBFCs having Net Worth of INR 250 crore.	Yes	1st April, 2019 (with comparatives)
6. 0 Scheduled Commercial Banks (excluding RRB's & UCBs)	Yes	1st April, 2019 (with comparatives)
7. 0 Insurance Companies	Yes	1st April, 2020 (with comparatives)
8. A chemical company listed on SME exchange.	No	
9. An Unlisted FMCG Company having Net Worth below INR 250 crore.	No	
10. A listed NBFCs having Net Worth below INR 250 crore	No	
11. A Regional Rural bank having Net Worth of INR 250 crore.	No	
12. An Urban Cooperative bank having Net Worth of INR 250 crore.	No	

(b) Calculation of cost for closing inventory (Finished Goods)

Particulars	Rs.
Cost of raw material consumed (Refer W.N.) (20,400 kg x Rs.10 per kg)	2,04,000
Director labour	1,53,000
Fixed overhead $\frac{1,50,000}{30,000}$ x 20,400	1,02,000
Cost of production	4,59,000
Cost of closing inventory of finished goods per unit (4,59,000/20,400)	Rs. 22.50
Net realizable value (NRV) per unit	Rs. 20.00

Since net realizable value is less than cost, closing inventory of finished goods will be valued at Rs.20 per unit.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. Rs.9.50 per kg.

Therefore, value of closing inventory :

Finished goods (2,400 units x Rs.20 per unit)	Rs.48,000
Raw materials (1,800 kg x Rs.9.50 per kg)	Rs. 17,100
	Rs. 65,100

Working Note :

Calculation of Raw material as consumed during the year

	Units in kg
Opening inventory of raw material	2,200
Add : Purchases of raw material	20,000
	22,200
Less : Closing inventory of raw material	(1,800)
Raw material consumed	20,400

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

Date on which Funds borrowed	Funds Borrowed (Rs.)	Rate of Interest
01.04.2017	**12,00,000**	**13%**
01.07.2017	**40,00,000**	**14%**
01.10.2017	**16,00,000**	**15.5%**

Expenditure incurred on Construction of a Building (Rs.)	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 Rs.20 lakhs has been advanced for purchase of Plant & Machinery which was installed by 31st March, 2018. Rs. 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 :

(i) 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.

(ii) 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 Rs.900 lakhs. The Directors are of the opinion that the claim can be successfully resisted by the company. 8+(4+4)= 16

Answer : 3(a)

As per AS 16, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time (usually 12 months or more) to get ready for its intended use or sale. If an asset is ready for its intended use or sale at time of its acquisition then it is not treated as a qualifying asset for that purposes of AS 16.

Particulars	Nature	Treatment of Interest
1. Construction of a building = **Rs.**1.12 lakhs	Qualifying Asset	Interest to be capitalized As per W.N. (iii)
2. Advance for Purchase of Plant & machinery	Not a Qualifying Asset*	Interest to be charged to P&L A/c.
*On the basis that Plant & Machinery is ready for its intended use at the time of its acquisition/purchase.		
3. Working Capital	Not a Qualifying Asset	Interest to be charged to P&L A/c.

Interest Costs to be charged to Profit & Loss Account = Total Interest – Interest to be capitalized = **Rs.**7,00,000 – **Rs.**1,12,000 = **Rs.**5,88,000.

(i) CALCULATION OF CAPITALIZED RATE

Date of Loan	O/S Loan	Interest Rate	Months for Loan is O/S	Product	Total Interest
A	B	C	D	E = B x D	F = B x C x D/12
1/4/2017	12,00,000	13%	12	1,44,00,000	1,56,000
1/7/2017	40,00,000	14%	9	3,60,00,000	4,20,000
1/10/2017	16,00,000	15.5%	6	96,00,000	1,24,000
			Total	6,00,00,000	7,00,000

Average Amount Outstanding = 600,00,000/12 = 50,00,000
Capitalization Rate = (7,00,000 / 50,00,000)*100 = 14 %

(II) CALCULATION OF AVERAGE CARRYING AMOUNT OF THE BUILDING DURING A PERIOD

Expenditure incurred is incurred	Date on which it	Months	Products
A	B	C	D = A x c
6,00,000	01/04/2017	9	54,00,000
2,00,000	01/05/2017	8	16,00,000
3,00,000	01/07/2017	6	18,00,000
8,00,000	01/12/2017	1	8,00,000
		Total	96,00,000

Average carrying amount of Building during a period = 96,00,000 /12 = 8,00,000

(iii) Interest to be capitalized = Average carrying amount of Building x Capitalization

Rate=**Rs.**8,00,000 = 0.14 x **Rs.**1,12,000

Answer : 3(b)

Provision of AS 29: As per para 14 of AS 29, 'Provision, Contingent Liabilities and Contingent Assets', a provision should be recognized when

(a) an enterprise has a present obligation as a result of a past event ;
(b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation ; and
(c) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provisions should be recognized.

If these conditions are not met, no provision should be recognized.

(i) Advice : In the given case, there is no present obligation, therefore no provisions is recognized as per AS 29. The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprises can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of three years. Assessment of probability of incurring fine and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than three years.

(ii) Advice : Since the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. The company will disclose the same as contingent liability by way of the following note : "Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed patents and is seeking damages of **Rs.**900 lakhs. However, 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. (Rs.)	V. Ltd. (Rs.)
Equity Share Capital of Rs.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 Rs.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 @ Rs.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 Rs.62,500.

(iii) Goodwill of V.Ltd. is to be valued at Rs.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% an Unrecorded Loan Liability of Rs.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 Rs.10 each, Rs.8 paid up at a premium of Rs.7 per shares. The market value of an equity share of P.Ltd. at present is Rs.100.

(vii) The issue of such an amount of fully paid 14% Debentures in P. Ltd. at 96 percent 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 Rs.10,000 Actual Expenses amounted to Rs.12,000.

(ix) Statutory Reserves are to be maintained for 2 more years.

Prior to 31st March, 2018 V. Ltd. sold goods costing Rs.30,000 to P. Ltd. for Rs.40,000. Rs.25,000 worth of goods were still in stock of P. Ltd. Trade Receivables include Rs.20,000 still due from P. Ltd. On the date of absorption, V. Ltd. owed P. Ltd. Rs.60,000 for the purchase 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) PrepareRealisation 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 Rs.12,00,000 paid by equity at par. Fair Value of XYZ Ltd.'s net assets at the time of acquisition amounts to Rs.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

Answer : 4(a)

Dr. REALISATION ACCOUNT IN THE BOOKS OF V. LTD Cr.

Particulars	Rs.	Particulars	Rs.
To Goodwill	1,19,500	By 10% Debentures	50,000
To Tangible Fixed Assets	1,50,000	By Trade Payables	1,40,000
To Inventories	55,000	By P. Ltd. (Purchase Consideration)	1,62,557
To Trade Receivables	65,000	By Equity Shareholders' A/c. (Loss)	62,443
To Bank [35,500 – 10,000 (Div) – 2,000 (Exp.)]	23,500		
To Bank A/c. (Expenses)	2,000		
	4,15,000		4,15,000

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Particular s		L.F.	Dr. (Rs.)	Cr. (Rs.)
Profit & Loss A/c.	Dr		30,000	
To Dividend Payable a/c.				30,000
(Being the Dividend declared @ 5%)				
Dividend Payable A/c.	Dr.		30,000	
To Bank A/c.				30,000
(Being the Dividend paid)				
Business Purchase A/c.	Dr		1,62,557	
To Liquidators of V. Ltd.				1,62,557
(Being the purchase price agreed to be paid for the business of V Ltd.)				
Goodwill (Balancing figure)	Dr.		51,057	
Tangible Fixed Assets	Dr.		2,12,500	
Inventories	Dr.		49,500	
Trade Receivables	Dr.		65,000	
Bank	Dr.		23,500	
Reserve for Discount on Trade Payables [5% of Rs. (1,40,000 – 60,000)]	Dr		4,000	
To provision for Doubtful Debts. [10% of Rs. (65,000 – 20,000)]				4,500
To Trade Payables				1,40,000
To 10% Debentures [Rs.50,000 + 20%]				60,000
To Unrecorded Loan				38,500
To Business Purchase A/c.				1,62,557
(Being the assets and liabilities taken over from V. Ltd.)				
Liquidators of V. Ltd.	Dr		1,62,557	
To Bank A/c.				32,567
To Equity Share Capital A/c.				69,328
To Securities Premium A/c.				60,662
(Being the issue of Shares and payment in cash in satisfaction of purchase consideration)				
Goodwill A/c.	Dr.		10,000	
To Bank A/c.				10,000
(Being the payment of Realization Expenses of V. Ltd.)				
Goodwill	Dr.		6,250	
To Inventories A/c.				6,250
(Being the Elimination of unrealized profit on unsold goods worth Rs.25,000 bought from V. Ltd. still unsold (25,000 x 10,000 / 40,000)				
Trade Payables A/c.	Dr.		20,000	
To Trade Receivables (V.Ltd.) A/c.				20,000
(Being Elimination of the amount owned by us to V. Ltd.)				
Goodwill A/c.	Dr.		800	
To Inventories				800
(Being the elimination of unrealized profit included in goods purchased by V. Ltd.) [(20% of Rs.60,000 x 1/6) – (10% of Rs.12,000)]				
Trade Payables (V. Ltd.) A/c.	Dr.		60,000	
To Trade Receivable A/c.				60,000
(Being the cancellation of Inter Co. Owing)				
10% Debentures of V. Ltd.	Dr.		60,000	

Discount on Issue of 14% of Debentures A/c.	Dr.		2,000	
To Investments in 10% Debentures of V. Ltd.				9,000
To 14% Debentures A/c.				50,000
To Capital Reserve A/c.				3,000
(Being the investment in 10% Debentures of V. Ltd. cancelled and the remaining debentures redeemed by issue of 500, 14% Debentures of Rs.100 each at a discount of 4%)				
[Face Value of Debentures=Rs.48,000/96%= Rs.50,000]				
Unrecorded Loan A/c.	Dr.		38,500	
To Bank A/c.				38,500
(Being the liabilities of V. Ltd. discharged)				
Amalgamation Adjustment A/c.	Dr.		5,000	
To Statutory Reserves				5,000
(Being the identity of statutory Reserves retained)				
Capital Reserve A/c.	Dr.		3,000	
To Goodwill A/c.				3,000
(Being the goodwill adjusted against Capital Reserve)				

1. CALCULATION OF PURCHASE CONSIDERATION

Particulars		Rs.
A. Assets taken over at agreed values		
Tangible fixed Assets [(Rs.1,50,000 x 50%) + 100%]		1,50,000
Tangible Fixed Assets [Remaining]		62,500
Inventories [Rs.55,000 - Rs.5,500]		49,500
Trade Receivables [Rs.65,000 - Rs.6,500]		58,500
Cash at Bank [35,500 – 10,000 – 2,000]		23,500
Goodwill		50,000
		3,94,000
B. Less : Liabilities taken over		
Trade payables	1,40,000	
Less : Reserve for Discount @ 5%	7,000	1,33,000
10% Debentures [Rs.50,000 + 20%]		60,000
Unrecorded Loan		38,500
		2,31,500
Net Assets taken over (A - B)		1,62,500

(III) DISCHARGE OF PURCHASE CONSIDERATION

Particulars	Rs.
Payable in Cash (20% of Rs.1,62,500)	32,500
In shares – [(80% of Rs. 1,62,500 /Rs. 15]	
8,666 shares of Rs.10 each, Rs.8 paid up valued at Rs.15 per share	1,29,990
Cash for factional Share (.67 x Rs.100)	67
	1,62,557

(b) Fair Value of non controlling interest= Rs 10,00,000 *20% = Rs 2,00,000

Goodwill = consideration paid - holding co 's share in net assets

= Rs 12,00,000 - (Rs 10,00,000 *80%) = Rs 4,00,000

JOURNAL ENTRY

Goodwill A/c[balancing figure]	Dr.		**4,00,000**	
Net Assets A/c	Dr.		10,00,000	
To Investments A/c				12,00,000
To **Minority Interest** A/c[10,00,000*20%]				2,00,000

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

Particulars	AH Ltd. (Rs.)	AS Ltd. (Rs.)
Equity Shares of Rs.10 each	10,00,000	7,00,000
12% Pref. Shares of Rs.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. Rs.50,000.

Contingent liability in respect of Bills discounted by AS Ltd. Rs.25,000 of which Bills of Rs.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 Rs.6,80,000 and Rs.30,000 respectively. The credit balance of Profit and Loss Account of AS Ltd. as on 01.04.2017 was Rs.2,00,000 and that of General Reserve on that date was Rs.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 Rs.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 Rs.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. Rs.2,90,000 but AS Ltd is owed Rs.3,00,000 by AH Ltd.**

(g) **The Land and Building of AS Ltd. which stood at Rs.3,00,000 on 01.04.2017, was considered as worth of Rs.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**

Answer : 5

CONSOLIDATED BALANCE SHEET OF AH. LTD. AND ITS SUBSIDIARY AS LTD. AS AT 31.3.2018

Particulars	Note No.	Rs.
1. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	11,00,000
(b) Reserves and Surplus	2	9,13,600
(2) Minority Interest	(v)	3,66,400
(3) Non-Current Liabilities		
(a) Long term Borrowings [12% Debentures]	3	3,10,000
(4) Current Liabilities		
(a) Trade Payables [5,45,000 + 1,80,000]	3	7,25,000
(b) Short-term Provisions [Proposed Dividend] [1,50,000 + 12,000]		1,62,000
Total		35,77,000
II. Assets		
(1) Non-Current Assets		
(a) Fixed Assets		
Tangible Assets [12,40,000 + 4,92,000]	3	17,32,000
Intangible Assets		
(b) Non-Current Investments		
(2) Current Assets		
(a) Inventories	3	3,90,000
(b) Trade Receivables [10,10,000 + 1,00,000]	3	11,10,000
(c) Cash and Cash Equivalents	3	3,45,000
Total		35,77,000

Notes to Accounts :

Particulars	Rs.
1. Share Capital	
100000 Equity Shares of Rs.10 each	10,00,000
1000, 12% Pref. Shares of Rs.100 each	1,00,000
	11,00,000
2. Reserves and Surplus	
General Reserve	2,28,800
Profit & Loss Account	(4,600)
Capital Reserve on Consolidation	6,89,400

	9,13,600

3. CONSOLIDATED BALANCES

Particulars	Building	Machinery	Inventories	Trade Debtors	B/R	Cash & Bank	Trade Creditors	B/P	Debentures
AH Ltd.	6,00,000	2,00,000	1,00,000	4,00,000	1,00,000	60,000	3,00,000	1,40,000	2,00,000
AS Ltd.	2,70,000	3,70,000	3,00,000	9,10,000	1,00,000	2,75,000	5,35,000	1,40,000	2,00,000
Total	8,70,000	5,70,000	4,00,000	13,10,000	2,00,000	3,35,000	8,35,000	2,80,000	4,00,000
Less : Unrealised Profit	-	(78,000)	(10,000)	-	-	-	-	-	-
Less : Mutual Owings	-	-	-	(3,00,000)	(1,00,000)	-	(2,00,000)	(1,00,000)	(90,000)
Add: Appreciation	4,00,000	-	-	-	-	-	-	-	-
Less : Short Depreciation	(30,000)	-	-	-	-	-	-	-	-
Remittance in transit	-	-	-	-	-	10,000	-	-	-
Consolidated Balances	12,40,000	4,92,000	3,90,000	10,10,000	1,00,000	3,45,000	5,45,000	1,80,000	3,10,000

4. Contingent Liability = Total Contingent Liability – Internal Contingent Liability
= (Rs. 50,000 + Rs.25,000) – (Rs.40,000 + Rs.5,000) = Rs.30,000

Working Notes :

Dr. (I) GENERAL RESERVE ACCOUNT OF AS LTD. Cr.

Particulars	Rs.	Particulars	Rs.
To Equity Share Capital (Bonus)	2,00,000	By Balance b/d.	6,00,000
To Balance c/d	4,48,000	By Profit and Loss A/c. (b.f.)	48,000
	6,48,000		6,48,000

Dr. (II) PROFIT AND LOSS ACCOUNT OF AS LTD. Cr.

Particulars	Rs.	Particulars	Rs.
To Final Dividend for previous	1,00,000	By Balance b/d	2,00,000
To General Reserve	48,000	By Profit earned (b.f.)	1,00,000
To Proposed Preference Dividend	6,000		6,48,000
To Balance c/d. (1,52,000 - 6,000)	1,46,000		
	3,00,000		3,00,000

(III) CALCULATION OF CHANGE IN THE VALUE OF FIXED ASSET AND PROVISION OF DEPRECIATION

Particulars	Rs.
A. Book Value as on opening date	3,00,000
B. Less : Depreciation upto date of revaluation [Rs.3,00,000 x 10/100 x 3/12]	(7,500)
C. Book Value as on the date of revaluation (A – B)	2,92,500
D. Revalued figure as on the date of revaluation	6,92,500
E. Increase in Value (D – C)	4,00,000
F. Short Depreciation since the date of revaluation [Rs.4,00,000 x 10/100 x 9/12]	30,000

(IV) ANALYSIS OF PROFITS AND RESERVES OF AS LTD.

Particulars	Capital	Revenue	Revenue

	Profits Rs.	Profits Rs.	Reserves Rs.
Opening Balance of General Reserve	6,00,000		
Less : Utilized for issue of Bonus Shares	(2,00,000)		
Reserve created	12,000		36,000
Opening Balance of Profits and Loss A/c.	2,00,000		
Less : Final Dividend for the previous year	(1,00,000)		
Profits earned	25,000	75,000	
Less : Transfer to General Reserve	(12,000)	(36,000)	
Less : Proposed Preference Dividend	(1,500)	(4,500)	
Add : Increase in value of Fixed	4,00,000		
Less : Short Provision of Depreciation		(30,000)	
Total	9,23,500	4,500	36,000
Share of Minority @ 20%	1,84,700	900	7,200
Share of Holding Company @ 80%	7,38,800	3,600	28,800

(V) MINORITY INTEREST

Particulars	Rs.
Paid up Value of Equity shares (including Bonus Shares)	1,40,000
Paid up Value of Preference Shares presently held by Minority	30,000
Share of Minority in Capital Profit of AS Ltd.	1,84,700
Share of Minority in Revenue Profit of AS Ltd.	900
Share of Minority in Revenue Reserves of AS Ltd.	7,200
Share of Minority in Proposed Preference Dividend of AS Ltd.	3,600
Total	3,66,400

(VI) GOODWILL/CAPITAL RESERVE ON CONSOLIDATION

Particulars	Rs.
A. Corrected Net Cost of Investments	
(a) Net Cost of Equity Investments	6,80,000
(b) Less : Equity Dividend out of Pre-acquisition Profits	(80,000)
(c) Cost of Investments in Pref. Shares	30,000
(d) Less : Pref. Dividend receivable by Holding Co. out of pre-acquisition profits [1,500 x 2,000 / 5,000]	(600)
	6,29,400
B. Holding Co.'s Share in Net Assets of Subsidiary Co.	
(a) Paid up Value of Equity Shares (including Bonus Shares)	5,60,000
(b) Paid up Value of Preference Shares presently held by Holding Co.	20,000
(c) Share of Holding Co. in Capital Profits of Subsidiary Co.	7,38,800
	13,18,800
C. Capital Reserve (B – A)	6,89,400

(VII) CONSOLIDATED PROFIT AND LOSS ACCOUNT

Particulars	Rs.
A. Balance as given in the Balance Sheet of AH Ltd.	3,10,000
B. Add : (a) Holding Co.'s Share in Revenue Profits of AS Ltd.	3,600
(b) Holding Co.'s Share in Proposed Pref. Dividend as AS Ltd. [4,500 x 2,000/5,000]	1,800
(c) Profit on Debentures held in S Ltd. [90,000 (Face Value) – 80,000 (Cost)]	10,000
C. Less (a) Dividend out of pre-acquisition profits wrongly credited to this account instead on Investment Account	(80,000)
(b) Unrealized Profit on Inventories [(20% of 3,00,000) x 20/120)]	(10,000)

(c) Unrealized Profit on Machine [(2,40,000 x 1/3) – (80,000 x 10% x 3/12)]	(78,000)
(d) Proposed Equity Dividend [10,00,000 x 15%]	(1,50,000)
(e) Proposed Pref. Dividend [1,00,000 x 12%]	(12,000)
D. Closing Balance to be taken to the Consolidated Balance Sheet (A+B–C)	(4,600)

(VIII) CONSOLIDATED REVENUE RESERVE ACCOUNT

Particulars	Rs.
A. Balance as given in the Balance Sheet of AH Ltd.	2,00,000
B. Add: Holding Co.'s Share in Revenue Reserves of AH Ltd.	28,800
C. Closing Balance to be taken to be the Consolidated Balance Sheet (A + B)	2,28,800

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**	Rs.**50**
Market Price	Rs.**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 recognized 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 Rs.**10,** Rs.**13,** Rs.**15 per options, respectively.**

(ii) The intrinsic value of the options at the grant date is Rs.**6 per options.**

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

	Rs.**in Lakhs**
200 lakhs Equity Shares of Rs.**10 each**	**2,000**
10 Lakhs, 10% Preference Shares of Rs.**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 Rs.**500 lakhs and its market value is** Rs.**520 lakhs.**

(II) Following assets are revalued :

	Rs.**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** Rs.**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**

Answer : 6(a)

(i) **Based on Fair Value Method**

1. Since the options granted have a graded vesting schedule, the enterprise segregates the total plan into different groups, depending upon the vesting dates and treats each of these groups as a separate plan.

2. NUMBER OF OPTOINS EXPECTED TO VEST UNDER EACH GROUP :

Vesting Date (Year-end)		Options expected to vest
1	300 options x 1,000 employees x 25% x 0.97	72,750 options
2	300 options x 1,000 employees x 25% x 0.97 x .97	70,568 options
3	300 options x 1,000 employees x 50% x 0.97 x .97 x .97	1,36,901 options
Total options expected to vest		2,80,219 options

3. TOTAL COMPENSATION EXPENSE FOR THE OPTIONS EXPECTED TO VEST

Vesting Date (Year-end)	Expected Vesting (No. of Options)	Value per Option (**Rs.**)	Compensation Expense (**Rs.**)
1	72,750	10	7,27,500
2	70,568	13	9,17,384
3	1,36,901	15	20,53,515
	2,80,219		36,98,399

4. RECOGNITION OF COMPENSATION EXPENSE

Vesting Date (End of year)	Cost to be recognized		
	Year 1	Year 2	Year 3
1	7,27,500		
2	4,58,692	4,58,692	
3	6,84,505	6,84,505	6,84,505
Cost for the year	18,70,697	11,43,197	6,84,505
Cumulative cost	18,70,697	30,13,894	36,98,399

(ii) **Based on Intrinsic Value Method**

TOTAL COMPENSATION EXPENSE FOR THE OPTIONS EXPECTED TO VEST

Vesting Date (End of Year)	Expected Vesting (No. of Options)	Value per Option (**Rs.**)	Compensation Expense (**Rs.**)
1	72,750	6	4,36,500
2	70,568	6	4,23,408
3	1,36,901	6	8,21,406
	2,80,219		16,81,314

RECOGNITION OF COMPENSATION EXPENSE

Vesting Date (End of year)	Cost to be recognized		
	Year 1	Year 2	Year 3
1	4,36,500		
2	2,11,704	2,11,704	
3	2,73,802	2,73,804	2,73,802
Cost for the year	9,22,006	4,85,506	2,73,802
Cumulative cost	9,22,006	14,07,512	16,81,314

Answer : 6(b)

1. Calculation of Capital Employed

		Rs. in Lakhs
Assets : Land and Building		3,200
Plant and Machinery		1,800
Stock		1,450
Debtors		360
Cash and Bank		220
		7,030
Less : Liabilities :		
Debentures	1,000	
Creditors	800	1,800
Capital Employed		5,230

2. Calculation of Actual Profit

	Rs. in Lakhs
Average Profit before Tax (given)	2,400
Less : Income from Investment (Rs.5,00,00,000 x 10%)	50
	2,350
Less : Income Tax @ 30%	705
Average Actual Profit	1,645

3. Normal Profit = 12% of Capital Employed
   = Rs.5,230 lakhs x 12% = Rs.627.60 lakhs

4. Super Profit = Average Actual Profit – Normal Profit
   = Rs.1,645 lakhs – Rs.627.60 lakhs = Rs.1,017.40 lakhs

5. Goodwill = Super Profit x 2 = Rs.1,017.40 lakhs x 2 = Rs.2,034.80 lakhs

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

Answer : 7(a)

Although the basic principles of financial accounting that are applicable in regular commercial activities apply to the government accounts, there are certain features of governmental accounting which make it quite different from that of regular commercial accounting. A detailed comparison between commercial and government accounting has been presented hereunder :

1) **Meaning** : The accounting system applied in the government departments, offices and institutions is referred to as government accounting. While, the system of accounting applied by non-government organizations (whether profit-oriented or non-profit

oriented) is known as commercial accounting.

2) **Objective** : Government accounting is maintained by the government offices for recording and reporting the utilization and position of public funds. Commercial accounting is maintained by business organizations to know the profit or loss for an accounting period and disclose the financial position of the entity.

3) **Scope** : The government accounting happens to be more elaborate than that followed in commercial accounts.

4) **Budget** : Government accounting is directly influenced by the government budgeting system, while commercial accounting does not follow the government budgeting system.

5) **Basis** : Government accounting is prepared on cash basis. On the other hand, commercial accounting may be done on cash basis or accrual basis, or sometimes even on hybrid basis.

6) **Level of accounting** : Government accounting has the system of central level and operating level accounting. Commercial accounting has no provision of central level and operating level of accounting.

7) **Rules and Provisions**: Government accounting is strictly maintained by following the financial rules and provisions as set by the concerned government. Commercial accounting is maintained by following the applicable rules and the 'Generally Accepted Accounting Principles' (GAAP).

8) **Information :** Government accounting provides information to the government about the receipts, deposit, transfer and utilisation of public funds. Commercial accounting provides information to the various stakeholders about the operating result and financial position of business.

9) **Auditing :** The audit of the books of accounts maintained by government departments, offices or institutions are to be audited by a recognized department of the government (namely, the Auditor General Office) ; while the books of accounts maintained under commercial accounting is audited by any professional auditor.

Answer : 7(b)

IGAS 1 is an Indian Government Accounting Standard that deals with disclosure requirement relating to guarantees given by the Government. Name of the Standard is 'Guarantees given by the Government Disclosure Requirements'.

Regarding disclosure, the standard provides that the Financial Statements of the Union Government, the State Government and the Union Territory Governments (with legislature) shall disclose the following :

- Maximum amount for which Guarantees have been given during the year, additions and deletions (other than invoked during the year) as well as Guarantees outstanding at the beginning and end of the year ;
- Amount of Guarantees invoked and discharged or not discharged during the year;
- Details of Guarantee commission or fee and its realisation ; and
- Other material details :
  The Financial Statements of the Union Government, the State Governments and the Government of Union Territories (with legislature) shall disclose in the notes the following details concerning class or sector of Guarantees ;
- Limit, if any, fixed within which the Government may give guarantee ;
- Whether Guarantee Redemption or Reserve Fund exists and its details including disclosure of balance available in the Fund at the beginning of the year, any payments made and balance at the end of the year ;
- Details of subsisting external foreign currency guarantees in terms of Indian rupees on

the date of Financial Statements ;
- Details concerning Automatic Debit Mechanism and Structured Payment Arrangement, if any ;
- Whether the budget documents of the Government contain details of Guarantees ;
- Details of the tracking unit or designated authority for Guarantees in the Government and
- Other material details.

8. Write short notes on any four of the following : 4 x 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)

Answer : 8

(a) Financial Reporting vis-à-vis Triple Bottom Line Reporting.
Origin : The origination of financial reporting precedes that of Triple bottom line reporting, the latter being just a few decades old.

Nature : It is mandatory for corporate to prepare and present their financial reports ; while preparation of full TBL reports including social and environment dimension is voluntary in nature.

Scope : Triple bottom line reporting is broader in scope than financial reporting, as the former includes the reporting of social and environmental performances in addition to the financial performance of an organization.

Contents : The information contained within a TBL report is of a different nature to that included in a financial report. Thus, TBL reporting enables environmental and social risks that have the capacity to materially affect long-term financial performance to be identified and, therefore, taken into consideration when preparing financial reports.

(b) Ind AS- 103 : Business Combination
Objective
The objective of this Indian Accounting Standard (Ind AS) is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, this Ind AS establishes principles and requirements for how the acquirer :

(a) Recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire ;

(b) Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase ; and

(c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

(c) Accounting treatment of borrowing cost as per AS-16 :

(a) Borrowing costs should either be capitalized or charged to P/L Account depending on the situation but deferment is not permitted.

(b) Borrowing costs are capitalized as part of cost of qualifying asset when it is probable that they will result in future economic benefits and cost can be measured reliably – other borrowing costs are charged to P/L Account in the accounting period in which they are incurred.

(c) Capitalization, on one hand reflects closely the total investment in the asset and on the other hand to charge the cost to future period against accrual of revenue.

(d) National interest cost are not allowed to be capitalized .

(e) A qualifying asset is an asset that necessarily takes a substantial period of time (usually a period of 12 months unless otherwise justified on the basis of facts and circumstances) to get ready for its intended use or sale.

(f) Capitalization should be suspended during extended period in which active development is interrupted.

(g) Capitalization should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

(h) Capitalization also ceases 'when part is completed, which is capable of being used independent of the whole.

(d) Functions of Comptroller and Auditor General in the case of grants or loans given to other authorities or bodies : Where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly to any authority or body, not being a foreign State or international organization, the Comptroller and Auditor-General shall scrutinize the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which such grants or loans were given. For this purpose the C & AG shall have right to access, after giving reasonable previous notice, to the books and accounts of that authority or body.

However, the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, may, where he is of opinion that it is necessary so to do in the public interest, by order, relieve the Comptroller and Auditor-General, after consultation with him, from making any such scrutiny in respect of anybody or authority receiving such grant or loan.

Except where he is authorized so to do by the President, the Governor of a State or the Administrator of Union territory having a Legislative Assembly, as the case may be, the Comptroller and Auditor-General shall not have, while exercising the powers conferred on him by sub-section (1), right of access to the books and accounts of any corporation to which any such grant or loan as is referred to in subsection (1) is given if the law by or under which such corporation has been established provides for the audit of the accounts of such corporation by an agency other than the Comptroller and Auditor-General:

Moreover, such authorization shall be made except after consultation with the Comptroller and Auditor-General and except after giving the concerned corporation a reasonable opportunity of making representations with regard to the proposal to give to the Comptroller and Auditor-General right of access to its books and accounts.

(e) Government Accounting Standard Advisory Board (GASAB)

1. Government Accounting Standards Advisory Board (GASAB) has been constituted by Comptroller and Auditor General of India (CAG), with the support of Government of India through a notification dated 12th August, 2002.
2. The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending instead of just identifying resources for public scheme funding.
3. GASAB, as a nodal advisory body in India, is taking similar action to establish and improve standards of government accounting and financial reporting and enhance accountability mechanisms.
4. Structure of the GASAB : GASAB is a representative body and is represented by main stakeholders connected with accounting reforms of Union Government of India and States. The board consists of the following members :
    1. Deputy Comptroller and Auditor General (Accounts) as Chairperson.
    2. Controller General of Accounts
    3. Financial Commissioner, Railways
    4. Controller General of Defence Accounts
    5. Member (Finance) Telecom Commission, Department of Telecom.
    6. Additional /Joint Secretary (Budget), Ministry of finance, Govt. of India.
    7. Secretary, Department of Post.
    8. Deputy Governor, Reserve Bank of India or his nominee.
    9. Director General, National Council of Applied Economic Research (NCAER), N. Delhi.
    10. President, Institute of Chartered Accountants of India (ICAI) or his nominee.
    11. President, Institute of Cost and Works Accountants of India or his nominee.
    12. \- 15. Principal Secretary (Finance) of four States by rotation.
    16. Principal Director in GASAB as Member secretary.