PAPER – 1 : FINANCIAL REPORTING

*Question No.**1** is compulsory. Candidates are required to answer any **five** questions from the remaining **six** questions.*

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the respective answers.

Question 1

(a) *The following information is available for Zing Ltd. for the year 2018-19:*

Raw Material :

Closing Stock			*700 units*
Cost price			*₹ 35 per unit*
Replacement cost			*₹ 20 per unit*
Finished product -	*FP 1*	*FP 2*	
Production (units)	*3,000*	*1,600*	
Closing stock (units)	*500*	*300*	
Material consumed			*₹ 3,20,000*
Direct labour			*₹ 1,60,000*
Direct expenses			*₹ 78,000*

Fixed overhead for the year was ₹ 95,000, which includes godown rent of ₹ 15,000. Godown is used for storing finished products.

Besides 2 main products, 1000 units of a by-product (BY) also emerged in the production process which was sold @ ₹ 12 per unit after incurring an expense of ₹ 2,500. ₹ 4,800 was realized from sale of scrap. The average market price of FP1 is ₹ 160 per unit and FP2 is ₹ 100 per unit.

Calculate the value of closing stock of Zing Ltd. as per AS 2. ***(5 Marks)***

(b) *The following information is furnished in respect of Slate Ltd. for the year ending 31-3-2019:*

(i) *Depreciation as per books ₹ 2,80,000*

Depreciation for tax purpose ₹ 1,90,000

The above depreciation does not include depreciation on new additions.

(ii) *A new machinery purchased costing ₹ 1,20,000 during the year on which 100% depreciation is allowed in the 1st year for tax purpose whereas Straight-line Method is considered appropriate for accounting purpose with a life estimation of 4 years.*

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(iii) *Payment of ₹ 60,000 on account of royalty to a non-resident has accrued in the books but payment will be made in the next year.*

(iv) *Expenses paid in connection with advertisement of a new product in the year 2017-18 amounts to ₹ 80,000, which the company has decided to defer to 5 years. However, the entire expense was allowed in the same year for Income Tax purpose.*

(v) *The company has made a profit of ₹ 6,40,000 before depreciation and taxes.*

(vi) *Corporate tax rate of 40%.*

Prepare a statement of Profit and Loss for the year ending 31-3-2019 and also show the effect of above items on deferred tax liability/asset as per AS 22. **(5 Marks)**

(c) *The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments:*

(₹ in Crore)

Particulars	A	B	C	D	E	Total
Segment Assets	40	15	10	10	5	80
Segment Results	(95)	5	5	(5)	15	(75)
Segment Revenue	310	40	30	40	30	450

The Chief Accountant is of the opinion that segment "A" alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS 17 'Segment Reporting'. **(5 Marks)**

(d) *A-One Limited supplied the following information. You are required to compute the basic earnings per share as per AS 20 'Earnings per Share':*

Net profit attributable to equity shareholders	Year 2017-18:	₹ 1,00,00,000
	Year 2018-19 :	₹ 1,50,00,000

Number of shares outstanding prior to

Right Issue	50,00,000 shares
Right Issue	One new share for each four outstanding shares i.e., 12,50,000 shares
	Right Issue Price - ₹ 96
	Last date of exercising rights - 30-06-2018
Fair value of one equity share immediately prior to exercise of rights on 30-06-2018	₹ 101

(5 Marks)

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Answer

(a) As per para 10 of AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials are often measured at net realizable value and this value is deducted from the cost of the main product.

1. Calculation of net realizable value of by-product, BY

		₹
Selling price of by-product BY	(1,000 units x ₹ 12 per unit)	12,000
Less: Separate processing charges of by-product BY		(2,500)
Net realizable value of by-product BY		9,500

2. Calculation of cost of conversion for allocation between joint products FP1 and FP2

	₹	₹
Raw material consumed		3,20,000
Direct labour		1,60,000
Direct expenses		78,000
Fixed overhead (95,000 – 15,000)		80,000
		6,38,000
Less: NRV of by-product BY (See calculation 1)	(9,500)	
Sale value of scrap	(4,800)	(14,300)
Joint cost to be allocated between FP 1 and FP 2		6,23,700

3. Determination of "basis for allocation" and allocation of joint cost to FP 1 and FP 2

		FP 1	*FP 2*
Output in units	(a)	3,000	1,600
Sales price per unit	(b)	₹ 160	₹ 100
Sales value	(a x b)	₹ 4,80,000	₹ 1,60,000
Ratio of allocation		3	1
Joint cost of ₹ 6,23,700 allocated in the ratio of 3:1	(c)	₹ 4,67,775	₹ 1,55,925
Cost per unit [c/a]		**₹155.93**	**₹97.45**

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4. Determination of value of closing inventory of Finished Products FP1 and FP2

	FP 1	*FP 2*
Closing inventory in units	500	300
Cost per unit	₹ 155.93	₹ 97.45
Value of closing inventory (finished goods)	₹ 77,965	₹ 29,235

5. Determination of value of closing stock of raw material

	FP 1 ₹	*FP 2* ₹
Cost price	155.93	97.45
Sales price	160	100

Since both finished goods FP 1 and FP 2 are sold above cost, raw material will be valued at cost i.e. ₹ 35 per unit (ie) ₹ 24,500 (700 units x ₹ 35)

6. Total value of closing inventory

(a) Finished products:

FP 1	₹ 77,965
FP 2	₹ 29,235
	₹ 1,07,200
(b) Raw material	₹ 24,500
	₹ 1,31,700

(b) Statement of Profit and Loss for the year ended 31st March, 2019

			₹
Profit before depreciation and taxes			6,40,000
Less: Depreciation for accounting purposes (2,80,000+30,000)			(3,10,000)
Profit before taxes	(A)		3,30,000
Less: Tax expense	(B)		
Current tax (W.N.1) (4,06,000 x 40%)		1,62,400	
Deferred tax (W.N.2)		(30,400)	(1,32,000)
Profit after tax	(A-B)		1,98,000

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Working Notes:

1. Computation of taxable income

		Amount (₹)
Profit before depreciation and tax		6,40,000
Less: Depreciation for tax purpose (1,90,000 + 1,20,000)		(3,10,000)
		3,30,000
Add: Royalty not allowed this year	60,000	
Advertisement expenses	16,000	76,000
Taxable income		4,06,000
Tax on taxable income @ 40%		1,62,400

2. Impact of various items in terms of deferred tax liability / deferred tax asset

S. No.	*Transactions*	*Analysis*	*Nature of difference*	*Effect*	*Amount (₹)*
(i)	Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.	Responding timing difference	Reversal of DTL	(2,80,000 - 1,90,000) x 40% = (36,000)
(ii)	Depreciation on new machinery	Due to allowance of full amount as expenditure under IT Act, tax payable in the earlier years was less.	Timing difference	Creation of DTL	(1,20,000 – 30,000) x 40% = 36,000

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(iii)	Royalty paid to a non-resident	It is allowed as deduction under IT Act, when relevant tax deducted or paid	Timing difference	Creation of DTA	60,000 x 40% = (24,000)
(iv)	Expenses on advertisement of a new product	Due to allowance of full expenditure under IT Act, tax payable in the earlier years was less.	Responding timing difference	Reversal of DTL	(80,000/5) x 40% = (6,400)

(c) As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) Its **revenue** from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

(ii) Its segment **result** whether profit or loss is 10% or more of:

(1) The combined result of all segments in profit; or

(2) The combined result of all segments in loss,

whichever is greater in absolute amount; or

(iii) Its segment **assets** are 10% or more of the total assets of all segments.

Further, if the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

Accordingly,

(a) On the basis of **revenue from sales** criteria, segment A is a reportable segment.

(b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of ₹ 100 crore).

(c) On the basis of **asset** criteria, all segments except E are reportable segments.

Since all the segments are covered in atleast one of the above criteria, all segments have to be reported upon in accordance with AS 17.

Hence, the opinion of chief accountant that only segment 'A' is reportable is wrong.

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(d) Computation of Basic earnings per share

	2017-18 ₹	2018-19 ₹
EPS for the year 2017-18 as originally reported: (₹ 1,00,00,000 / 50,00,000 shares)	2.00	
EPS for the year 2017-18 restated for rights issue: ₹1,00,00,000 / (50,00,000 shares x 1.01)	1.98	
EPS for the year 2018-19 including effects of rights issue $\frac{₹\ 1,50,00,000}{(50,00,000 \times 1.01 \times 3/12) + (62,50,000 \times 9/12)}$		2.52

Working Notes:

1. Computation of Basic Earnings per share in case of Rights Issue

Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights+total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

$$\frac{(₹\ 101 \times 50,00,000 \text{ shares}) + (₹\ 96 \times 12,50,000 \text{ shares})}{50,00,000 \text{ shares} + 12,50,000 \text{ shares}}$$

= ₹ 62,50,00,000 / 62,50,000 = ₹100

Therefore, theoretical ex-rights fair value per share is = ₹ 100

2. Computation of adjustment factor

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} = \frac{₹\ (101)}{₹\ (100)} = 1.01$$

Question 2

Radha Limited and Shyam Limited decide to amalgamate and to form a new company Radhey Shyam Limited. The following are their summarized Balance Sheets as at March 31, 2019:

Balance Sheet of Radha Limited and Shyam Limited as on March 31, 2019

Particulars	*Note No.*	*Radha Limited (₹)*	*Shyam Limited (₹)*
I. Equity and Liabilities			
(1) Shareholders' funds			
(a) Share capital	*1*	*40,00,000*	*24,00,000*
(b) Reserves and Surplus	*2*	*5,60,000*	*3,20,000*

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Particulars	Note No.	Radha Limited	Shyam Limited
(2) Non-current liabilities			
12% Secured Debentures of ₹ 100 each		*12,00,000*	*4,00,000*
(3) Current liabilities			
Trade payables		*2,40,000*	*80,000*
Total		*60,00,000*	*32,00,000*
II. Assets			
(1) Non-current assets			
*Fixed assets**			
Tangible assets		*30,00,000*	*8,00,000*
(2) Current assets			
(a) Current assets		*16,00,000*	*4,00,000*
(b) Current investment	*3*	*14,00,000*	*20,00,000*
Total		*60,00,000*	*32,00,000*

Notes to Accounts:

Note No.		*Radha Limited (₹)*	*Shyam Limited (₹)*
1.	***Share Capital***		
	Authorised, Issued, Subscribed and Paid up share capital:		
	40,000 Equity Share of ₹ 100 each	*40,00,000*	*-*
	24,000 Equity Share of ₹ 100 each	*-*	*24,00,000*
2.	***Reserve and Surplus***		
	General Reserve	*4,00,000*	*2,00,000*
	Investment Allowance Reserve	*1,60,000*	*1,20,000*
		5,60,000	*3,20,000*
3.	***Current Investments***		
	6,000 Shares in Shyam Limited	*14,00,000*	*-*
	16,000 Shares in Radha Limited	*-*	*20,00,000*

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* **PS:** Read ‘Fixed Assets’ as ‘Property, Plant and Equipment’.

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Calculate the amount of purchase consideration for Radha Limited and Shyam Limited and draw up the Balance Sheet of Radhey Shyam Limited after considering the following:

(i) Assume that amalgamation is in the nature of purchase.

(ii) Tangible assets of Radha Limited are to be reduced by ₹ 2,00,000 and that of Shyam Limited are to be taken at ₹ 11,96,800.

(iii) 12% Debenture holders of Radha Limited and Shyam Limited are discharged by Radhey Shyam Limited by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(iv) Purchase consideration will be settled by Radhey Shyam Limited by issuing its equity shares of ₹ 100 each at par.

Also, show how the investment allowance reserve will be treated in the financial statements assuming that the reserve will be maintained for 3 years. ***(16 Marks)***

Answer

Calculation of Purchase consideration

(i) Value of Net Assets of Radha Ltd. and Shyam Ltd. as on 31st March, 2019

	Radha Ltd.		*Shyam Ltd.*	
	₹		₹	
Assets taken over:				
Tangible Assets	28,00,000		11,96,800	
Current Assets	16,00,000	44,00,000	4,00,000	15,96,800
Less: Liabilities taken over:				
Debentures (WN)	9,60,000		3,20,000	
Trade payables	2,40,000	(12,00,000)	80,000	(4,00,000)
Net Assets before investment		32,00,000		11,96,800

(ii) Value of Shares of Radha Ltd. and Shyam Ltd.

Radha Ltd. holds 6,000 shares in Shyam Ltd. i.e. 1/4th of the shares of Shyam Ltd. The value of shares of Radha Ltd. is ₹ 32,00,000 plus 1/4 of the value of the shares of Shyam Ltd.

Shyam Ltd. holds 16,000 shares in Radha Ltd. i.e. 2/5th of the shares of Radha Ltd. The value of shares of Shyam Ltd. is ₹ 11,96,800 plus 2/5 of the value of shares of Radha Ltd.

Let 'x' denotes the value of shares of Radha Ltd. and 'y' denotes the value of shares of Shyam Ltd. then

x = 32,00,000 + 1/4 y; and y = 11,96,800 + 2/5 x

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Substituting the value of y,

x = 32,00,000 + 1/4 (11,96,800 + 2/5x)

x = 32,00,000 + 2,99,200 + 1/10x

9/10x = 34,99,200

x = 38,88,000

y = 11,96,800 + 2/5 (38,88,000)

y = 27,52,000

(iii) Amount of Purchase Consideration

	Radha Ltd. ₹	*Shyam Ltd.* ₹
Total value of shares (as determined above)	38,88,000	27,52,000
Less: Internal investments:		
2/5 for shares held by Shyam Ltd.	(15,55,200)	
1/4 for shares held by Radha Ltd.		(6,88,000)
Amount due to outsiders	23,32,800	20,64,000
Purchase Consideration satisfied by Radhey Shyam Ltd. in shares of ₹ 100 each	23,328 shares	20,640 shares

(iv) Net Amount of Goodwill / Capital Reserve

	₹	₹
Total Purchase Consideration (excluding inter-company investment)		
Radha Ltd.	23,32,800	
Shyam Ltd.	20,64,000	43,96,800
Less: Net Assets taken over (excluding inter-company investment)		
Radha Ltd.	32,00,000	
Shyam Ltd.	11,96,800	(43,96,800)
Goodwill		Nil

Note: Alternatively, the calculation of Goodwill/Capital Reserve may be made separately for both the companies.

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Balance Sheet of Radhey Shyam Ltd. as at 31st March, 2019

Particulars	*Note No.*	*Amount (₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	43,96,800
(b) Reserves and Surplus	2	Nil
(2) Non-current Liabilities		
Long-term borrowings	3	12,80,000
(3) Current Liabilities		
Trade payables (2,40,000 +80,000)		3,20,000
Total		59,96,800
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment Tangible assets (28,00,000 + 11,96,800)		39,96,800
(2) Current assets (16,00,000 + 4,00,000)		20,00,000
Total		59,96,800

Notes to Accounts:

		(₹)	(₹)
1.	**Share Capital**		
	43,968 shares of ₹ 100 each		43,96,800
	(All the above shares are allotted as fully paid-up for consideration other than cash)		
2.	**Reserves and surplus**		
	Investment Allowance Reserve (1,60,000 +1,20,000)	2,80,000	
	Amalgamation Adjustment Reserve (Refer Note below)	(2,80,000)	Nil
3.	**Long Term Borrowings**		
	15% Debentures (W.N.) (9,60,000 + 3,20,000)		12,80,000

Note: In the Balance Sheet, 'Amalgamation Adjustment Reserve' shall be presented as a separate line item. Investment Allowance Reserve is a statutory reserve which is to be carried by the amalgamated company for 3 years in case of amalgamation in the nature of purchase. In such a case, the statutory reserve is recorded in the financial statements of the transferee

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company by a corresponding debit to 'Amalgamation Adjustment Reserve' which will be shown in the books under 'Reserves & Surplus' with debit balance.

When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.

Working Notes:

Calculation of Debentures to be issued

	Radha Ltd.	*Shyam Ltd.*
12% Debentures	12,00,000	4,00,000
Interest on Debentures @ 12% (a)	1,44,000	48,000
Rate of interest of Radhey Shyam Ltd.'s debentures (b)	15%	15%
Debenture value to earn above calculated interest (a/b)	9,60,000	3,20,000

Question 3

Given below is the summarized balance sheet of Soy Ltd. and Joy Ltd.:

	Soy Ltd. as on 31.3.2019	*Joy Ltd. as on 31.12.2018*
Share Capital (Face value of ₹ 10 each)	*12,00,000*	*5,00,000*
General Reserve	*3,22,500*	*2,80,000*
Profit & Loss account	*1,85,000*	*95,000*
Trade payables	*2,70,000*	*2,35,000*
Other current liabilities	*82,000*	*65,000*
	20,59,500	*11,75,000*
Tangible assets	*6,45,000*	*5,25,000*
Investment in Joy Ltd.	*6,37,500*	-
Inventory	*3,15,000*	*2,80,000*
Trade receivables	*3,94,000*	*3,05,000*
Cash & Bank	*68,000*	*65,000*
	20,59,500	*11,75,000*

Soy Ltd. acquired 37,500 ordinary shares of Joy Ltd. at a market price of ₹ 18 per share on 1.1.2019. Joy Ltd. declared and paid a dividend of 10% on the same date. During the month of January, Soy Ltd. sold goods costing ₹ 60,000 to Joy Ltd. at an invoice price of cost plus 25%. 60% of these goods were resold by Joy Ltd. to Soy Ltd. within 31st March 2019 (which were then sold to a third party by Soy Ltd). Joy Ltd. owes ₹ 15,000 (after payment in cash) to Soy Ltd. in respect of these goods as on 31.3.2019.

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The tangible assets of Joy Ltd. which stood at ₹ 5,25,000 on 31.12.2018 was considered as worth ₹ 6,05,000 on 1.1.2019, this value is to be considered while consolidating the balance sheets. The cash profit earned by Joy Ltd. during 1.1.2019 to 31.3.2019 was ₹ 50,625 before charging depreciation. Joy Ltd. charges depreciation on tangible assets @ 10% per annum. Assume there are no other changes in the assets and liabilities of Joy Ltd.

You are required to prepare consolidated balance sheet as on 31.3.2019 after making necessary adjustments in the balance sheet items of Joy Ltd. ***(16 Marks)***

Answer

Consolidated Balance Sheet of Soy Ltd. and its subsidiary Joy Ltd.
As on 31st March, 2019

Particulars	*Note No.*	*₹*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		12,00,000
(b) Reserves and Surplus (W.N.5.)	1	5,69,375
(2) Minority Interest (W.N 3.)		2,35,125
(3) Current Liabilities		
(a) Trade Payables	2	5,05,000
(b) Other current liabilities (₹82,000 + ₹ 65,000)		1,47,000
Total		26,56,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		
(i) Tangible assets	3	12,34,875
(2) Current assets		
(a) Inventories	4	6,19,000
(b) Trade receivables	5	6,84,000
(c) Cash & Cash equivalents	6	1,18,625
Total		26,56,500

Notes to Accounts:

			₹
1.	**Reserves & Surplus**		
	General Reserve	3,22,500	

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	Capital Reserve (W.N.4)	41,250	
	Profit and loss (W.N.1)	2,05,625	5,69,375
2.	**Trade Payables**		
	Soy Ltd.	2,70,000	
	Joy Ltd. (W.N.1)	2,50,000	
		5,20,000	
	Less: Mutual indebtedness	(15,000)	5,05,000
3.	**Tangible Assets**		
	Soy Ltd.	6,45,000	
	Joy Ltd. (W.N)	5,89,875	12,34,875
4.	**Inventories**		
	Soy Ltd.	3,15,000	
	Joy Ltd. [W.N.1]	3,10,000	
		6,25,000	
	Less: Unrealised profit $\left[60,000 \times 125\% \times 40\% \frac{25}{125}\right]$	(6,000)	6,19,000
5	**Trade Receivables**		
	Soy Ltd.	3,94,000	
	Joy Ltd.	3,05,000	
		6,99,000	
	Less: Mutual indebtedness	(15,000)	6,84,000
6	**Cash & cash equivalents**		
	Soy Ltd.	68,000	
	Joy Ltd. [W.N 1]	50,625	1,18,625

Working Notes:

1. **Adjustments to be made in the balance sheet items of Joy Ltd.**

	₹	
Assets side:		
Tangible Assets		
As given on 31.12.2018	5,25,000	

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Add: Upward revaluation	80,000	
	6,05,000	
Less: Depreciation for 3 months (6,05,000 x 10% x 3/12)	15,125	5,89,875
Inventories		
As given on 31.12.2018	2,80,000	
Add: Unsold inventory out of goods purchased from Soy Ltd. (60,000 x 125% x 40%)	30,000	3,10,000
Cash & Bank balance		
As given on 31.12.2018	65,000	
Less: Payment made for Inventory [(60,000 x 125% x 40%) -15,000]	(15,000)	
Add: Cash profit earned	50,625	
Less: Dividend paid	(50,000)	50,625
Liabilities side:		
Trade payables		
As given on 31.12.2018	2,35,000	
Add: Owings to Soy Ltd. on 31.3.2019	15,000	2,50,000
Profit and Loss A/c		
As given on 31.12.2018	95,000	
Less: Dividend paid on 1.1.2019	(50,000)	
Add: Cash profit	50,625	
Less: Depreciation for 3 months	(15,125)	80,500
Revaluation Reserve (6,05,000 – 5,25,000)		80,000

2. Analysis of Profit of Joy Ltd.

		Pre-acquisition ₹	Post-acquisition ₹
General Reserve		2,80,000	
Revaluation Reserve		80,000	
Profit and Loss	80,500		
Opening 95,000			
Less: Dividend 50,000		45,000	
(80,500 - 45,000)			35,500
		4,05,000	35,500

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Soy Ltd. (75%)		3,03,750	26,625
Minority Interest (25%)		1,01,250	8,875

3. Minority Interest

	₹
Paid up value of 12,500 shares @ ₹ 10 each	1,25,000
Add: Pre-acquisition (Refer W.N. 2)	1,01,250
Post-acquisition (Refer W.N. 2)	8,875
	2,35,125

4. Cost of Control

	₹	₹
Amount paid for 37,500 Shares @ ₹ 18		6,75,000
Less: Nominal value of proportionate share capital	3,75,000	
Share of pre-acquisition profits (Refer W.N.2)	3,03,750	
Dividend paid on 1.1.19 (50,000 x 75%)	37,500	(7,16,250)
Capital Reserve		41,250

5. Consolidated Profit and Loss account as on 31.3.2019

	₹
Soy Ltd. balance as on 31.3.2019	1,85,000
Add: Share in post-acquisition profit of Joy Ltd. (W.N.2)	26,625
Less: Unrealised gain (60,000 x 125% x 40%) x (25/125)	(6,000)
	2,05,625

Question 4

(a) Explain the differences between Ind AS 36 and AS 28 with respect to the following:

(i) Annual impairment testing for an intangible asset with an indefinite useful life

(ii) Reversal of impairment loss for goodwill ***(4 Marks)***

(b) Explain the procedure of calculating 'Diluted Earnings Per Share' per the provisions of Ind AS 33. ***(4 Marks)***

(c) PQR Limited grants loan to its employee at 5% amounting ₹ 6,00,000 on April 1, 2018. The principal amount is required to be repaid over a period of 3 years respectively on March 31, 2019; March 31, 2020 and March 31, 2021, whereas the accumulated interest computed on reducing balance at simple interest is collected in one instalment after collection of the principal amount on March 31, 2022.

Assume the benchmark interest rate @ 9%.

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Show the Journal Entries for initial recognition and at the year ending on March 31, 2019. Also calculate the interest to be recognised over the period of loan.

PVIF @ 9%

At the end of year	*1*	*2*	*3*	*4*
PVIF	*0.9174*	*0.8417*	*0.7722*	*0.7084*

(8 Marks)

Answer

(a) (i) Annual impairment testing for an intangible asset with an indefinite useful life:

Ind AS 36 requires annual impairment testing for an intangible asset with an indefinite useful life or not yet available for use and goodwill acquired in a business combination. However, AS 28 does not require the annual impairment testing for the goodwill unless there is an indication of impairment.

(ii) Reversal of impairment loss for goodwill:

AS 28 requires that the impairment loss recognised for goodwill should be reversed in a subsequent period when it was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events that have occurred that reverse the effect of that event. However, Ind AS 36 prohibits the recognition of reversals of impairment loss for goodwill.

(b) Formula for calculation of Diluted EPS =

$$\frac{\text{Adjusted Profit/loss attributable to ordinary Equity holders of the parent entity}}{\text{Adjusted Weighted average number of ordinary shares outstanding during the period}}$$

Method of computation of adjusted profit or loss attributable to ordinary equity shareholders:

For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity including profit or loss from continuing operations attributable to those equity holders as calculated in accordance with basic EPS, by the after-tax effect of:

(a) any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity;

(b) any interest recognised in the period related to dilutive potential ordinary shares; and

(c) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

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Method of computation of weighted average number of shares outstanding during the year:

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

(c) Computation of fair value at initial recognition

Year	Estimated Cash Flows	PVIF @ 9%	Present Value
	₹		₹
1/4/2018		1	Nil
31/3/2019	2,00,000	0.9174	1,83,480
31/3/2020	2,00,000	0.8417	1,68,340
31/3/2021	2,00,000	0.7722	1,54,440
31/3/2022	60,000	0.7084	42,504
Fair value of loan			**5,48,764**

Working Notes:

Computation of interest to be paid on 31.3.2022

Year	Amount due at the beginning of the year	Cash Flows	Principal outstanding at the end	Interest @ 5% on amt. due	Cumulative Interest
		₹	₹	₹	₹
31.3.2019	6,00,000	2,00,000	4,00,000	30,000	30,000
31.3.2020	4,00,000	2,00,000	2,00,000	20,000	50,000
31.3.2021	2,00,000	2,00,000	Nil	10,000	60,000
31.3.2022	60,000	60,000	-	-	-

Computation of fair value loss

	₹
Fair value of loan	5,48,764
Loan amount	6,00,000
Fair value loss	51,236

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Journal Entry at initial recognition

Date	Particulars	Dr. ₹	Cr. ₹
1.4.2018	Loan to Employee A/c	5,48,764	
	Employee Benefits A/c or Prepaid staff cost A/c	51,236	
	To Bank A/c		6,00,000

Note: The fair value measurement is of other than level 1. An entity should defer the day 1 gain / loss over the term of the financial asset. Therefore, ₹ 51,236 will be amortised over the period of loan.

Computation of interest on amortised cost

Year	Opening Balance (1)	Interest @ 9% (2)	Repayment (3)	Closing Balance (1+2-3)
	₹	₹	₹	₹
1.4.2018				5,48,764
31.3.2019	5,48,764	49,389	2,00,000	3,98,153
31.3.2020	3,98,153	35,834	2,00,000	2,33,987
31.3.2021	2,33,987	21,059	2,00,000	55,046
31.3.2022	55,046	4,954	60,000	Nil

Journal Entry on 31.3.2019

Date	Particulars	Dr. ₹	Cr. ₹
31.3.2019	Loan to Employee A/c Dr.	49,389	
	To Interest Accrued A/c		49,389
31.3.2019	Bank A/c Dr.	2,00,000	
	To Loan to Employee		2,00,000

Question 5

(a) *Iron Fabricators Limited purchased a fabrication machinery on 31-12-2014. Quoted price was ₹ 1,75,00,000. VAT on quoted price is 12%. Transportation Charges and Engineer's Fee respectively are ₹ 1,70,000 and ₹ 30,000. Iron Fabricators Limited borrowed money from bank ₹ 1,50,00,000 for acquisition of the machinery @ 14% p.a.*

Also, they spent ₹ 1,20,000 for material in relation to trial run. Wages and Overheads incurred during trial run were ₹ 60,000 and ₹ 20,000 respectively. Company further allowed 1% cash discount on Quoted price for timely payment of amount due. The

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machinery was ready for use on 15-03-2015. It was put to use on 01-04-2015. Find out the original cost.

Expected life of machinery is 10 years. The company decided to charge depreciation on straight line basis.

On April 1, 2017 Iron Fabricators Limited revalued machinery upward by 10%. However, on April 1, 2018, it appears that a 4% downward revaluation should be made to arrive at true value of the machinery in the changed economic and industry conditions.

The machinery was sold on April 1, 2019 for, ₹ 1,20,00,000.

Show Machinery A/c and Revaluation Reserve A/c in the books of Iron Fabricators Limited from FY 2015-16 to FY 2019-20. ***(8 Marks)***

(b) Orange Limited hired a Marketing Consultancy Firm for doing market research and provide data relating to Mobile Industry for the next 10 years. The following were the observations and projections made by the consultancy firm:

(1) The Mobile Industry in the target area i.e. whole of India, is expected to grow at 4% per annum for the next three years and thereafter at 8% per annum over the subsequent seven years.

(2) The market size in terms of unencumbered basic sales of mobile was estimated at ₹ 16,000 crores in the last year, dominated by medium and large players. This includes roughly 10% of fake brands and locally manufactured mobiles. Market share of this segment is expected to increase by 0.25% over the decade.

(3) Cheap Chinese Imports accounted for 40% of the business (but 60% of the volume) last year. This is expected to be increased by 0.50% over the next decade.

(4) The other large players accounted for roughly 34% of the business value last year, which is expected to go down by 0.50% over the next ten years, due to expansion of Orange Limited's product portfolio.

(5) The company is in the process of business process re-engineering, which will start yielding results in two-year time and increase its profitability by 3% from its existing 8%.

What is the Brand Value of Orange Limited, under Market Oriented Approach, if the appropriate discount rate is 10%? Also, give a brief note on Market Oriented Approach and its advantage.

For the purpose of calculation, the following discount factors at discount rate of 10% should be considered:

At the end of year	*1*	*2*	*3*	*4*	*5*
Discount factor	*0.9091*	*0.8264*	*0.7513*	*0.6830*	*0.6209*
At the end of year	*6*	*7*	*8*	*9*	*10*
Discount factor	*0.5645*	*0.5132*	*0.4665*	*0.4241*	*0.3855*

(8 Marks)

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Answer

(a) **Machinery A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.15	To Balance b/d (W.N.1)	1,78,25,417*	31.3.16	By Depreciation	17,90,000
			31.3.16	By Balance c/d	1,60,35,417
		1,78,25,417			1,78,25,417
1.4.16	To Balance b/d	1,60,35,417	31.3.17	By Depreciation	17,90,000
			31.3.17	By Balance c/d	1,42,45,417
		1,60,35,417			1,60,35,417
1.4.17	To Balance b/d	1,42,45,417	31.3.18	By Depreciation	19,69,000
1.4.17	To Revaluation Reserve (W.N.3)	14,24,542	31.3.18	By Balance c/d	1,37,00,959
		1,56,69,959			1,56,69,959
1.4.18	To Balance b/d	1,37,00,959	1.4.18	By Revaluation Reserve(W.N.3)	5,48,038
			31.3.19	By Depreciation	18,90,240
			31.3.19	By Balance c/d	1,12,62,681
		1,37,00,959			1,37,00,959
1.4.19	To Balance b/d	1,12,62,681	1.4.19	By Bank A/c	1,20,00,000
1.4.19	To Profit and Loss A/c (balancing figure)	7,37,319			
		1,20,00,000			1,20,00,000

Revaluation Reserve A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.18	To Revenue Reserve (W.N.3)	1,79,000	1.4.17	By Machinery (W.N.3)	14,24,542
31.3.18	To Balance c/d	12,45,542			
		14,24,542			14,24,542
1.4.18	To Machinery (W.N.3)	5,48,038	1.4.18	By Balance b/d	12,45,542

* Since question requires to prepare Machinery Account for the year 2015-16 to 2019-20, Accounting for 2014-15 has not be provided.

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	To Revenue Reserve (W.N.3)	1,00,240			
	To Balance c/d	5,97,264			
		12,45,542			12,45,542
1.4.19	To Revenue Reserve	5,97,264	1.4.19	By Balance b/d	5,97,264
		5,97,264			5,97,264

Note: As per para 44 of AS 10 (revised), an entity has an option either to transfer the value of revaluation reserve to revenue reserve on derecognition of the asset. This may involve transferring the whole of the surplus when the asset is retired or disposed of. Alternatively, some of the surplus may be transferred as the asset is used by an enterprise.

The above Revaluation reserve account is drawn on the basis that some of the surplus is transferred as the asset is used by an enterprise. However, the Revaluation reserve account can also be prepared on the basis that whole of the surplus will be transferred when the asset is disposed of. In such a situation revaluation reserve account will be drawn as follows:

Revaluation Reserve A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.18	To Balance c/d	14,24,542	1.4.17	By Machinery (W.N.3)	14,24,542
		14,24,542			14,24,542
1.4.18	To Machinery (W.N.3)	5,48,038	1.4.18	By Balance b/d	14,24,542
31.3.19	To Balance c/d	8,76,504			
		14,24,542			14,24,542
1.4.19	To Revenue Reserve	8,76,504	1.4.19	By Balance b/d	8,76,504
		8,76,504			8,76,504

Working Notes:

1. Computation of initial cost of Machinery to be recognised in the books as on 15.3.2015 and the carrying amount of the machinery as on 31.3.2015

		₹
(i)	Quoted price of machinery	1,75,00,000
(ii)	VAT on quoted price	-
(iii)	Transportation Charges	1,70,000

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(iv)	Engineer's fee	30,000
(v)	Borrowing cost (Not a qualifying asset)	-
(vi)	Material for trial run	1,20,000
(vii)	Wages & Overhead expenses during trial run (60,000 + 20,000) (Directly attributable cost)	80,000
(viii)	Cash discount	-
		1,79,00,000
	Less: Depreciation for 15 days (W.N.2)	(74,583)
	Carrying amount of machinery as on 31.3.2015	1,78,25,417

2. Computation of depreciation on machinery ₹

Depreciation for the year 2014-15 $\frac{1,79,00,000}{120\ month} \times 0.5\ month$	74,583
Depreciation for the year 2015-16 $\frac{1,79,00,000}{120\ month} \times 12\ month$	17,90,000
Depreciation for the year 2016-17 $\frac{1,79,00,000}{120\ month} \times 12\ month$	17,90,000

3. Computation of Revaluation and depreciation thereafter

Carrying value on 1.4.17		1,42,45,417
Add:10% upward revaluation		14,24,542
After revaluation		1,56,69,959
Less: Depreciation for the year 2017-18		
Depreciation on original cost $\frac{1,79,00,000}{120\ month} \times 12\ month$	17,90,000	
Depreciation on revaluation amount $\frac{14,24,542}{(120m - 0.5m - 12m - 12m)} \times 12m$	1,79,000	(19,69,000)
Carrying value on 31.3.2018		1,37,00,959
Less: 4% downward revaluation on 1.4.18		(5,48,038)
		1,31,52,921

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Less: Depreciation for the year 2018-19 $\frac{1,31,52,921}{(120m-0.5m-12m-12m-12m)}\times 12m$ (On original CA 17,90,000 + 1,00,240)		(18,90,240)
Carrying value as on 31.3.19		1,12,62,681

(b) Market Share of Orange Ltd.

(a) Last year's market share = 100% – Fake Brands 10% - Chinese Imports 40% - Other Domestic Brands (large players) 34% = 16%

(b) **Increase or decrease in market share**: Chinese Imports 0.5% (+) Fake Brands 0.25% (-) Other Brands (large players) 0.5% = 0.25% i.e. increase in others' market share. Hence, market share of Orange Ltd. is expected to fall by 0.25% over the decade, from the current level of 16%. Therefore, this year it will be 15.975%, next year 15.95%, the year after 15.925% etc.

Brand Valuation under Market Oriented Approach

Year		*Market Share of Orange Ltd.*	*Market Share (₹ in Crore)*	*Expected Profit (₹ in Crore)*	*Discount Factor @ 10%*	*Discounted Cash Flow (₹ in Crore)*
1	16,000 x 104% = 16,640	15.975%	2658.24	@ 8%= 212.66	0.9091	193.33
2	16,640 x 104% = 17,305.60	15.95%	2760.24	@ 8% = 220.82	0.8264	182.49
3	17,305.60 x 104% = 17,997.82	15.925%	2866.15	@11% = 315.28	0.7513	236.87
4	17,997.82 x 108% =19,437.65	15.90%	3090.59	@11%= 339.96	0.6830	232.20
5	19,437.65 x 108% = 20,992.66	15.875%	3332.58	@ 11% = 366.58	0.6209	227.61
6	20,992.66 x 108% = 22,672.07	15.85%	3593.52	@11% = 395.29	0.5645	223.14
7	22,672.07 x 108% = 24,485.84	15.825%	3874.88	@11% = 426.24	0.5132	218.75
8	24,485.84 x 108% = 26,444.71	15.80%	4178.26	@11% = 459.61	0.4665	214.41

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9	26,444.71 x 108% =28,560.29	15.775%	4505.39	@11% = 495.59	0.4241	210.18
10	28,560.29 x 108% = 30,845.11	15.75%	4858.10	@11% = 534.39	0.3855	206.01
	Brand Value					**2,144.99**

Brand Value of Orange Ltd. under Market Oriented Approach is 2,144.99 crores.

Alternatively, it may be assumed that the increase or decrease in the market share is per annum and not for a decade as a whole. In such a situation the net increase of 0.25 in other's market share is every year. Accordingly, the Brand value of Orange Ltd. under Market Oriented Approach will be calculated as follows:

Market Share of Orange Ltd.

(a) Last year's market share = 100% – Fake Brands 10% - Chinese Imports 40% - Other Domestic Brands (large players) 34% = 16%

(b) **Increase or decrease in market share**: Chinese Imports 0.5% (+) Fake Brands 0.25% (-) Other Brands (large players) 0.5% = 0.25% i.e. increase in others' market share. Hence, market share of Orange Ltd. is expected to fall by 0.25% every year over the decade, from the current level of 16%. Therefore, this year it will be 15.75%, next year 15.50%, the year after 15.25% etc.

Brand Valuation under Market Oriented Approach

Year		*Market Share of Orange Ltd.*	*Market Share (₹ in Crore)*	*Expected Profit (₹ in Crore)*	*Discount Factor @ 10%*	*Discounted Cash Flow (₹ in Crore)*
1	16,000 x 104% = 16,640	15.75%	2620.80	@ 8% = 209.66	0.9091	190.61
2	16,640 x 104% = 17,305.60	15.50%	2682.32	@ 8% = 214.59	0.8264	177.34
3	17,305.60 x 104% = 17,997.82	15.25%	2744.67	@11% = 301.91	0.7513	226.83
4	17,997.82 x 108% = 19,437.65	15.00%	2915.65	@11% = 320.72	0.6830	219.05
5	19,437.65 x 108% = 20,992.66	14.75%	3096.42	@ 11% = 340.61	0.6209	211.48
6	20,992.66 x 108% = 22,672.00	14.50%	3287.45	@11% = 361.62	0.5645	204.13

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7	22,672.07 x 108% = 24,485.84	14.25%	3489.23	@11% = 383.82	0.5132	196.98
8	24,485.84 x 108% = 26,444.71	14.00%	3702.26	@11% = 407.25	0.4665	189.98
9	26,444.71 x 108% = 28,560.29	13.75%	3927.04	@11% = 431.97	0.4241	183.20
10	28,560.29 x 108% = 30,845.11	13.50%	4164.09	@11% = 458.05	0.3855	176.58
	Brand Value					**1,976.18**

Brand Value of Orange Ltd. under Market Oriented Approach is 1,976.18 crores.

Market Oriented Approach –

This method is much outward looking and emphasizes on the market forces and competition, to arrive at a brand's value. The method requires very good understanding of the market, new entrants, exit of old competitors, market expansion and shrinkage and impact of other macro-level variables on the market. The valuation process demands due amount of conservatism in projecting the market-size and the company's share in the market.

Brand value = Discounting Factor × Company's profitability ratio × (Cumulative market's size in next ten years - Cumulative total of market share enjoyed by other branded and non-branded products say in next 10 years)

The advantage of this method is, it looks at macro aspects governing the brand's growth or shrinkage. It also takes the cognizance of non-branded products and their threat to the company's brand. Company's profitability ratio and the accounting factor are a matter of strategic benchmarking.

Question 6

(a) The following particulars in respect of stock options granted by a company are available:

Grant date	*April 1, 2016*
Number of employees covered	*100*
Number of options granted per employee	*500*
Fair value of option per share on grant date (₹)	*12*

The option will vest to employees serving continuously for 3 years from vesting date, provided the share price is ₹ 70 or above at the end of 2018-19.

The estimates of number of employees satisfying the condition of continuous employment were 96 on March 31, 2017 and 94 on March 31, 2018. The number of employees actually satisfying the condition of continuous employment was 90. The share price at the end of 2018-19 was ₹ 69.

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Compute expenses to be recognised in each year and show Employees' Compensation A/c and ESOP Outstanding A/c in the books of the company. ***(8 Marks)***

(b) From the following Profit and Loss A/c of Diamond Limited, prepare a Value Added Statement for the year ended March 31, 2019. Show also the reconciliation between total value added and profit before taxation.

Profit and Loss A/c for the year ended March 31, 2019

	Notes	₹	₹
Income:			
Sales			62,40,000
Other Income			55,000
			62,95,000
Expenditure:			
Production and Operational Expenses	1	43,20,000	
Administrative Expenses	2	1,80,000	
Interest and other charges	3	6,24,000	
Depreciation		16,000	(51,40,000)
Profit before tax			11,55,000
Provision for tax			(55,000)
			11,00,000
Balance as per last Balance Sheet			60,000
			11,60,000
Transferred to Fixed Assets Replacement Reserve		4,00,000	
Dividend Paid		1,60,000	(5,60,000)
Surplus carried to Balance Sheet			6,00,000

Notes:

(1) Production and operational expenses

	₹
Consumption of Raw Materials	32,10,000
Consumption of stores	40,000
Local Tax	8,000
Salaries to Administrative Staff	6,20,000
Other manufacturing expenses	4,42,000
	43,20,000

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(2) Administration expenses include Salaries to Directors ₹ 5,000

(3) Interest and other charges include:

Interest on Fixed loan from Bank	*₹ 51,000*
Interest on working capital loan from Bank	*₹ 1,29,000*
GST	*??*

GST amounts to one-tenth of total value added by manufacturing and trading activities. Balance after above adjustments are other charges which are related to trading activities.

(8 Marks)

Answer

(a) The vesting of options is subject to satisfaction of two conditions viz. service condition of continuous employment for 3 years and market condition that the share price at the end of 2018-19 is not less than ₹ 70. Since the share price on 31/3/2019 was ₹ 69, the actual vesting is nil. Despite this, the company should recognise value of option over 3-year vesting period from 2016-17 to 2018-19.

Year 2016-17

Fair value of option per share = ₹12

Number of shares expected to vest under the scheme = 96 x 500 = 48,000

Fair value = 48,000 × ₹ 12 = ₹ 5,76,000

Expected vesting period = 3 years

Value of option recognised as expense in 2016-17 = ₹ 5,76,000/3 = ₹ 1,92,000

Year 2017-18

Fair value of option per share = ₹ 12

Number of shares expected to vest under the scheme = 94 x 500 = 47,000

Fair value = 47,000 x ₹ 12 = ₹5,64,000

Expected vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17 and 2017-18

= (₹ 5,64,000/ 3) x 2 = ₹ 3,76,000

Value of option recognised as expense in 2016-17 = ₹ 1,92,000

Value of option recognised as expense in 2017-18

= ₹ 3,76,000 – ₹ 1,92,000 = ₹ 1,84,000

Year 2018-19

Fair value of option per share = ₹ 12

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Number of shares actually vested under the scheme = 90 × 500 = 45,000

Fair value = 45,000 x ₹ 12 = ₹ 5,40,000

Vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17, 2017-18 and 2018-19

= ₹ 5,40,000

Value of option recognised as expense in 2016-17 and 2017-18 = ₹ 3,76,000

Value of option recognised as expense in 2018-19

= ₹ 5,40,000 – ₹ 3,76,000 = ₹ 1,64,000

Employees' Compensation A/c

Year		₹	*Year*		₹
2016-17	To ESOP Outstanding A/c	1,92,000	2016-17	By Profit & Loss A/c	1,92,000
		1,92,000			1,92,000
2017-18	To ESOP Outstanding A/c	1,84,000	2017-18	By Profit & Loss A/c	1,84,000
		1,84,000			1,84,000
2018-19	To ESOP Outstanding A/c	1,64,000	2018-19	By Profit & Loss A/c	1,64,000
		1,64,000			1,64,000

ESOP Outstanding A/c

Year		₹	*Year*		₹
2016-17	To Balance c/d	1,92,000	2016-17	By Employees' Compensation A/c	1,92,000
		1,92,000			1,92,000
2017-18	To Balance c/d	3,76,000	2017-18	By Balance b/d	1,92,000
				By Employees' Compensation A/c	1,84,000
		3,76,000			3,76,000
2018-19	To General Reserve	5,40,000	2018-19	By Balance b/d	3,76,000
				By Employees' Compensation A/c	1,64,000
		5,40,000			5,40,000

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(b) **Diamond Co. Ltd**

Value Added Statement for the year ended 31st March, 2019

	₹	₹	%
Sales			62,40,000
Less: Cost of bought in material and services:			
Production and operational expenses ₹ (32,10,000+40,000+4,42,000)		36,92,000	
Administrative expenses ₹ (1,80,000– 5,000)		1,75,000	
Interest on working capital loan		1,29,000	
GST (Refer to working note)		1,80,000	
Other charges ₹ (4,44,000–1,80,000)		2,64,000	(44,40,000)
Value added by manufacturing and trading activities			18,00,000
Add: Other income			55,000
Total Value Added			18,55,000
Application of Value Added:			
To Pay Employees :			
Salaries to Administrative staff		6,20,000	33.42
To Pay Directors:			
Salaries and Commission		5,000	0.27
To Pay Government:			
Local Tax	8,000		
Income Tax	55,000	63,000	3.40
To Pay Providers of Capital :			
Interest on Fixed Loan	51,000		
Dividend	1,60,000	2,11,000	11.37
To Provide for Maintenance and Expansion of the Company:			
Depreciation	16,000		
Fixed Assets Replacement Reserve	4,00,000		
Retained Profit ₹ (600 - 60)	5,40,000	9,56,000	51.54
		18,55,000	100.00

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Reconciliation between Total Value Added and Profit before Taxation:

	₹	₹
Profit before Tax		11,55,000
Add back:		
Depreciation	16,000	
Salaries to Administrative Staff	6,20,000	
Director's Remuneration	5,000	
Interest on Fixed Loan	51,000	
Local Tax	8,000	7,00,000
Total Value Added		**18,55,000**

Note: It is assumed that no input tax credit is received for this amount of GST.

Working Note:

Computation of GST

		(₹)
Interest and other charges		6,24,000
Less : Interest on Fixed loan from Bank	51,000	
Interest on working capital loan from Bank	1,29,000	(1,80,000)
GST and other charges		4,44,000

Let GST be x; thus other charges = 4,44,000 -x

Thus, x = 1/10 x [62,40,000 - {36,92,000+ 1,75,000+ 1,29,000+ x + (4,44,000-x)}]

= 1/10 x [62,40,000 - 44,40,000] =1,80,000

Other charges = 4,44,000 - 1,80,000 = 2,64,000.

Question 7

Attempt any four of the following:

(a) *TZ Ltd. is a company having net worth of ₹ 550 crores. The net profit of the company for the last 3 financial years is ₹ 8.5 crores, ₹ 12 crores and ₹10.4 crores respectively. The Board report of the company shows an annual report on Corporate Social Responsibility (CSR) according to which, the amount spent on CSR activities amounts to ₹ 18 lakhs.*

Give your opinion whether the disclosure given by the company in its annual report is appropriate in the light of the Guidance Note on Accounting for Expenditure on CSR Activities? ***(4 Marks)***

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(b) On the basis of provisions of AS 18 'Related Party Disclosures':

(i) Identify the related parties in the following cases:

X Limited holds 60% shares of Y Limited

Y Limited holds 55% shares of W Limited

Z Limited holds 35% shares of W Limited

(ii) Himalaya Limited sold goods for ₹ 40 Lakhs to Aravalli Limited during financial year ended on March 31, 2019. The Managing Director of Himalaya Limited owns 80% of Aravalli Limited. The sales were made to Aravalli Limited at normal selling prices followed by Himalaya Limited. The chief accountant of Himalaya Limited contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per AS 18.

Is the contention of chief accountant of Himalaya Limited correct? Examine.

(iii) Mr. Arnav a relative of key management personnel received remuneration of ₹ 3,00,000 for his services in the company for the period April 1, 2018 to June 30, 2018. On July 1, 2018 he left the job.

Should Mr. Arnav be identified as Related Party at the closing date i.e. March 31, 2019 for the purposes of AS 18?

(iv) A limited company sold goods to its associate company for the 1st quarter ending June 30, 2018. After that, the related party relationship ceased to exist. However, goods were supplied continuously even after June 30, 2018 as was supplied to another ordinary customer.

Determine whether transactions of the entire year have to be disclosed as Related Party transaction as per AS 18. ***(4 Marks)***

(c) Calculate the year end NAV of the Mutual Fund scheme on the basis of the information given below:

(i) XYZ Investment Limited launched a new fund scheme for ₹ 5,000 crore.

(ii) The Fund was launched on April 1, 2018 with a face value of 1,000 per unit and fully subscribed.

(iii) Underwriting commission @ 1% of the Fund value was paid in full.

(iv) Management expenses were allowed by SEBI @ 1% of the Fund raised. However, during the year management expenses were of ₹ 40 crore only. The management decided to defer the payment of ₹ 5 crore to the next financial year.

(v) On May 1, 2018, the total Fund received was invested after deduction of underwriting commission and ₹ 75 crore to meet the day to day management expenses. The investment fund received yielded 12% interest per annum. The interest was received for 3 quarters and the interest of last quarter is yet to be

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received. The interest realized in cash has been distributed to the unit holders @ 80%. The financial year runs from April to March. The quarter starts from the date of investment i.e. May 1, 2018. ***(4 Marks)***

(d) *While closing its books of account on March 31, 2019, a Non-Banking Finance Company has its advances classified as below :*

	₹ in lakh
Standard Assets·	*84,000*
Sub-standard Assets	*6,700*
Secured portions of Doubtful Debts:	
- *up to one year*	*1,600*
- *one year to three years*	*450*
- *more than three years*	*150*
Unsecured portions of Doubtful Debts	*485*
Loss Assets	*240*

Calculate the amount of provision, which must be made against the Advances as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(e) *Briefly explain scope and forms of Joint Venture as per AS 27.* ***(4 Marks)***

Answer

(a) As per Section 135 of the Companies Act, 2013 and the Companies (Corporate Social Responsibility Policy) Rules, 2014, a company has to spend, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years by giving preference to the local area and areas around it where it operates

Accordingly, the amount to be spent during the year should be [(₹ 8.5 crores + ₹ 12 crores + ₹ 10.4 crores)/3] x 2% = 20.6 lakhs. However, TZ Ltd. has spent only ₹ 18 lakhs during the year. Hence, besides providing the brief outline of the company's CSR policy and composition of CSR Committee, the board in its annual report shall disclose

1. Average net profit of the company for last three financial years.
2. Prescribed CSR Expenditure (two per cent of the above amount)
3. Following details of CSR spent during the financial year:
   (a) Total amount to be spent for the financial year;
   (b) Amount unspent, if any;
   (c) Manner in which the amount spent during the financial year

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4. In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report.

Thus, TZ Ltd. has to specify the reason for not spending the due amount on CSR Activities. Therefore, the disclosure given by TZ Ltd. in its Board Report is not appropriate.

(b) (i) X Ltd., Y Ltd. & W Ltd. are related to each other. Z Ltd. & W Ltd. are related to each other by virtue of associate relationship. However, neither X Ltd. nor Y Ltd. is related to Z Ltd. and vice versa since neither control nor significant influence exists between them.

(ii) Himalaya Ltd. and Aravalli Ltd are related parties since key management personnel of Himalaya Ltd. ie. its managing director holds 80% in Aravalli Ltd. and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price. Hence the contention of Chief Accountant of Himalaya Ltd that these sales require no disclosure under related party Transactions, is wrong.

(iii) According to AS 18 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Arnav a relative of key management personnel should be identified as related party as at the closing date i.e. on 31.3.2019.

(iv) As per AS 18, transactions of A Ltd. with its associate company for the first quarter ending 30.06.2018 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not be reported.

(c) Calculation of Net Asset Value of a fund

		₹ in crore
Total Assets:		
Investment (5,000 - 50 -75)	4,875.00	
Add: Closing Cash Balance (Refer W.N.)	127.75	
Add: Interest for two months due to be received $\left(4{,}875 \times 12\% \times \frac{2}{12}\right)$	97.50	5,100.25
Less: Outstanding Management Expenses		(5.00)
Total value of the fund		**5,095.25**

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No. of Units = $\frac{₹\ 5,000 \text{ crore}}{1,000} = 5 \text{ crore units}$

NAV per unit = $\frac{₹\ 5095.25 \text{ crore}}{5 \text{ crore}}$ = ₹1,019.05 per unit

Working Note:

Calculation of year-end cash/bank balance of the fund

		₹ in crores
Cash received during the year for the fund		
Sale of units		5,000
Add: Interest for 3 quarters on investment $\left(4,875 \times 12\% \times \frac{9}{12}\right)$		438.75
		5,438.75
Less: Underwriting commission	50	
Management expenses paid in cash	35	
Investment	4,875	
Dividend paid (438.75 x 80%)	351	(5,311)
		127.75

(d) Calculation of provision required on advances as on 31st March, 2017 as per the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

	Amount ₹ in lakhs	*Percentage of provision*	*Provision ₹ in lakhs*
Standard assets	84,000	0.40	336
Sub-standard assets	6,700	10	670
Secured portions of doubtful debts–			
–upto one year	1,600	20	320
– one year to three years	450	30	135
– more than three years	150	50	75
Unsecured portions of doubtful debts	485	100	485
Loss assets	240	100	240
			2,261

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(e) Scope of AS 27: As per AS 27 'Financial Reporting of Interests in Joint Ventures', this Standard should be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. The provisions of this AS need to be referred to for consolidated financial statements only when CFS is prepared and presented by the venturer.

Forms of Joint Venture as per AS 27: Joint ventures take many different forms and structures. This Standard identifies three broad types –

(i) Jointly controlled operations: Under this set up, venturers do not create a separate entity for their joint venture business but they use their own resources for the purpose. They raise any funds required for joint venture on their own, they incur any expenses and sales are also realised individually, they use same set of fixed and employees for joint venture business and their own business. They do not maintain a separate set of books for joint venture.

(ii) Jointly controlled assets: Separate legal entity is not created in this form of joint venture but venturer owns the assets jointly, which are used by them for the purpose of generating economic benefit to each of them. They take up any expenses and liabilities related to the joint assets as per the contract.

(iii) Jointly controlled entities: This is the format where venturer creates a new entity for their joint venture business. All the venturers pool their resources under new banner and this entity purchases its own assets, create its own liabilities, expenses are incurred by the entity itself and sales are also made by this entity. The net result of the entity is shared by the venturers in the ratio agreed upon in the contractual agreement. This contractual agreement also determines the joint control of the venturer. Being a separate entity, separate set of books is maintained for the joint venture.

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