KSA Model Final Financial Reporting Answer Key

1. a.

1. Computation of Weighted Average Number of Shares under Options

(a) Number of Shares issuable under Option	(given)	2,00,000
(b) Fair Value of all Shares issuable under Option	= ₹ 25 × 2,00,000	₹ 50,00,000
(c) Issue Value of all Shares issuable under Option	= ₹ 20 × 2,00,000	₹ 40,00,000
(d) Number of Shares issued at Fair Value	= Issue Value ÷ Fair Value per Share = 40,00,000 ÷ 25	1,60,000
(e) Balance Shares issued for no consideration	= (a) – (d) = 2,00,000 – 1,60,000	40,000

Item (d) is non–dilutive, whereas Item (e) is dilutive in the above case. Hence, **only (e) is considered.**

Alternatively, this can be computed as: Weighted Average Number of Dilutive Options =

$$\text{Number of Shares issuable under Option} \times \frac{\text{Fair Value} - \text{Issue Price}}{\text{Fair Value}} = 2,00,000 \times \frac{25-20}{25} = \textbf{40,000 Shares.}$$

Note: This formula may be used for computing of Weighted Average Number of Dilutive Options.

2. Computation of Basic and Diluted EPS

Particulars	For Basic EPS	Adjustment for Dilution	For Adjusted EPS
(1)	**(2)**	**(3)**	**(4) = (2) + (3)**
1. Net Profit for the period attributable to Equity Shareholders	Given ₹ 10,00,000	NIL	₹ 10,00,000
2. Weighted Avg No. of Equity Shares	Given 4,00,000	40,000 **(WN 1)**	4,40,000
3. EPS = 1 ÷ 2	Basic EPS = ₹ **2.50**		Diluted EPS = ₹ **2.27**

b.

As per AS 21 "Consolidated Financial Statements", the losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly,

Year	*Details*	*Minority Interest (MI) (20%)*	*Minority's Share of losses borne by Ram Ltd.*	
				Balance
Minority Interest at the time of acquisition i.e. on 31.3.2012		6,00,000 (W.N.)		
2012-13	(15,00,000 x 20%)	(3,00,000)		
on 31.3.2013		3,00,000		
2013-14	(20,00,000 x 20%)	(4,00,000)		
		(1,00,000)		
	Loss amounting ₹ 1,00,000 of minority borne by majority shareholders on application of AS 21	1,00,000		1,00,000
on 31.3.2014		Nil		
2014-15	(4,00,000 x 20%)	80,000		
	On application of AS 21, profit transferred to majority shareholders	(80,000)		(80,000)
on 31.3.2015		Nil		20,000
2015-16	(5,00,000 x 20%)	1,00,000		
	On application of AS 21, profit transferred to majority shareholders to the extent earlier loss was borne by majority share holders	(20,000)		(20,000)
on 31.3.2016		80,000		Nil

Working Note:

Calculation of Minority Interest as on 31.3.2012

	Total Amount (100%) (₹)	Minority Interest (20%) (₹)
Share Capital (20%)	25,00,000	5,00,000
Add: Share in Reserves (20%)	5,00,000	1,00,000
		6,00,000

c.

	Particulars	₹
1.	Interest expense on loan ₹ 2,00,00,000 at 15%	30,00,000
2	Total cost of Phases I and II (₹ 34,00,000 +64,00,000)	98,00,000
3.	Total cost of Phases III and IV (₹ 55,00,000 + ₹ 68,00,000)	1,23,00,000
4.	Total cost of all 4 phases	2,21,00,000
5.	Total loan	2,00,00,000
6.	Interest on loan used for Phases I & II, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 98,00,000$	13,30,317 (approx.)
7.	Interest on loan used for Phases III & IV, based on proportionate Loan amount= $\frac{30,00,000}{2,21,00,000} \times 1,23,00,000$	16,69,683 (approx.)

Accounting treatment:

1. **For Phase I and Phase II**

   Since Phase I and Phase II have become operational during the year (assumed as mid of the year), half of the interest amount of Rs. 6,65,158.50 (i.e. Rs.13,30,317/2) relating to Phase I and Phase II should be capitalized (in the ratio of asset costs 34:64) and added to respective assets in Phase I and Phase II and remaining half of the interest amount of Rs. 6,65,158.50 (i.e. Rs. 13,30,317/2) relating to Phase I and Phase II should be expensed off during the year.

2. **For Phase III and Phase IV**

   Interest of Rs. 16,69,683 relating to Phase III and Phase IV should be held in Capital Work-in-Progress till assets construction work is completed, and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet.

d.

Of the previously unrecognised Past Service Cost and transitional amounts, 10% (₹ 100 out of ₹ 1,000) relates to the part of the obligation that was eliminated through the curtailment. So, the effect of the curtailment is as follows – **Amt in ₹**

	Particulars	Before Curtailment	Curtailment Gain	After Curtailment
	Net Present Value of Obligation	1,000	(100)	900
Less:	Fair Value of Plan Assets	820	–	820
	Balance	180	(100)	80
Less:	Unrecognised Past Service Cost	(50)	5	(45)
Less:	Unrecognised transitional amount	(100 × 4 / 5) (80)	8	(72)
	Net Liability recognized in the B/S	50	(87)	(37)

Therefore, an Asset of ₹ 37 will be recognized. (It is assumed that the amount under Para 59(b) is higher than ₹ 37).

2. a

Balance Sheet of Medium Ltd. as on 31st March, 2006

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) **Shareholder's Funds**		
Share Capital	1	45,50,000
(2) **Current Liabilities**		
Trade Payables		25,00,000
Total		70,50,000
II. Assets		
(1) **Non-current assets**		
Fixed assets		
Intangible assets	2	4,00,000
(2) **Current assets** (₹ 53,50,000+ ₹13,00,000)		66,50,000*
Total		70,50,000

Notes to Accounts:

		(₹ in crores)
1.	**Share Capital**	
	1,82,000 shares of ₹ 50 each, ₹ 25 paid up	45,50,000
	[Issued for consideration other than cash]	
2.	**Intangible Assets**	
	Goodwill (₹1,50,000 + ₹2,50,000)	4,00,000

Statement of Shareholding in Medium Ltd.

	Big Ltd. ₹	*Small Ltd.* ₹
Total value of Assets	44,20,513	8,52,564
Less: Pertaining to shares held by the other company	5,52,564	1,70,513
	38,67,949	6,82,051
Rounded off	38,67,950	6,82,050
Shares of new company (at ₹ 25 per share)	1,54,718	27,282
Total purchase consideration to be paid to Big Ltd and Small Ltd. (₹ 38,67,950 + ₹ 6,82,050)		₹ 45,50,000

Number of shares in Big Ltd. (40,00,000/100)	40,000 shares
Number of shares in Small Ltd. (15,00,000/30)	50,000 shares
Holding of Small Ltd. in Big Ltd. (5,000/40,000)	1/8
Holding of Big Ltd. in Small Ltd. (10,000/50,000)	1/5
Number of shares held by outsiders in Big Ltd. (40,000 – 5,000) =	35,000
Number of shares held by outsiders in Small Ltd. (50,000 – 10,000)	40,000

Workings Note:

Calculation of Book Value of Shares

	Big Ltd	*Small Ltd.*
	₹	₹
Goodwill	1,50,000	2,50,000
Sundry Assets other than shares in other company		
(56,00,000 – 2,50,000)	53,50,000	
(20,00,000 – 7,00,000)		13,00,000
	55,00,000	15,50,000
Less: Sundry Creditors	12,50,000	12,50,000
	42,50,000	3,00,000

If "x" is the Book Value of Assets of Big Ltd and "y" of Small Ltd.

$$x = 42,50,000 + \frac{1}{5}y$$

$$y = 3,00,000 + \frac{1}{8}x$$

$$x = 42,50,000 + \frac{1}{5}\left(3,00,000 + \frac{1}{8}x\right)$$

$$= 42,50,000 + 60,000 + \frac{1}{40}x$$

$$\frac{39}{40}x = 43,10,000$$

$$x = 43,10,000 \times \frac{40}{39}$$

$$x = 44,20,513 \text{ (approx.)}$$

$$y = 3,00,000 + \frac{1}{8}(44,20,513)$$

$$= 3,00,000 + 5,52,564 = ₹\ 8,52,564 \text{ (approx.)}$$

Book Value of one share of Big Ltd. = $\frac{44,20,513}{40,000} = ₹\ 110.513$ (approx.)

Book Value of one share of Small Ltd. = $\frac{8,52,564}{50,000} = ₹\ 17.05$ (approx.)

3.

Consolidated Balance Sheet of P Ltd. and its subsidiaries Q Ltd. and R Ltd. as on 31st March, 2016

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's fund		
(a) Share capital		2,00,000
(b) Reserves and surplus	1	1,20,610
(2) Minority interest (W.N 4)		69,640
(3) Current liabilities		
(a) Trade payables		24,000
(b) Short term provision	2	26,000
Total		4,40,250
II. Assets		
(1) Non-current assets		
Fixed assets		
i. Tangible assets		2,46,000
ii. Intangible assets	3	11,050
(2) Current assets		
(a) Inventory	4	23,200
(b) Trade receivables		1,58,000
(c) Cash and cash equivalents	5	2,000
Total		4,40,250

Notes to Accounts

		(₹)	(₹)
1.	Reserves and surplus		
	Reserves of P Ltd.- Balance as on 31.3.2016 (given)	96,000	
	Share in		
	Q Ltd. [WN 2]	2,400	
	R Ltd. [WN 1]	250	98,650
	Profit & Loss Account		
	P Ltd.'s balance as on 31.3.2016 (given)	32,000	
	Share in		
	Q Ltd. [WN 2]	9,600	
	R Ltd. [WN 1]	1,000	
		42,600	
	Less: Proposed dividend (10% of ₹ 2,00,000)	(20,000)	
	Unrealised gain on inventory [80% of (₹ 8,800 – ₹ 8,000)]	(640)	21,960
			1,20,610
2.	Short term provision		
	Proposed dividend		

	P Ltd.	20,000	
	Minority share in Q Ltd.	4,000	
	Minority share in R Ltd.	2,000	26,000
3.	Intangible Assets		
	Goodwill (W.N 4)		11,050
4.	Inventories		
	Inventory in trade	24,000	
	Less: Provision for unrealised profit	(800)	23,200
5.	Cash and cash equivalents		
	Cash in transit (₹ 16,000 – ₹ 14,000)		2,000

Working Notes:

Shareholding Pattern

	Q Ltd.	*R Ltd.*
Total shares	20,000	12,000
Held by P Ltd.	16,000 [80%]	2,000 [1/6th]
Held by Q Ltd.	NA	8,000 [4/6th]
Minority holding	20%	1/6th

(1) Analysis of Reserves & Profits of R Ltd.

		Pre-acquisition Profits	*Post-acquisition*	
			General Reserve	*Profit & Loss Account*
		₹	₹	₹
General Reserve as on 31.3.16	18,000			
as on 1.4.15	(15,000)	15,000		
In 1:1	3,000	1,500	1,500	
Profit and Loss A/c as on 31.3.16	18,000			
on 1.4.15	(6,000)	6,000		
In 1:1	12,000	6,000		6,000
		28,500	1,500	6,000
P Ltd.(1/6)		4,750	250	1,000
Q Ltd. (4/6)		19,000	1,000	4,000
Minority interest (1/6)		4,750	250	1,000

(2) Analysis of Reserves & Profits of Q Ltd.

		Pre-acquisition Profits	*Post-acquisition*	
			General Reserve	*Profit & Loss Account*
		₹	₹	₹
General Reserve as on 31.3.16	20,000			
as on 1.4.15	(16,000)	16,000		
In 1:1	4,000	2,000	2,000	
Profit and Loss A/c as on 31.3.16	24,000			
as on 1.4.15	(8,000)	8,000		
In 1:1	16,000	8,000		8,000
		34,000	2,000	8,000
Share in R Ltd. (as per direct method)			1,000	4,000
		34,000	3,000	12,000
P Ltd. (80%)		27,200	2,400	9,600
Minority interest (20%)		6,800	600	2,400

(3) Cost of control

	₹	₹
Investments in		
Q Ltd.	1,90,000	
R Ltd. [26,000 + 1,06,000]	1,32,000	3,22,000
Less : Paid up value of investment in		
Q Ltd.	1,60,000	
R Ltd.	1,00,000	(2,60,000)
Pre-acquisition capital profits in		
Q Ltd. [WN 2]	27,200	
R Ltd. [WN 1]	23,750	(50,950)
Goodwill		11,050

(4) Minority Interest

		Q Ltd.	R Ltd.
		20%	1/6
Share capital:		40,000	20,000
Share in pre-acquisition profit		6,800	4,750
Share in post-acquisition	Reserves	600	250
	Profit & Loss	2,400	1,000
		49,800	26,000
Less: Proposed dividend		(4,000)	(2,000)
Less: Provision for unrealized profit (20% of ₹ 800)		(160)	-
		45,640	24,000
			69,640

4. a.

Step 1: **Half yearly Discount Rate for an effective Annual Rate of 11%.**

$$= \sqrt{1+r} - 1 = \sqrt{1.11} - 1 = 0.0535654 \quad or \quad 5.35654\%$$

Step 2: **Computation of Fair Value of Liability Component and Equity Component at the Inception**

Particulars	₹
A. PV of 20 half yearly interest discounted @ 5.35654% (₹ 50 × 12.094)	605
B. PV of ₹ 1,000 due at the end of 10th year discounted @ 11% (₹ 1,000 × 0.352)	352
C. Fair Value of Liability component [A + B]	957
D. Issue Proceeds from convertible Debentures	1,000
E. Fair Value of Equity Component [D – C]	43

Step 3: **Journal Entry at Initial Recognition**

Particulars		Dr. (₹)	Cr. (₹)
Cash/Bank A/c	Dr.	1,000	
To 10% Debentures (Liability Component) A/c			957
To 10% Debentures (Equity Component) A/c			43
(Being issue of debentures recorded at Fair Value)			

Step 4: **Half-yearly Discount Rate for an Effective Annual Rate of 8%**

$$= \sqrt{1+r} - 1 = \sqrt{1.08} - 1 = 0.0392305 \quad or \quad 3.92305\%$$

Step 5: Computation of Fair Value of Liability Component and Equity Component At the time of repurchase

Particulars	Carrying Fair Value (₹)	Value (₹)	Difference (₹)
PV of 10 remaining half-yearly interest discounted at 5.35654% and 3.92305% respectively	380 [₹ 50 × 7.59]	407 [50 × 8.112]	
PV of ₹ 1,000 due at end of 5th year	593	681	

discounted at 11% and 8% respectively	[1000 × 0.593]	[1,000 × 0.681]	
Fair Value of Liability Component	973	1088	115
Fair Value of Equity Component	43	612	569
Total	1016	1,700	684

Note: Amortised cost at the time of Repurchase (i.e. ₹ 970) is more than the fair value at the inception (i.e., ₹ 951) since the Market Yield Rate (i.e. 11%) is more than the Coupon Rate (i.e. 10%)

***Step 6:* Journal Entries at Repurchase**

Particulars		*Dr. (₹)*	*Cr. (₹)*
Liability Component A/c	Dr.	973	
Debt Settlement Expenses (Statement of Profit and Loss)	Dr.	115	
To Cash A/c			1088
(Being repurchase of the Liability Component)			
Equity Component A/c	Dr.	43	
Reserves and Surplus	Dr.	569	
To Cash A/c			612
(Being the cash paid for the Equity Component)			

b.

BRITE LTD.
VALUE ADDED STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2015

Particulars	*₹ in thousands*	*₹ in thousands*
Sales *less* returns		15,27,956
Less: Cost of bought in materials and services,		
Decrease in inventory of finished goods	26,054	
Consumption of raw materials	7,40,821	
Power and lighting	1,20,030	
Other manufacturing expenses	32,565	
Administrative Expenses	32,640	
Interest on bank overdraft	100	
Excise Duty	14,540	9,66,750
Value added by manufacturing and trading activites		5,61,206
Add: Dividends and Interest		130
Miscellaneous Income		474
Total Value Added		5,61,810

APPLICATION OF VALUED ADDED

Particulars	*₹ in thousands*	*₹ in thousands*	%
To Pay Employees:			
Wages, salaries and bonus	3,81,760		
Staff welfare expenses	26,240	4,08,000	70.79
To Pay Directors:			
Directors' remuneration		7,810	1.36
To Pay Government:			
Excise duty	14,540		
Income tax	25,470		
Tax on distributed profits	2,818	42,828	7.43
To Pay providers of capital:			
Interest on 9% debentures	14,400		
Interest on long-term loan from financial institution	10,000		
Dividend to shareholders [2,000 + 20,000]	22,000	46,400	8.05
To Provide for maintenance and expansion of the company:			
Depreciation on Fixed assets	50,600		
Transfer to General reserve	18,212		
Retained profit, ₹(8,800 − 6,300)(in 000's)	2,500	71,312	12.37
		5,76,350	100.00

STATEMENT SHOWING RECONCILIATION OF TOTAL VALUE ADDED WITH PROFIT BEFORE TAXATION

	₹ in thousands	₹ in thousands
Profit Before Taxation		71,000
Add back:		
Wages, salaries and bonus	3,81,760	
Staff welfare expenses	26,240	
Directors' remuneration	7,810	
Interest on 9% mortgage debentures	14,400	
Interest on long-term loan from financial institution	10,000	
Depreciation on Fixed Assets	50,600	4,90,810
Total Value Added		5,61,810

5. a.

(a) **Goodwill as per Average Profits Method** = Future Maintainable Profits × 3
= ₹ 2,60,579 × 3 = ₹ 7,81,737

(b) **Goodwill as per Super Profit Method** = Super Profit × 3 = ₹ 1,95,000 × 3 = ₹ 5,85,000

(c) **Goodwill as per Annuity Method** = Super Profit × Annuity factor
= ₹ 1,95,000 × 2.486 = ₹ 4,84,770

(d) **Goodwill as per Capitalization of Super Profit Method**
= Super Profit × 100/Normal Rate of Return = ₹ 1,95,000 × 100/10 = ₹ 19,50,000

(e) **Goodwill as per Capitalisation of Future Maintainable Profit Method**

A. Capitalised Value of Future Maintainable Profit
= Future Maintainable Profit × 100/Normal Rate of Return
= ₹ 2,60,579 × 100/10 = ₹ 26,05,790

B. *Less:* Net Assets as on date of Valuation = ₹ 7,62,040

C. Goodwill (A – B) = ₹ 18,43,750

(f) Increase in Value of Goodwill = ½(Book Value + 3 years' Super Profit)
= ½[90,000 + (1,95,000 × 3)] = ₹ 3,37,500
Value of Goodwill = Book Value + Increase in Value of Goodwill
= ₹ 90,000 + ₹ 3,37,500 = ₹ 4,27,500

Working Notes:

(I) Calculation of Current year's Profit after tax

P & L APPROPRIATION ACCOUNT

Particulars	₹	*Particulars*	₹
To Balance b/f	12,260	By Net Profit after tax	
To Goodwill amortised	10,000	**(Balancing Figure)**	**3,08,000**
To T/F to General Reserve			
[50,000 – 19,200]	30,800		
To Interim Dividend	66,000		
To DDT on Interim Dividend	6,600		
To Proposed Pref. Dividend	14,400		
To Proposed Equity Dividend	1,32,000		
To Dividend Distribution Tax	14,640		
To Balance c/d (Given)	21,300		
	3,08,000		3,08,000

(II) Calculation of Future Maintainable Profits

	₹
A. Profit after Tax	3,08,000
B. *Add:* Tax [3,08,000 × 30%/70%]	1,32,000
C. Profit before Tax [A + B]	4,40,000
D. **Past Adjustments:**	
Less: Income from Non-Trade Investments [10% of ₹ 72,000]	(7,200)
Add: Purchase of Machinery charged to P&L A/c	1,00,000
Less: Depreciation on above Machinery	(10,000)
Less: Unrecorded Bonus	(19,000)
E. Past Adjusted Profits before Tax	5,03,800
F. **Future Adjustments:**	
Less: Additional Depreciation [1,25,000 × 10%]	(12,500)
Less: Increase in MD Remuneration	(1,39,695)
G. Future Maintainable Profit before tax	3,51,605
H. *Less:* *Tax @ 25% on (5,03,800 – 1,39,695)	91,026
I. Future Maintainable Profits after Tax [G – H]	2,60,579

Note: *Additional Depreciation is not deductible for Tax purposes.

(III) Tax Recoverable/Payable on Past Adjustments

A. Tax Recoverable on Short Depreciation [30% of ₹ 10,000]	(3,000)
B. Tax Payable on Capital Exp. wrongly charged to P & L A/c [1,00,000 × 30%]	30,000
C. Tax Recoverable on Bonus [30% of ₹ 19,000]	(5,700)
D. Net Tax Payable on Past Adjustments [B – A]	21,300

(IV) CALCULATION OF AVERAGE CAPITAL EMPLOYED

Particulars	₹
A. **Total Assets at their current values:**	
Patents & Trade Marks	2,00,000
Tangible Fixed Assets [50% of (2,10,000 + 90,000) + 100% of 1,50,000] + [50% of 1,50,000 – 1/3 of ₹ 75,000] + [50% of ₹ 1,50,000]	4,25,000
Trade Investments [(10% of 1,00,000) – (10% of 10,000)]	9,000
Current Assets	3,57,300
Total Assets	9,91,300
B. *Less:* **Outsiders' Liabilities:**	
Long-term Borrowings	1,00,000
Short-term Borrowings	88,960
Unrecorded Liability (Bonus)	19,000
Net Tax Payable on Past Adjustments	21,300
	2,29,260
C. Closing Capital Employed [A – B]	7,62,040
D. *Add:* Interim Dividend & Dividend Tax [66,000 + 6,600]	72,600
E. *Less:* Half of Current Years' Rectified Profits after Tax [50% [(4,40,000 + 1,00,000 – 10,000 – 19,000) × 70%]	(1,78,850)
F. Average Capital Employed (C + D – E)	6,55,790

(v) Super Profit = FMP – Normal Profit = ₹ 2,60,579 – (10% of ₹ 6,55,790) = ₹ 1,95,000

b.

Rule 4 (1) of the Companies (Indian Accounting Standards) Rules 2015 read with Companies (Indian Accounting Standards) (Amendment) Rules, 2016 *inter-alia* states as follows:

"(i)...

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of subrule (1) and having net worth of rupees five hundred crore or more;
(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub- rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and
(iii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-
(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;
(b) companies other than those covered in clause (ii) of sub- rule (1) and subclause (a) of clause (iii) of sub-rule (1), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.
(c) holding, subsidiary, joint venture or associate companies of companies covered under sub-clause (a) of clause (iii) of sub- rule (1) and sub-clause (b) of clause (iii) of sub- rule (1), as the case may be:"

(a) In the given case, since the company began the process of listing as at the beginning of the year but had net worth less than INR 250 crores, it shall be required to comply with Ind AS from the financial year 2017-18. Accordingly, XYZ Limited shall prepare Ind AS financial statements for the financial year 2017-18.
(b) In the given case, since the company is listed at the beginning of the year it shall be required to comply with Ind AS from the same year irrespective of the fact that the company gets de-listed as at the end of the year. Accordingly, XYZ Limited shall prepare Ind AS financial statements for the financial year 2017-18.
(c) In the given case, although the company was neither listed as at the beginning of the period nor it began the process of listing as at the beginning of the year, but it began the process of listing during the year and ultimately got listed as at the end of the year then it shall be required to comply with Ind AS from the same year in which it began the process of listing. Furthermore, in case the company gets listed during the year say from November 2017, then it will be required to provide Ind AS financial statements for the quarter ending December 2017 and consequently for the year ending March 2018.
(d) In the given case, as at the beginning of the reporting period, the company was not listed. However, it issued listed debentures during the year, i.e., in the month of May 2017 which got de-listed in the month of January 2018. Accordingly, the company has neither the status of a listed entity/or in the process of listing at the beginning of the year as well nor at the end of the year. Hence, it will not be required to comply with Ind AS.

6. a.

(a) **Buying a small lot of equity shares:** If the purpose of valuation is to provide data base to aid a decision of buying a small (non-controlling) position of the equity of the companies, Dividend yield method is most appropriate.

$$\text{Value of equity share} = \frac{\text{Dividend per share (DPS)}}{\text{Market Capitalisation Rate}} \times 100$$

$$\text{Company A: ₹ } \frac{2.4}{18} \times 100 = \text{₹ } 13.33, \text{ Company B: ₹ } \frac{2.08}{18} \times 100 = \text{₹ } 11.56$$

(b) **Buying controlling interest equity shares**: If the purpose of valuation is to provide data base to aid a decision of buying controlling interest in the company, Earning yield Method is most appropriate.

$$\text{Value of Equity Share} = \frac{\text{Earning per Share (EPS)}}{\text{Market Capitalisation Rate}} \times 100$$

$$\text{CompanyA: ₹ } \frac{3}{18} \times 100 = \text{₹ } 16.67, \text{ Company B: ₹ } \frac{2.6}{18} \times 100 = \text{₹ } 14.44$$

(ii) Preference Dividend coverage ratios of both companies are to be compared to make such decision.

$$\text{Preference Dividend Coverage Ratio} = \frac{\text{Profits after tax}}{\text{Preference Dividend}} \times 100$$

$$\text{Company A: } \frac{\text{₹ } 3,00,000}{\text{₹ } 60,000} = 5 \text{ times, Company B: } \frac{\text{₹ } 3,00,000}{\text{₹}40,000} = 7.5 \text{ times}$$

If we are planning to invest only in preference shares, we would prefer shares of B Company since Preference Dividend coverage ratio is higher than that of company A.

(iii) Yes, the rates will be different for buying a small lot of equity shares, if the company 'A' retàins 30% and company 'B' 10% of profits.
The new rates will be calculated as follows:

$$\text{Company A: ₹ } \frac{2.1}{18} \times 100 = \text{₹ } 11.67, \text{ Company B: ₹ } \frac{2.34}{18} \times 100 = \text{₹ } 13.00$$

Step 3: **Valuation of Preference Shares**

In the given case, no separate market expectation rate is given for equity and preference shares. Accordingly, It may be presumed that a sightly lesser market capitalization rate, say (18% – 2%), i.e., 16% may be applied for the valuation of preference shares.

The market expectation rate may be adjusted for factors like for example, ability to pay preference dividend, which may be judged using the Pref.. Dividend coverage ratio.

Since the value of net assets of the companies are not given, their ability of redemption cannot be tested. Company B has better preference divided coverage of 7.50 as compared to Company A's coverage of 5.00. Accordingly, market expectation rate of 16% has been used for Company B and for Company A market expectation rate of 16.5% has been used. The value per preference share of:

$$\text{Company A: } \frac{10\%}{16.5\%} \times 100 = \text{₹ } 60.60; \quad \text{Company B: } \frac{10\%}{16\%} \times 100 = \text{₹ } 62.50$$

Working Notes:

(i) *Calculation of Earning per share (EPS) and Dividend per Share (DPS)*

	Company A	*Company B*
A. Profit before tax	3,00,000	3,00,000
B. *Less:* Preference Dividend	(60,000)	(40,000)
C. Earnings available to equity shareholders [A – B]	2,40,000	2,60,000
D. Number of Equity Shares	80,000	1,00,000
E. Earning per share [C/D]	3.0	2.60
F. Dividend Distribution @ 80%	1,92,000	2,08,000
G. Dividend per share (F/D)	2.40	2.08

(ii) *Calculation of Dividend per share (DPS)*

	Company A	*Company B*
A. Earnings available for Equity Shareholders	2,40,000	2,60,000
B. Number of Equity Shares	80,000	1,00,000
C. Dividend Distribution @ 70%/90%	1,68,000	2,34,000
D. Dividend per share [C/D]	2.10	2.34

b.

EXPENSE TO BE RECOGNISED IN EACH YEAR

Particulars	2011-2012			2012-2013		2013-20
	Group I	Group II	Group III	Group II	Group III	Group I
A. No.of Employees entitled to Option	720	648	580	650	590	594
B. No.of Options per Employee	6	12	12	12	12	12
C. Fair Value of Option per Share	10	12.5	14	12.5	14	14
D. Total Fair Value of Option [A*B*C]	43,200	97,200	97,440	97,500	99,120	99,792
E. Expense to be recognized [Total Fair Value * No. of years expired/ Vesting Period] – [Expenses already recognized during previous years]	= 43,200 + (97,200/2) + (97,440/3) = 1,24,280			= 43,200 + 97,500 + (99,120*2/3) – 1,24,280 = 82,500		= 43,200 + 97,500 + 99,792 – 1,24,280 – 82,500 = 33,712

OPTIONS FORFEITED

Particulars	Group I 2011-2012	Group II 2012-2013	Group III 2013-2014
Number of employees qualifying	720	650	594
Less: Number of employees exercising	700	638	590
Number of employees not exercising	20	12	4
Number of options per employee	6	12	12
Number of options forfeited	120	144	48

EMPLOYEES' COMPENSATION EXPENSE ACCOUNT

Dr. Cr.

Year	Particulars	₹	Year	Particulars	₹
2011-12	To ESOP Outstanding A/c	1,24,280	2011-12	By Profit & Loss A/c	1,24,280
2012-13	To ESOP Outstanding A/c	82,500	2012-13	By Profit & Loss A/c	82,500
2013-14	To ESOP Outstanding A/c	33,712	2013-14	By Profit & Loss A/c	33,712

ESOP OUTSTANDING ACCOUNT

Dr. Cr.

Year	Particulars	₹	Year	Particulars	₹
2011-12	To General Reserve (120 × 10)	1,200	2011-12	By Employees' Compensation Exp. A/c	1,24,280
	To Share Capital A/c (4,200 × 100)	4,20,000		By Bank A/c (4,200 × 125)	5,25,000
	To Securities Premium A/c (4,200 × 35)	1,47,000			
	To Balance c/d	81,080			
		6,49,280			6,49,280
2012-13	To General Reserve (144 × 12.50)	1,800	2012-13	By Balance b/d	81,080
	To Share Capital A/c (7,656 × 100)	7,65,600		By Employees' Compensation Exp. A/c	82,500
	To Securities Premium A/c (7,656 × 37.50)	2,87,100		By Bank A/c (7,656 × 125)	9,57,000
	To Balance c/d	66,080			
		11,20,580			11,20,580
2013-14	To General Reserve (48 × 14)	672	2013-14	By Balance b/d	66,080
	To Share Capital A/c (7,080 × 100)	7,08,000		By Employees' Compensation Exp. A/c	33,712
	To Securities Premium A/c (7,080 × 39)	2,76,120		By Bank A/c (7,080 × 125)	8,85,000
		9,84,792			9,84,792

Working Note: *Calculation of Securities Premium*

Particulars	Group I 2011-2012	Group II 2012-2013	Group III 2013-2014
Exercise Price	125.00	125.00	125.00
Add: Fair Value	10.00	12.50	14.00
Consideration received per share	135.00	137.50	139.00
Less: Nominal Value per share	100.00	100.00	100.00
Securities Premium per share	35.00	37.50	39.00

7. a.

Ind AS 18, Revenue

As per IFRS

On the basis of principles of the IAS 18, IFRIC 15, *Agreement for Construction of Real Estate,* prescribes that construction of real estate should be treated as sale of goods and revenue should be recognised when the entity has transferred significant risks and rewards of ownership and retained neither continuing managerial involvement nor effective control.

Carve out

IFRIC 15 has not been included in Ind AS 18 to scope out such agreements from Ind AS 18. A separate guidance note on accounting for real estate developers (for Ind AS compliant entities) has been issued by the ICAI to address the matter.

Reason

It was observed that requirement will lead to recognition of revenue in the financial statements by real estate developers based on the completion method, i.e., only in the last year of the completion of project. It was felt that in case the revenue for the whole project is recognised in the last year of completion of project, it will not reflect the true performance of the business of the real estate developer. Further, it was felt that since Ind AS 11 requires recognition of revenue of all construction contracts by reference to stage of completion, it may lead to inappropriate accounting in case of certain real estate development projects in case this Ind AS is applied for all real estate development projects. Therefore, it was considered appropriate that rather than making changes in Ind AS 11 or Ind AS 18, a separate Guidance note (for Ind AS-compliant entities) be issued by the Institute of Chartered Accountants of India.

Ind AS 28, Investment in Associates and Joint Ventures

As per IFRS:

IAS 28 requires that for the purpose of applying equity method of accounting in the preparation of investor's financial statements, uniform accounting policies should be used. In other words, if the associate's accounting policies are different from those of the investor, the investor should change the financial statements of the associate by using same accounting policies.

Carve out

In Ind AS 28, the phrase, 'unless impracticable to do so' has been added in the relevant requirements, i.e., paragraph 35.

Reasons

Certain associates, e.g., regional rural banks (RRBs), being associates of nationalized banks, are not in a position to use the Ind AS as these may be too advanced for the RRBs. Accordingly, the above -stated words have been included to exempt such associates.

b.

Identification of Reportable Segments (Amounts in ₹ Lakhs)

Particulars	Food Products	Plastic and Packaging	Health & Scientific	Others	Total	Limit = 10% of Total
1. Segment Revenue	10,000	1,240	690	364	12,294	1,229
2. Segment Expenses	7,170	800	444	400	8,814	
3. **Segment Result** Profit / (Loss)	2,830	440	246	(36)	3,480	
4. Segment Result: Profit	2,830	440	246		3,516	10% of Higher of 3516 or 36 = 352
(Loss)				(36)	(36)	
5. Segment Assets	15,096	4,000	1,400	1,364	21,860	2,186
6. Reportable Segment	Yes	Yes	No	No		
7. Criteria satisfied	Revenue, Result & Assets	Revenue, Result & Assets	Nil	Nil		

c.

Answer

Units at the end of the year 2009-2010	*Units in crores*
Units as on 1/4/2009	1.00
Add: Units issued during the year	0.20
	1.20

Net Asset Value of a mutual fund	*₹ in crores*
Market value of investments -	
₹ 10 crores x 50% x 80%	4.00
₹ 10 crores x 10% x 90%	0.90
Remaining investment at market value	13.00
	17.90
Less: Liabilities	(1.00)
Net asset value	16.90
NAV per unit (₹ 16.90 crores ÷ 1.2 crores) = ₹ 14.08	

d.

Entity A has transferred its rights to receive the cash flows from the asset via an assignment to entity B. Furthermore, as entity B has no recourse to entity A for either late payment risk or credit risk, entity A has transferred substantially all the risks and rewards of ownership of the portfolio. Hence, entity A derecognises the entire portfolio. The difference between the carrying value of Rs. 1,000,000 and cash received of Rs. 900,000 i.e. Rs. 100,000 is recognised immediately as a loss on derecognition of assets classified at amortised cost in profit or loss.

Had Entity A not transferred its rights to receive the cash flows from the asset or there would have been any credit default guarantee given by entity A, then it would have not led to complete transfer of risk and rewards and entity A could not derecognise the portfolio due to the same. Hence, the asset is recognized to the extent of continuing involvement.

e.

The correct accounting treatment relating to P&L and B/s Items is as under –

Amount of Foreign Currency Loan	= ₹ 3,144 Lakhs ÷ ₹ 52.40	= USD 60,00,000
Amount of First Instalment paid on 31st March (yr–end)	= USD 60,00,000 ÷ 4 years	= USD 15,00,000
Loan Amount to be reported at Balance Sheet Date	= USD 45,00,000 × ₹ 55.40	**= ₹ 2,493 Lakhs**

Exchange Differences to be accounted for the first year ending 31st March are –

Due to **Settlement:**	First Instalment	(₹ 55.40 – ₹ 52.40) × 15,00,000	= ₹ 45 Lakhs (Loss)
Due to **Reporting:**	Balance Due	(₹ 55.40 – ₹ 52.40) × 45,00,000	= ₹ 135 Lakhs (Loss)
Total Amount debited to P&L Account			**= ₹ 180 Lakhs (Loss)**
Depreciation to be charged to P&L Account		= ₹ 2,493 Lakhs at 20%	**= ₹ 498.6 Lakhs**
Carrying Amount of Asset in Balance Sheet (WDV)		₹ 2,493 Lakhs – ₹ 498.6 Lakhs	**= ₹ 1,994.4 Lakhs**

Note: The Exchange Difference as above should not be included in Cost of Goods Sold. It should be shown separately.

Note: The above answer has been given on the basis that the Company has not availed the option for Capitalisation of Exchange Difference as per Para 46/46A of AS–11.