

2023

COMMERCE

Paper : DSE-305 A

(Corporate Financial Accounting and Reporting)

Full Marks : 40

The figures in the margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

Module - I

Answer *any two* questions.

1. (a) The Park Hotel of Mumbai obtained commercial connection of electricity from Reliance Power Ltd. in 2017-18. As per the terms, The Park Hotel paid a sum of ₹ 20,00,000 as security deposit to Reliance Power Ltd. The Park Hotel has no intention to surrender the connection in near future. How will The Park Hotel and Reliance Power Ltd. classify the above security deposit in their financial statements on 31.03.2023? Will your answer differ if the BOD of The Park Hotel decides to surrender the electricity connection to Reliance Power Ltd. and instead obtain a commercial connection from Tata Power Ltd.? Give Reasons for your answer.
- (b) ABC Ltd. purchased a machinery on 01.01.2022. The machinery was expected to have an effective lifespan of 4 years. However, on 28.02.2023 the machine had to be retired by the company due to a sudden change in manufacturing technology. The machine is now held for sale and the company expects to realise the proceeds from sale of the machine by 30.04.2024. How should ABC Ltd. classify the machinery in its Balance Sheet as on 31.03.2022 and 31.03.2023? Give reasons for your answer.
- (c) PQR Ltd. invests any liquid cash over ₹ 25,00,000 in fixed deposits with SBI. Since interest rates are attractive for one-year deposits, it normally deposits the money for one year tenure. However, the deposit can be withdrawn pre-maturely and in the past the company always had to withdraw these deposits pre-maturely within 2½ months. On 31.03.2023, PQR Ltd. has made similar deposits worth ₹ 3,00,000. Can the same be considered as cash equivalent? How will you classify the same? Give reasons for your answer. 4+3+3

Please Turn Over

2. (a) Determine the reportable segments as per Ind AS 108 from the following information of S Ltd. for 2022-23. (₹ in Crore)

	India	Japan	China	USA	UK	Bangladesh	Total
Segment Revenue							
(i) External sales	75	2	15	50	16	10	168
(ii) Inter-segment sales	31	6	8	22	39	1	107
Total Revenue	106	8	23	72	55	11	275
Segment result	27	(2)	(3)	17	15	(5)	49
Segment assets	81	16	16	51	27	9	200

- (b) A Ltd. acquired a business on 01.04.2018 for a purchase consideration of ₹ 130 crore. CGU M, N, O and P were acquired having fair value of ₹ 55, ₹ 25, ₹ 15, ₹ 10 crore respectively. The life of the CGUs were 10 years and Goodwill is to be amortized over 5 years.

On 31.03.2020, A Ltd. undertook an impairment test. Cash flows were estimated as follows :

- CGU of M ₹ 9 crore p.a. for the balance number of years.
- CGU of N ₹ 4.6 crore p.a. for the balance number of years.
- CGU of O ₹ 2.2 crore p.a. for the balance number of years.
- CGU of P ₹ 1.4 crore p.a. for the balance number of years.

Discounting factor is 10% and PVIFA (10%, 8) = 5.335.

Calculate revised value of goodwill and carrying amount of all CGUs and revised depreciation p.a.
3+7

3. Following is the extracted Balance Sheet of P Ltd. as on 31st March, 2023 :

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital (₹ 10)	20,00,000	Plant & Machinery	24,60,000
8%, Preference Share Capital (₹ 100)	8,00,000	Investments (at face value)	4,00,000
General Reserve	7,20,000	Stock	8,40,000
Balance of Profit & Loss (Cr.)	5,00,000	Sundry Debtors	4,00,000
Short-term bank loan	4,00,000	Cash at Bank	14,00,000
Sundry Creditors	10,80,000		
	55,00,000		55,00,000

Additional information:

- Plant & Machinery are worth 25% more than their actual book value.
- 70% of the Investments are non-trading and the balance is trading. All investments are to be valued at 20% above cost. Dividend at uniform rate of 20% is earned on all investments.

(c) The goodwill value of the company has been ascertained as 'Nil'.

(d) Net profits (after tax) are as follows—

Year	₹
2020-2021	4,00,000
2021-2022	3,90,000
2022-2023	4,10,000

(e) On 01.04.2020, a new machinery costing ₹ 80,000 was purchased but wrongly charged as revenue and no effect has been given yet to rectify the same. Depreciation is charged on Plant & Machinery @ 15% p.a. under Straight Line Method.

(f) The return on capital employed is 15%. Normal rate of return expected by equity shareholders is 10% while that expected by preference shareholders is 8.5%.

(g) Tax rate applicable for the company is 40%.

(h) 20% of the profit after tax should be transferred to General Reserve. Equity dividend is expected to be at 10%.

(i) Preference shares are participatory in nature. The ratio of participation by equity shareholders and preference shareholders in both surplus assets and surplus profits is 2:1.

Find out the intrinsic value and yield value of each fully paid equity share and preference share.

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4. (a) Why is internally generated goodwill not recognised as an asset?

(b) D Ltd. is developing a new production process. During the financial year 2021-22, the total expenditure incurred in this process was ₹ 48 lakh. The production process met the criteria for recognition as an intangible asset on 01.12.2021. Expenditures have been incurred evenly during the year. Further expenditure incurred on the process for the financial year ending on 31.03.2023 was ₹ 70 lakh. As at 31.03.2023, the recoverable amount of the production process is estimated at ₹ 82 lakh.

You are required to work out :

(i) What is the amount to be charged to the Statement of P/L for the financial year 2021-22?

(ii) What is the carrying amount of the intangible on 31.03.2022?

(iii) What is the amount to be charged to the Statement of P/L for the financial year 2022-23?

(iv) What is the carrying amount of intangible on 31.03.2023?

(c) M Ltd. took a loan of ₹ 3,00,000 from Mr. X on 01.01.2023. As per the terms of the loan, it is likely to be settled on 30.06.2024. However, M Ltd. has informed Mr. X that it wants to repay the loan on 30.06.2023 as it expects to have surplus cash available by that time. How will M Ltd. classify the loan on 31.03.2023? Give reasons for your answer.

(d) Identify the heads and sub-heads of Balance Sheet within which a company should show a Fixed Deposit with a bank if (i) the FD is classified as a cash equivalent and (ii) the FD is not classified as a cash equivalent.

2+4+2+2

Please Turn Over

Module - II

Answer *any two* questions.

5. (a) X Ltd. went into Liquidation on 2nd April, 2022. Creditors of X Ltd. were not being fully paid out of the funds of A List Contributories. The following is the particulars of shareholders who cease to be the shareholders of the company with date of transfer of their shares and the number of shares held by them :

Name of Shareholders	Date of Transfer	Number of shares held
A	1st March, 2021	4,000
B	1st May, 2021	3,000
C	1st October, 2021	2,000
D	1st November, 2021	1,000
E	1st February, 2022	600

All the shares given above are of ₹ 10 each and amount per share paid up was ₹ 8. Creditors outstanding on these dates were as follows :

Date	₹
1st March, 2021	6,000
1st May, 2021	6,600
1st October, 2021	8,600
1st November, 2021	9,200
1st February, 2022	12,000

You are required to show the amount to be paid by A, B, C, D and E as B List Contributories to the Creditors.

- (b) You have been given the following information in respect of ABC Ltd. which went into liquidation on 31st March, 2023 :

Funds available for distribution to Equity shareholders ₹ 5,25,000

Equity Share Capital consisted of :

1,00,000 Equity Shares of ₹ 10 each, ₹ 9 paid

1,00,000 Equity Shares of ₹ 10 each, ₹ 5 paid

The Liquidator is to be given a commission of 25% on the saving which the equity shareholders would have from their maximum legal liability.

You are required to find out how much per share is to be refunded to the equity shareholders or to be contributed by the equity shareholders.

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

Particulars	H Ltd.	S Ltd.
	Carrying Amount (₹ in lakh)	Carrying Amount (₹ in lakh)
Assets		
Non-current Assets		
PPE	29,600	12,000
Investment in shares of S Ltd.	11,600	—
Investment in Debentures of S Ltd.	2,500	—
Current Assets		
Inventories	5,200	8,000
Trade Receivables	4,140	2,000
Cash & Cash Equivalent	2,000	2,000
Total	55,040	24,000
Equity and Liabilities		
Equity		
Share Capital (₹ 10)	20,000	8,000
Other Equity (Retained Earnings)	32,640	10,000
Non-current Liabilities		
10% Debentures (₹ 100)	—	4,000
Current Liabilities		
Trade Payables	2,400	2,000
Total	55,040	24,000

Additional Information:

- On 01.04.2022, S Ltd. had 800 lakh shares of ₹ 10 each and ₹ 6,000 lakh in its Retained Earnings in Other Equity. H Ltd. acquired 80% share of S Ltd. on 01.04.2022 at a consideration of ₹ 11,600 lakh payable in cash. In addition, H Ltd. also acquired 60% of debentures issued by S Ltd. in cash on 01.04.2022.
- The aggregate identifiable net assets of S Ltd. as on 01.04.2022 included PPE and inventory standing in the books of S Ltd. at ₹ 5,000 lakh and ₹ 1,000 lakh having fair value of ₹ 5,600 lakh and ₹ 400 lakh respectively. The rate of depreciation on PPE is 10% p.a.
- NCI was to be measured at fair value at par value basis.
- Goodwill was impaired by ₹ 200 lakh during the year.
- H Ltd. sold goods worth ₹ 200 lakh to S Ltd. on credit at a profit of 20% on sales. 50% of the goods were still laying unsold.

Please Turn Over

- (f) On 01.04.2022, H Ltd. sold an item of PPE worth ₹ 400 lakh to S Ltd. at a profit of 25% on cost. This PPE is still included in the balance of PPE of S Ltd. on 31.03.2023.
- (g) Interest on debentures is payable quarterly. Last quarter's interest is still outstanding.
Prepare the Consolidated Balance Sheet of the Group on 31.03.2023. 10

7. (a) A Ltd. has made a Security Deposit for taking a plot of land on lease on April 1, 2018 at ₹ 20,00,000 for a five year term ending on 31st March, 2023. The effective rate of discount is 12%. You are also given that Present Value ₹ 1 receivable after 5 years is 0.5674.

You are required to show in the books of A Ltd. :

- (i) Carrying Amount of Security Deposit at each year ends of all the five years of Lease
(ii) Journal entries at the beginning of the first year of Lease. (Narration not required).
- (b) On 1 April, 2022, ABC Ltd. issued 30,000, 6% convertible debentures of face value of ₹ 100 per debenture at par. The debentures are redeemable at par on 31.03.2025 or these may be converted into Equity Shares at the option of the shareholders.

The interest rate for similar debentures without conversion rights have been 10%. You are required to separate the equity and the debt portion as on April 1, 2022. You are also required to show the Journal Entry in the Books of ABC Ltd. as on April 1, 2022. (Narration not required).

(4+2)+(3+1)

8. (a) "From the viewpoint of the holder, cryptocurrency may be treated as an intangible asset."— Do you agree? Justify your answer with reason.
- (b) On 01.01.2022, Mr. P purchased 2,000 units of StarCoin, a popular cryptocurrency, at ₹ 380.50 per unit. He paid an irrecoverable tax @ 0.5% of the transaction value and additionally paid blockchain processing fees @ 1.5% of the transaction value. On 31.03.2022, the value of StarCoin increased to ₹ 430.50 per unit. Thereafter the value of StarCoin declined continuously following a cryptocurrency scam in June 2022. The value of StarCoin on 31.03.2023 was ₹ 360.00 per unit. Mr. P still holds 2,000 units of StarCoin on 31.03.2023.

Assume that Mr. P is not a trader or commodity trader-broker of StarCoin but is an investor looking for some capital appreciation and that he follows Revaluation Model while accounting for his investment in StarCoin.

Show necessary journal entries (narration not required) in the books of Mr. P (working should form part of your answer). 4+6