2020

TWO YEAR M. COM. SEMESTER 3 EXAMINATION

(New Syllabus under CBCS)

Instructions for Examinees

The students are required to strictly adhere to the following instructions:

1. Use A4 size paper for giving the examination.

2. Write the following on the top of the first page of answer sheet:

    i) Roll Number: (as per the Admit Card)

    ii) Registration Number: (as per the Admit Card)

    iii) Paper Code and Name of the Paper

    iv) Date of the examination

    v) Duration of examination (12 noon to 2pm)

3. Put page number on the top right of each page (including the first page).

4. Only one side of the paper should be used for examination.

5. Put your signature with date, at the bottom right of every page used.

6. Before sending your answer scripts, arrange the pages sequentially. Scan them in the order of page number and convert them into a single pdf. file.

7. Pdf. file name should be your **Full Roll Number <underscore> paper code**. While submitting the answer scripts, the subject of the mail will be exactly the same with the file name. [e.g., if the roll no of a student is C95/MCM/123456, for fifth paper (Paper Code DSE305A) the file name will be: C95/MCM/123456_ DSE305A

8. Submit your answer scripts in pdf. format within the stipulated time through designated email id given to you.

9. Preserve your answer scripts in soft as well as hard-copy form of all the papers of your examination.

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TWO YEAR M. COM. SEMESTER 3 EXAMINATION

Paper: DSE305A: 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

You are required to answer all parts of a question sequentially.

Time: 2 Hours **Duration of Examination: 12noon to 2pm**

Module I

Answer any two questions.

1. (a) A Ltd. acquired an intangible asset on 01.04.2020 on payment of Rs. 10,00,000 immediately and Rs. 5,00,000 in one year's time. A Ltd. has incurred legal fees and registration cost of Rs. 1,25,000 and Rs.75,000 respectively, in respect of the acquisition of the intangible asset on 01.04.2020. The asset was available for use from the date of its acquisition. The expected cash flows from the intangible asset are Rs.10 lakh, Rs.20 lakh, Rs.10 lakh, Rs.5 lakh and Rs.5 lakh in the FY 2020-21, 2021-22, 2022-23, 2023-24, 2024-25 respectively. Calculate the cost of the intangible asset on initial recognition and amortization to be done in each year. A Ltd.'s cost of capital is 10%.

Year	1	2	3
PVIF @ 10%	0.909	0.826	0.751

(b) An enterprise operates through nine segments, namely, A, B, C, D, E, F, G, H and I. The relevant information about these segments is given in the following table (amounts in Rs.'000):

	A	B	C	D	E	F	G	H	I
1. Segment Revenue									
(a) External Sales	2500	-	200	400	350	650	380	320	200
(b) Inter-Segment Sales	3500	700	300	400	-	-	-	-	100
2. Segment Results Profit/ (Loss)	2500	250	(500)	(450)	250	(50)	(210)	(290)	(100)
3. Segment Assets	700	250	350	200	100	150	50	120	80

Identify the reportable segments as per Ind AS 108.

4+6

2. (a) ABC Ltd. acquired a business on 01.04.2018 for a purchase consideration of Rs.1800 lakhs. CGU W, X, Y and Z were acquired having fair value of Rs. 500 lakhs, Rs.450 lakhs, Rs.350 lakhs and Rs.200 lakhs respectively. The life of the CGUs were 10 years and Goodwill is to be amortized over 5 years.

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

   i) CGU of W and X: Rs.90 lakhs p.a. for the balance number of years.

   ii) CGU of Y: Rs.75 lakhs p.a. for the balance number of years.

   iii) CGU of Z: Rs.30 lakhs 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.

   (b) Define cost of disposal as per Ind AS 36.

8+2

3. (a) On 1st May, 2018 Prime Ltd. took a loan from Bank of Baroda for Rs. 48,00,000. The principal amount is due to be repaid in 16 equal quarterly installments along with the interest. The first repayment was due on 1^{st} August 2018. Till date all payments have been made as per schedule. How should the outstanding balance of loan be reported in the Balance Sheet on 31st March 2020? (Ignore interest)

   (b) Supreme Ltd. has been following a policy of paying 16% dividend on its paid-up equity capital since last 6 years. Unfortunately, during 2019-20, the profit of the company is not adequate to support such dividend policy. The directors, thus, decided to revise its dividend rate downward to 12% for 2019-20 and utilize the balance standing at the credit of Free Reserves in case the current year's net profit appears inadequate for this purpose, subject to the conditions specified in Companies (Declaration and Payment of Dividend) Rules, 2014 as amended. The following additional information has been furnished by Supreme Ltd. for this purpose:

Particulars	Amount (Rs.)
Investment Allowance Reserve (Statutory) as on 1.4.2019	15,00,000
Capital Redemption Reserve as on 1.4.2019	22,50,000
Revaluation Reserve as on 1.4.2019	9,00,000

Dividend Equalization Reserve as on 1.4.2019	26,00,000
General Reserve as on 1.4.2019	13,00,000
Net profit for the year ended 31.3.2020	6,00,000
30,000, 10% Preference Share Capital of Rs.100 each fully paid up	30,00,000
15,00,000 Equity Shares of Rs.10 each fully paid up	1,50,00,000

Offer your suggestion, based on the relevant Companies Rules as to how much amount can be withdrawn from the free reserves in order to pay the equity dividend. Also calculate the effective dividend rate that can be finally declared.

4+6

4. Following is the summarized Balance Sheet of SKYLARK Ltd. as at 31.03.2020.

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Equity Shares of Rs. 10 each	20,00,000	Property, Plant & Equipment	24,60,000
10% Preference Share of Rs. 100 each	8,00,000	Patent	2,00,000
Dividend Equalization Reserve	7,20,000	Non-current Investment	4,00,000
Balance of Profit and Loss (Cr.)	5,00,000	Inventories	8,40,000
Trade Payable	14,80,000	Trade Receivables	14,00,000
		Cash and Cash equivalent	2,00,000
	55,00,000		55,00,000

Additional information:

a) Property, Plant & Equipment are worth 30% above their actual book value. Depreciation on appreciated value of Property, Plant & Equipment is to be ignored for valuation of goodwill. Patent is valueless.

b) Of the investments, 60% is non-trading and the balance is trading. All investments are to be valued at 20% below cost. A uniform rate of dividend of 10% is earned on all investments.

c) Goodwill should be determined under Annuity Method based on super profits calculated taking into consideration the average profits of the last 3 years. Profits (after tax) during last 3 years were as follows:

	Rs.
2017-18	8,00,000
2018-19	7,60,000
2019-20	8,40,000

The company expects to maintain the super profit for next another 4 years. The discount rate applicable for this purpose is 12%.

d) In a similar business return on capital employed is 15%. In 2017-18, new machinery costing Rs.80,000 was purchased but wrongly charged to revenue. No effect has yet been given for rectifying the same. Depreciation is charged on machinery @10% p.a. under SLM.

Find the value of each fully paid equity share under Asset Backing Method. Assume 50% tax rate.

Given, PVIFA (12%, 3) = 2.402 and PVIFA (12%, 4) = 3.037.

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Module II

Answer any two questions.

5. (a) P Ltd. holds 70% shares of Q Ltd. The remaining 30% shares of Q Ltd. is held by R Ltd. Again, Q Ltd. has a wholly owned subsidiary M Ltd. Q Ltd. is an unlisted company. Currently it is not in the process of listing any of its instruments in any public market, neither it is planning to undertake any such process in future. Q Ltd. wants to avail the exemption from preparation of consolidated financial statements. P Ltd. is an Indian listed company and prepares consolidated financial statements as per Ind AS. P Ltd. has no objection to this proposal of Q Ltd. State whether Q Ltd. can be exempted if R Ltd. is a wholly owned subsidiary of P Ltd. How will your answer change if P Ltd. is a foreign company incorporated in U.S.A and following the local GAAP?

   (b) M Ltd. acquires 60% of N Ltd. for Rs.7,20,000 and issued equity shares at Rs.12 per share (including Rs.2 as premium). Fair value of N Ltd.'s identifiable net assets amount to Rs.9,60,000. Calculate NCI and Goodwill and show the journal entries in the consolidated and standalone accounts of M Ltd. Assume that M Ltd. measures NCI at fair value.

5+5

6. Bad Luck Ltd. went into liquidation on 31.03.2019. On that date the Trial Balance of the Company was as follows:

Trial Balance as on 31.03.2019

Debit Balances	Rs.	Credit Balances	Rs.
Land and Building	6,00,000	10000, 6% Preference Shares of Rs. 100 fully paid	10,00,000
Plant & Machinery	11,50,000	5000 Equity shares of Rs.100 each, Rs.75 paid up	3,75,000

Stock	2,75,000	15,000 Equity Shares of Rs. 100 each, Rs. 60 paid up	9,00,000
Sundry Debtors	5,50,000	5% Debentures of Rs. 100 each (Secured by floating charge on all assets of the company)	5,00,000
Cash at Bank	1,50,000	Interest due on Debentures	25,000
Profit and Loss (Dr.)	8,20,000	Bank Overdraft (secured on Land and Building)	2,00,000
		Sundry Creditors	5,45,000
	35,45000		35,45000

The liquidator is entitled to a remuneration of 5% on all assets realized excepting cash and 1% on amount distributed among unsecured creditors other than preferential creditors.

The assets realized as follows:

Land and Building Rs. 6,00,000

Plant and Machinery Rs. 10,00,000

Stock Rs.3,00,000

Sundry Debtors Rs.4,00,000

The break- up of Sundry Creditors is as follows:

i) Taxes due to the Government Rs. 25,000

ii) Outstanding salaries and wages for employees Rs. 1,20,000

iii) Outstanding salaries for the Managing Director Rs. 30,000

iv) Trade creditors Rs. 3,70,000

Expenses of liquidation amounted to Rs. 54,750.

Dividend on preference shares is in arrear for two years and to be paid in priority to the claims of equity shareholders as per the *Terms of Issue.*

All payments were made on 1.7.2019, excepting bank overdraft and taxes due to the Government which were paid immediately after liquidation.

You are required to prepare Liquidator's Final Statement of accounts.

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7. (a) Excel Ltd. purchased a debt instrument carrying 8% p.a. interest, payable annually. The principal amount is repayable after 5 years. However, the instrument is listed and is actively traded in a recognized stock exchange. The contractual cash flow receivable by Excel Ltd. are solely the payments of principal and interest on the principal amount outstanding. The

company has decided to hold the debt instrument only to receive the contractual cash flows associated with it. State with reason how it should classify the investment in debt instrument. Will your answer change if the company is also ready to sale the instrument when there is substantial increase in the market price of the instrument?

(b) Pixel Ltd. purchased 1500 equity shares of Photographic Ltd. on 22.03.2020 for a consideration of Rs.1,80,000. In addition to the above cost, Pixel Ltd. incurred transaction costs that include Rs.1,800 brokerage and Rs.200 stamp duty. The fair value of the shares on the Balance Sheet date i.e., 31.03.2020 was Rs.1,95,000. On 06.04.2020, all the shares were sold @ Rs.125 per share. Show the journal entries in the books of Pixel Ltd. to record the above transactions. Assume that the shares were classified as financial assets as 'fair value through other comprehensive income'.

4+6

8. (a) Define Integrated Reporting.

(b) State the objectives of Integrated Reporting.

(c) Discuss the Guiding Principles of Integrated Reporting.

1+3+6