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Answer Paper	
Financial Reporting	**Duration**: 70
Details:Test- 2 (Chapter- 11, 3& 13)	**Marks**: 35

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material.Attempt as much as you know to fairly judge your performance.

Solution- 1:

Ind AS- 24 deals with “Related party disclosure “require disclosure of related party relationships, transaction and outstanding balances in the financial statements. It specify the definition of related party i.e A related party is a person or entity that is related to the entity that is preparing the financial statement. An entity is related to reporting entity if any of the following conditions applies:

I) A person or a close member of that person’s family is related to reporting entity if that person

i) has control or joint control of the reporting entity

ii) has significant influence over the reporting entity

iii) is a member of KMP of reporting entity or of a parent of reporting entity.

II) An entity is related to reporting entity if any of the following conditions applies:

i) The entity and reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to others).

ii) The entity or any member of a group of which it is a part, provides key managerial personnel services to the reporting entity or to the parent of the reporting entity.

iii) The entity is controlled or joint controlled by person identified in I)

iv) A person identified in I)i) has significant influence over the entity or is a member of KMP of entity (or of a parent of the entity).

(2 marks)

a. In the given case, Neetika Gupta has made a 100% investment in SA limited which shows she controls the SA limited and also a member of KPM of SB limited is related to SB limited. Thus, SA limited is related to SB limited.

(1 mark)

b. Now, Neetika still holds the control in SA limited as she has 100% investment, however Neetika is a member of KMP of SC limited not SB limited. Further SC limited has an 100% investment in SB limited. Thus SA limitedstill related to SB limited.

(1 mark)

c. No, joint control over SA limited will not affect the related party definition and still SA limited will be related to SB limited.

(0.5 mark)

d. Yes, SA limited. is not controlled by Neetika Gupta. Therefore, despite Neetika Gupta being KMP of SA limited and SB limited, having significant influence of Neetika Gupta, will not be considered as relatedparty of SB limited.

(0.5 mark)

Solution: 2

Continuing operations:

$$\text{BEPS} = \frac{1530 - 8\ \text{Pref. div}}{33.3\ \text{W1}} = \text{Rs.}\ 45.71\ \ [\text{W denotes working}]$$

Discontinued operations:

$$\text{BEPS} = \frac{310}{33.3\ \text{W1}} = \text{Rs.}\ 9.31$$

(1 marks)

W1

	Weighted shares

	in millions
20m x 5/12 x 64/60 x 60/50 x 66/60	11.73
28m x 3/12 x 60/50 x 66/60	9.24
33.6 x 4/12 x 66/60	12.32
TOTAL	33.3

(1 mark)

W2 Theoretical ex-right price

	Shares	Per share	Worth
Before	20	64	1280
Right Issue	8	50	400
Total	28	60	1680

(1 mark)

W3 Theoretical ex-right price

	Shares	Per share	Worth
Before	20	60*	1200
Right Issue	4	0	0
Total	24	50	1200

(1 mark)

W4 Theoretical ex-right price

	Shares	Per share	Worth
Before	20	66*	1320
Right Issue	2	0	0
Total	22	60	1320

(1 mark)

*assumed value, any value can be assumed for bonus fraction (on bonus issue)

Solution- 3:

(1) Segment revenues, results and otherinformation

(Rs. in lakh)

	Revenue	**Coating**	**Others**	**Total**
1.	**External sales (gross)**	1,00,000	35,000	1,35,000
	Tax	(2,500)	(1,500)	(4,000)
	External sales (net)	97,500	33,500	1,31,000
	Other operating income	20,000	7,500	27,500
	Total Revenue	1,17,500	41,000	1,58,500

2.	**Results**			
	Segment results	5,000	2,000	7,000
	Unallocated income (net of unallocated expenses)			1,500
	Profit from operation before interest, taxation and exceptional items			8,500
	Interest and bank charges			(1,000)
	Profit before exceptional items			7,500
	Exceptional items			Nil
	Profit before taxation			7,500
	Less: Income Taxes			
	Current taxes			(975)
	Deferred taxes			(25)
	Profit after taxation			6,500
3.	**Other Information**			
(a)	**Assets**			

	Segment Assets	25,000	15,000	40,000
	Investments			5,000
	Unallocated assets			5,000
	Total Assets			50,000
(b)	**Liabilities/Shareholder's funds**			
	Segment liabilities	15,000	5,000	20,000
	Unallocated liabilities			10,000
	Share capital			5,000
	Reserves and surplus			15,000
	Total liabilities / shareholder's funds			50,000
(c)	**Others**			
	Capital Expenditure	2,500	1,000	3,500
	Depreciation	500	150	650

(4 Marks)

(2) Geographical Information

			(Rs. in lakh)
	India	**Outside India**	**Total**
Revenue	1,43,500	15,000	1,58,500
Segment assets	35,000	5,000	40,000
Capital expenditure	3,500	-	3,500

Note: Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of thesegments.

(2Marks)

Solution- 4:

The contractor will need to exercise judgment to determine whether the mobilization costs:

- represent costs to fulfill a contract and qualify for capitalisation as an asset to be amortized over the contract term or
- relate to mobilisation activities that transfer a service to the customer and should be reflected in the measure of progress as incurred. This would be the case if the mobilisation activities are either:

➢ Distinct and represent a separate performance obligation; or

- Are part of a combined performance obligation when such activities represent an input to form an overall output.

If the contractor determines that the mobilization activities are a part of a combined performance obligation and it is using the cost-to-cost method of measuring progress, it will incorporate such costs in its measurement of progress towards completion. If the contractor determines that the mobilization activities (i.e., moving equipment and people) are not providing a distinct good or service or are part of a combined performance obligation, the mobilisation costs would be capitalized as costs to fulfill a contract if they:

(i) relate directly to the contract;

(ii) enhance resources that will be used to satisfy future performance; and

(iii) are expected to be recovered.

(2 marks)

Judgment may be required to determine the goods or services to which the asset relates. Capitalised costs might relate to an entire contract, or could relate only to specific performance obligations within a contract. The contractor should apply an amortisation method that is consistent with the pattern of transfer of goods or services to the customer. An asset related to a performance obligation satisfied over time should be amortised using a method consistent with the method used to measure progress and recognise revenue (that is, an input or output method). Straight-line amortisation may be appropriate if goods or services are transferred to the customer ratably throughout the contract, but not if the goods or services do not transfer ratably.

(2 marks)

Assuming the mobilisation costs are capitalised, CU 500,000 would be amortized as of the end of year one (coinciding with 50% control transfer using a cost-to-cost method). The accounting for bid costs is determined by whether such costs are chargeable to the customer regardless of whether the contract is won. Amounts that relate to a contract that are explicitly chargeable to a customer are a receivable if a company‘s right to reimbursement is unconditional. Costs that are not recoverable from the customer should be expensed as incurred.

(1 marks)

Solution- 5:

As a result of entity ABC issuing 150 ordinary shares, Entity PQR shareholder own 60% of the issued shares of the combined entity (i.e 150 of the 250 total issued shares). The remaining 40 % are owned by entity ABC shareholders. Thus the transaction is determined to be a reverse acquisition in which entity PQR is identified as the accounting acquirer. (entity ABC is the legal acquirer).

(1 mark)

Calculating the fair value of the consideration transferred

If the business combination had taken the form of Entity PQR issuing additional ordinary shares to entity ABC’s shareholder in exchange for their ordinary shares in entity ABC, entity PQR would have had to issue 40 shares for the ratio of ownership interest in the combined entity to be the same. Entity PQR's shareholders would then own 60 of the 100 issued shares of Entity PQR – 60 per cent of the combined entity. As a result, the fair value of the consideration effectively transferred by Entity PQR and the group's interest in Entity ABC is 3,200 (40 shares with a fair value per share of 80).

The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted market price of Entity ABC's shares provides a more reliable basis for measuring the consideration effectively transferred than the estimated fair value of the shares in Entity PQR, and the consideration is measured using the market price of Entity ABC's shares - 100 shares with a fair value per share of 32.

(2 marks)

Measuring goodwill

Goodwill is measured as the excess of the fair value of the consideration effectively transferred (the group's interest in Entity ABC) over the net amount of Entity ABC's recognised identifiable assets and liabilities, as follows:

Consideration effectively transferred		3200
Net recognised values of Entity ABC's identifiable assets and liabilities		
Current Assets	1000	
Non- current assets	3000	
Current liabilities	(600)	
Non- current liabilities	(800)	(2600)
Goodwill		<u>600</u>

(2 marks)

Consolidated statement of financial position at September 30, 2020

The consolidated statement of financial position immediately after the business combination is:

Current assets (1400+1000)	2400
Non- current assets (6000+3000)	9000
Goodwill	600

Total assets	<u>12000</u>
Current liabilities (1200+600)	1800
Non- current liabilities (2200+800)	3000
Total liabilities	4800
Shareholder's equity	
Issued equity 250 ordinary shares (1200+3200)	4400
Retained earnings	2800
Total shareholders' equity	<u>7200</u>
Total liabilities and shareholders' equity	<u>12000</u>

(2 marks)

The amount recognised as issued equity interests in the consolidated financial statements (4.400) is determined by adding the issued equity of the legal subsidiary immediately before the business combination (1200) and the fair value of the consideration effectively transferred (3,200). However, the equity structure appearing in the consolidated financial statements (i.e. , the number and type of equity interests issued) must reflect the equity structure of the legal parent, including the equity interests issued by the legal parent to effect the combination.

(1 mark)

Earnings per share

Assume that Entity PQR's earnings for the annual period ended December 31, 2019 were 1200 and that the consolidated earnings for the annual period ended December 31, 2020 were 1600. Assume also that there was no change in the number of ordinary shares issued by Entity B during the annual period ended December 31, 2019 and during the period from January 1 to the date of reverse acquisition on September 30, 2020. EPS for the period ended December 31, 2020 is calculated as follows:

Number of shares deemed to be outstanding for the period from December 1	150
2020 to the acquisition date (i.e the number of ordinary shares issued by entity ABC legal parent, accounting acquire) in the reverse acquisition)	
Number of shares outstanding from the acquisition date to December 31, 2020	250
Weighted number of ordinary shares outstanding (150*9/12) + (250*3/12)	175
Earnings per share	9.14

Restated EPS for the annual period ended December 31, 2019 is 8 (calculated as the earning of entity PQR of 1200 divided by the number of ordinary share entity ABC issued in the reverse acquisition (150)).

(2 marks)

Solution- 6:

1. Computation of goodwillimpairment

	NCI at fair value	NCI at ofnet assets
	Rs. in '000	**Rs. in '000**

Cost of investment		
Share exchange (12,000 x 75% x 2/3 x Rs. 6.50)	39,000	39,000
Deferred consideration (7,150 / 1.10)	6,500	6,500
Contingent consideration	25,000	25,000
Non-controlling interest at date of acquisition:		
Fair value – 3000 x Rs. 6	18,000	
% of net assets – 68,000 (Refer W.N.) x 25%		17,000
Net assets on the acquisition date (Refer W.N.)	(68,000)	(68,000)
Goodwill on acquisition	20,500	19,500
Impairment @ 10%	2,050	1,950

(3 Marks)

Working Note:

Net assets on the acquisition date	Rs.'000
Fair value at acquisition date	70,000
Deferred tax on fair value adjustments [20% x (70,000 – 60,000)]	(2,000)

	68,000

(1Marks)