

Your overall performance is good. You have good conceptual clarity. You have done all the questions very well. Just need to focus on little points appropriately, try to cover short supporting descriptions in your answer. Your practical understanding is good but always attempt the question completely, show all the required parts properly as per the question requirement. Your presentation and handwriting is good. Apply the same approach in your final exams. You can get better score by more and more practice.

TEST - 3

① As per AS-22, "Related party disclosure", related party transaction, relationships & outstanding balances shall be disclosed.

4 marks It specifies definition of a related party as a person or entity that is related to the entity that is preparing financial statement. An entity is related to reporting entity if any of the following conditions applies:

* 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 over the reporting entity.

ii) has significant influence over the reporting entity.

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

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

i) the entity & reporting entity are members of same group.

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 parent of the reporting entity.

iii) The entity is controlled or jointly controlled by person identified in above provision.

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

- a) Neelika Gupta has made 10% investment in SA Limited which means she controls SA Ltd & also a member of KMP of SB Ltd. Thus SA Limited is related to SB Ltd.
- b) Neelika still holds control in SA Ltd. However, she is a member of KMP of SL Ltd & not SB Ltd. Further SC Ltd has 100% investment in SB Ltd. Thus SA Ltd is still related to SB Limited.
- c) No joint control over SA Ltd will not affect related party definition & still SA Ltd will be related to SB Ltd.

You have good conceptual clarity of this question

- d) Yes, SA Ltd is not controlled by Neelika Gupta. Therefore, despite she is a member of KMP of SA Ltd & SB Ltd, holding significant influence over will not be considered as related party of SB Ltd as there is no control in either entity.

5 marks

(a) Calculation of weighted no. of shares

Particular Calculation

Weighted no. of shares
(in million)

$$20 \text{ million} \times \frac{5}{12} \times \frac{64}{60} \times \frac{10}{50} \times \frac{66}{60} = 11.73$$

$$28 \text{ million} \times \frac{3}{12} \times \frac{10}{50} \times \frac{66}{60} = 9.9$$

$$33 \text{ million} \times \frac{4}{12} \times \frac{64}{60} = 12.39$$

23.89

Theoretical ex rights price

$$\frac{20 \times 64 + 3 \times 50}{20+8} = \frac{1680}{28} = 60$$

$$\frac{20 \times 60 + 1 \times 50}{20+9} = \frac{1250}{29} = 43$$

$$\text{Profit} = \frac{30 \times 60 + 2 \times 0}{30+9} = \frac{180}{39} = 60$$

* - assumed value, any value can be assumed for bonus fraction

$$\text{Basic EPS for continuing operation} = \frac{1530 - 8}{33.89} = 45.7194$$

You have good practical understanding of this question

$$\text{Basic EPS for discontinuing operation} = \frac{310}{33.89} = 9.319$$

6 marks

(3) Segment revenue, results & other information
(in lakhs)

Particulars

~~Cashflow~~ Other Total

Revenue

External sales (gross) 1,00,000 35,000 1,35,000

Tax (8,500) (1,500) (10,000)

External sales (net) 97,500 33,000 1,31,000

Other operating income 20,000 7,500 27,500

Total revenue 117,500 40,500 158,000

(Profit) Results

Segment results 500 2,000 7,000

Unallocated income (net of unallocated expenses) 1,500

Profit from operation before interest, tax & exceptional items 8,500

Interest & bank charges (1,000)

Profit before exceptional item after 7,500

(Exceptional item)

Profit before tax 7,500

(Tax)

Profit Current Tax (975)

Differential Tax (25) (1,000)

Profit after tax (500)

| <u>Particulars</u> | <u>Cashflow</u> | <u>Other</u> | <u>Total</u> |
|--------------------------------|-----------------|--------------|---------------|
| <u>& other information</u> | | | |
| <u>Assets</u> | | | |
| Segment assets | 25,000 | 15,000 | 40,000 |
| Investments | | | 5,000 |
| Unallocated assets | | | 5,000 |
| <u>Total assets</u> | | | <u>50,000</u> |

| <u>Liabilities / Shareholder's funds</u> | | | |
|--|--------|-------|---------------|
| Segment liabilities | 15,000 | 5,000 | 20,000 |
| Unallocated liabilities | | | 10,000 |
| Share capital | | | 5,000 |
| Reserves & surplus | | | 15,000 |
| <u>Total liabilities / Shareholder's funds</u> | | | <u>50,000</u> |

| <u>Others</u> | | | |
|---------------------|-------|-------|-------|
| Capital expenditure | 2,500 | 1,000 | 3,500 |
| Depreciation | 500 | 150 | 650 |

| <u>Geographical information (₹ in lakhs)</u> | | | |
|--|--------------|----------------------|--------------|
| | <u>India</u> | <u>Outside India</u> | <u>Total</u> |

| | <u>India</u> | <u>Outside India</u> | <u>Total</u> |
|---------------------|--------------|----------------------|--------------|
| Revenue | 113,500 | 15,000 | 128,500 |
| Segment assets | 25,000 | 5,000 | 40,000 |
| Capital expenditure | 3,500 | | 3,500 |

You can easily score good marks in these types of questions

4 marks

- (d) The contractor will need to exercise judgement to determine whether mobilisation costs:
- * represent costs to fulfil a contract & qualify for capitalisation as an asset to be amortised over the contract term OR
 - * relate to mobilisation activities that transfer a service to the customer & should be reflected in measure of progress as incurred. This would be the case if mobilisation activities are either:
 - i) distinct & represent a separate performance obligation OR
 - ii) are part of a combined performance obligation when such activities represent an input to form an overall output

If the contractor determines that mobilisation activities are part of a combined performance obligation & it is using cost to cost method of measuring progress, it will incorporate such costs in its measurement of progress towards completion. If the contractor determines that such activities are not providing a distinct goods or services OR are a part of combined performance obligation, the mobilisation costs to fulfil a contract will be capitalised if they:

- * relate directly to the contract
- * enhance resource that will be used to satisfy future performance &
- * are expected to be recovered.

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 pattern of transfer of goods or service to the customer. Straight-line amortisation may be appropriate if goods & service are transferred to customer ratably over the contract but not if goods & services do not transpire ratably.

Assuming mobilisation costs are capitalised, ~~it is also amortised as of the end of year~~
apply same approach towards your exams

The accounting for such costs is determined by whether such costs are chargeable to customer regardless of whether the customer is given explicit right to reimbursement. Costs that are not recoverable from customer should be expensed.

4 marks

(6) Computation of goodwill / impairment (₹ in '000)

Particulars

N.C.T at N.C.I at

fair value net assets

Cost of investment

S. share exchange ($15,000 \times 7.5 \times \frac{2}{3} \times 6.50$) 39,000 39,000

Deferred consideration ($\frac{1}{1.10}$) 6,500 6,500

Contingent consideration 2,500 2,000

(A) 70,500 70,500

Non-controlling interest

Fair value - $3,000 \times 7.6$ 18,000

1. of net assets - $(2,000 \times 12.5)$ 13,000

(B) 18,000 17,000

Net assets on acquisition date (C) 68,000 68,000

Goodwill (A) + (B) - (C) 20,500 19,500

Impairment @ 10% 2,050 1,950

Working note

Net asset on acquisition date

Fair value at acquisition date 70,000

→ Deferred tax ($20\% \times (70,000 - 60,000)$) 2,000

62,000

10 marks

(5)

As ABC issues 150 ordinary shares Entity PQR shareholders own 60% of shares of combined entity, remaining 40% belongs to ABC shareholder. As the transaction is determined to be reverse acquisition in which entity PQR is identified as accounting acquirer (Entity ABC is legal acquirer).

Consideration transferred

Entity PQR to issue 40 ordinary shares equivalent value being accounting acquirer. Hence consideration will be 40 shares \times £80 (Fair value) = £3,200

A will be issued at market price of £32. Therefore 100 shares with fair value of £32 will be issued.

Goodwill

Consideration transferred 3,200

→ Not identifiable assets

Current assets 1,000

Non current assets 3,000

Current liabilities (600)

Non current liabilities (800) (2,600)

Goodwill 600

Consolidated Statement of financial position as at 31.3.2019

Particulars

Assets

| | |
|--------------------------------|--------------|
| Current assets (1400+1000) | 2400 |
| Non-current assets (6000+3000) | 9000 |
| Goodwill | 600 |
| Total Assets | 19000 |

Liabilities & shareholder's funds

Shareholder's funds

| | |
|---------------------------|------|
| Equity shares (1800+3200) | 5000 |
| Retained earnings | 9200 |
| | 7200 |

Liabilities

| | |
|------------------------------------|------|
| Current liabilities (1200+600) | 1800 |
| Non-current liabilities (3200+200) | 3400 |
| | 4200 |

| | |
|--|--------------|
| Total Liabilities & Shareholder's funds | 18000 |
|--|--------------|

Earnings per share

Basic EPS = Profit available to equity shareholder

Weighted average no. of shares

Consolidated earning for year ended 31.3.2019 = ₹7600

Weighted average no. of shares = $\frac{150 \times 9}{18} + \frac{250 \times 3}{18}$

= 175 shares

Basic EPS = $\frac{1600}{175} = ₹9.14/\text{share}$

You have attempted this answer very nicely.

Restated EPS for year ended 31.3.2019 = $\frac{1800}{175} = ₹10.34$