FINAL EXAMINATION

P–18(CFR)

DECEMBER 2013

Syllabus 2012

CORPORATE FINANCIAL REPORTING

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

*Answer **all** the questions.*

1. Answer *any two* of the following: 5×2=10

(a) X has 60% interest in a joint venture with Y. X sold a plant with w.d.v. ₹ 60 lacs for ₹ 80 lacs. Calculate how much profit X should recognize in its books as per AS-27 in case the joint venture is

(i) jointly controlled operation

(ii) jointly controlled asset

(iii) jointly controlled entity

(b) Jupiter Ltd. has an asset, which is carried in the Balance Sheet on 31.03.2012 of ₹ 500 lakhs. As of that date, the value in use is ₹ 400 lakhs and the net selling price is ₹ 375 lakhs.

From the above data:

(i) Calculate Impairment Loss

(ii) Prepare Journal Entries for adjustment of Impairment Loss

(iii) Show how the Impairment Loss will be shown in the Balance Sheet

(c) From the following information for Rishab Ltd. for the year ended 31.03.2013, calculate the deferred tax asset/liability as per AS-22.

Accounting Profit	₹ 10,00,000
Book Profit as per MAT (Minimum Alternate Tax)	₹ 9,00,000
Profit as per Income Tax Act	₹ 1,00,000
Tax Rate	30%
MAT Rate	10%

2. (a) The summarized Balance Sheets of A Ltd. and its subsidiary B Ltd. as on 31.03.2013 are as follows:

	A Ltd.		B Ltd.	
Equity and Liabilities Shareholder's Funds				
Share Capital in equity shares of Rs. 10 each		40,00,000		8,00,000
Reserves and Surplus				
General reserve	30,00,000		20,00,000	
Profit and Loss A/c	20,00,000	50,00,000	10,00,000	30,00,000
Non-Current liabilities				
Secured loans		10,00,000		3,00,000
Current Liabilities				
Trade payables		18,00,000		2,00,000
Total		**118,00,000**		**43,00,000**

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	A Ltd.		B Ltd.	
Assets				
Non-current assets				
Tangible assets		40,00,000		15,00,000
Non-current investments				
Equity shares in B Ltd. (60,000 shares)		6,00,000		
Current Assets				
Inventories	27,00,000		20,00,000	
Trade receivables	30,00,000		5,00,000	
Cash and cash equivalents	15,00,000	72,00,000	3,00,000	28,00,000
Total		**118,00,000**		**43,00,000**

A Ltd. holds 75% of the paid-up capital of B Ltd. and the balance is held by a foreign company.

A memorandum of understanding has been entered into with the foreign company by A Ltd. to the following effect:

(i) The shares held by the foreign company will be sold to A Ltd. at a price per share to be calculated by capitalizing the yield at 25%. Yield for this purpose would mean 60% of the average pre-tax profits for the last 4 years, which were ₹ 14 lacs, 20 lacs, 22 lacs and 24 lacs respectively.

(ii) The actual cost of shares to the foreign company was ₹ 2,00,000 only. Gains accruing to the foreign company are taxable at 20%. The tax payable will be deducted from the sale proceeds and paid to the Government by A Ltd. 60% of the consideration (after payment of tax) will be remitted by A Ltd. to the foreign company.

(iii) A Ltd. will issue its shares at their intrinsic value for the balance consideration. Cash will be paid for any fractional shares in the computation.

(iv) It was also then decided that A Ltd. would absorb B Ltd. by simultaneously writing down the fixed assets of B Ltd. by 10%. Stock of A Ltd. included stock of ₹ 1,00,000 purchased from B Ltd., which sold it at cost + 25%.

The entire arrangement was approved and made effective from 1.4.2013.

You are required to show the Balance Sheet of A Ltd. after the arrangement was made effective as at 1.4.2013. Present the Balance Sheet in the revised Schedule VI format. Fill in the figures to the extent available. Workings should form part of your answer. 15

OR

(b) The Statement of Affairs of S Ltd. as at 31st March 2012 is given below, with the respective shares of the company's two Divisions A and B in the various items of assets and liabilities:

	(Amounts in ₹ lacs)		
	Division A	Division B	Total
Fixed Assets:			
Cost	850	250	
Less: Depreciation	350	80	
Written Down Value	500	170	670
Investments			100
Net Current Assets:			
Current Assets	455	580	
Less: Current Liabilities	275	95	
Net Current Assets	180	485	665
Total			**1435**
Financed by:			
Loan Funds		20	425
Own Funds			
Equity Share Capital (Shares of ₹ 10 each)			350
Reserves and Surplus			660
Total			**1435**

Loan Funds included Bank Loans of ₹ 20 lacs specially taken for B Division and Debentures of paid up value of ₹ 120 lacs redeemable at any time between October 1st 2011 and 30th September 2012. On 1st April 2012, the company sold all of its investments for ₹ 120 lacs and redeemed all the debentures at par, the cash transactions being recorded in the Bank A/c pertaining to Division A.

Then, a new company T Ltd. was incorporated with an authorized capital of ₹ 1000 lacs divided into shares of ₹ 10 each . All the assets and liabilities pertaining to Division B were transferred to the newly formed company, with T Ltd. allotting to S Ltd's shareholders its fully paid equity shares of ₹ 10 each at par for every fully paid equity share of ₹ 10 each held in S Ltd. as discharge of consideration for the division taken over.

T Ltd. recorded in its books the fixed assets at ₹ 225 lacs and all the other assets and liabilities at the same values at which they appeared in the books of S Ltd.

You are required to:

(i) Show the journal entries in the books of S Ltd.

(ii) Prepare the Balance Sheet of S Ltd. immediately after the demerger.

(iii) Prepare the initial Balance Sheet of T Ltd.

(Schedules are not required in both the cases). 15

3. (a) The Balance Sheet of Big Ltd., Small Ltd. and Little Ltd. as at 31st March 2013 are given below:

	Big Ltd.	Small Ltd.	Little Ltd.
Equity and Liabilities			
Shareholder's Funds			
Share Capital			
Equity Shares of Rs. 10 each, fully paid up	2,00,000	1,00,000	60,000
Reserves and Surplus			
General reserve	60,000	50,000	40,000
Profit and Loss A/c	50,000	40,000	30,000
Current Liabilities			
Trade payables	35,000	30,000	40,000
Big Ltd.		15,000	5,000
Total	**3,45,000**	**2,35,000**	**1,75,000**
Assets			
Non-current assets			
Tangible assets			
Plant and machinery	80,000	1,10,000	1,15,000
Non-current investments (at cost)			
Equity shares in Small Ltd.	90,000		
Equity shares in Little Ltd.	40,000	60,000	
Current Assets			
Inventories	60,000	35,000	35,000
Trade receivables	35,000	20,000	15,000
Small Ltd.	18,000		
Little Ltd.	7,000		
Cash and cash equivalents	15,000	10,000	10,000
Total	**3,45,000**	**2,35,000**	**1,75,000**

(i) Big Ltd. held 8000 shares of Small Ltd. and 1800 shares of Little Ltd.

(ii) Small Ltd. held 3600 shares of Little Ltd.

(iii) All investments were made on 1st July 2012

(iv) The following balances were there on 1st July 2012:

	Small Ltd. ₹	Little Ltd. ₹
Reserves	25,000	15,000
Profit and Loss A/c	30,000	25,000

(v) Small Ltd. invoiced goods to Big Ltd. at cost + 25% in December 2012. The closing stock of Big Ltd. includes goods with invoice value ₹ 6000.

(vi) Little Ltd. sold to Small Ltd. an equipment costing ₹ 24,000 at a profit of 25% on selling price on 1st January 2013. Depreciation at 10% p.a. was provided by Small Ltd. on this equipment.

(vii) Big Ltd. proposes dividend at 10%.

Prepare the Consolidated Balance Sheet of the group as at 31st March 2013 by the direct approach. Workings should form part of the answer. Present the Balance Sheet as per the revised format. 15

OR

(b) The Balance Sheets of A Ltd. and B Ltd. as on 31.03.2012 are as follows:

	A Ltd.		B Ltd.	
	₹	₹	₹	₹
Equity and Liabilities				
Shareholder's Funds				
Share Capital				
Equity Shares of Rs. 10 each, fully paid up	40,00,000		8,00,000	
14% Preference Sharers of Rs. 100 each, fully paid up	—	40,00,000	5,00,000	13,00,000
Reserves and Surplus				
General reserve	18,00,000		50,000	
Profit and Loss A/c	17,00,000	35,00,000	6,50,000	7,00,000
Current Liabilities				
Trade payables		5,00,000		3,00,000
Total		**80,00,000**		**23,00,000**
Assets				
Non-current assets				
Tangible assets				
Plant and machinery	26,50,000		8,00,000	
Furniture and fixtures	8,00,000	34,50,000	5,40,000	13,40,000
Non-current investments				
Equity shares in B Ltd.	19,80,000			
Preference shares in B Ltd.	4,00,000	23,80,000	—	—
Current Assets				
Inventories	8,70,000		4,60,000	
Trade receivables	7,50,000		3,70,000	
Cash and cash equivalents	5,50,000	21,70,000	1,30,000	9,60,000
Total		**80,00,000**		**23,00,000**

A Ltd. acquired 80% of both classes of shares in B Ltd. on 01.04.2011.

Additional information:

(i) The balance in Profit and Loss A/c of B Ltd. on 1.4.2011 was ₹ 2,50,000, out of which dividend of 15% p.a. on the Equity Capital of ₹ 8,00,000 was paid for the year 2010-2011.

(ii) General reserve balances of B Ltd. was the same as on 1.4.2011.

(iii) The dividend in respect of preference shares of B Ltd. for the year 2011-12 was still payable as on 31.3.2012.

(iv) A Ltd. credited its Profit and Loss A/c for the dividend received by it from B Ltd. for the year 2010-11.

(v) At the time of acquisition by A Ltd., while determining the price to be paid for the shares in B Ltd. it was decided that the value of plant and machinery was to be increased by 20% and that of furniture and fixtures to be reduced by 30%. There was no transaction of purchase or sale of these assets during the year. The effect to these revaluations are to be given in the consolidated balance sheet.

(vi) Sundry creditors of A Ltd. included an amount of ₹ 2,20,000 for purchases from B Ltd., on which B. Ltd. made a loss of ₹ 20,000.

(vii) 60% of the above goods were still with the closing stock of A Ltd. as at 31.03.2012.

Prepare the Consolidated Balance Sheet as at 31st March, 2012, assuming the rate of depreciation charged as 20% p.a. on plant and machinery and 10% p.a. on furniture and fixtures. 15

Workings should be part of the answer.

4. (a) On 31.03.2011, A Ltd. acquired 1,05,000 shares of B Ltd. for ₹ 12,00,000. The Balance Sheet of B Ltd. as on that date was as under:

The Balance Sheets of B Ltd. as on 31.03.2011

	(Figures in ₹ in 000's)
Equity and Liabilities	
Shareholder's Funds	
Share Capital	
Equity Shares of Rs. 10 each, fully paid up	1,500
(1,50,000 shares)	
Reserves and Surplus	
Securities Premium	–
Pre-Incorporation Profits	30
Profit and Loss A/c	60
Current Liabilities	
Trade payables	75
Total	**1,665**
Assets	
Non-current assets	
Tangible assets	1,050
Current Assets	615
Total	**1,665**

The Balance Sheets of A Ltd. and B Ltd. as on 31.03.2012 are as follows:

	(Figures in ₹ in '000)	
	A. Ltd. ₹	*B. Ltd.* ₹
Equity and Liabilities		
Shareholder's Funds		
Share Capital		
Equity Shares of Rs. 10 each, fully paid up (before bonus issue)	4,500	1,500

	(Figures in ₹ in '000)	
Reserves and Surplus		
Securities Premium	900	
Pre-Incorporation Profits	–	30
General reserve	6,000	1,905
Profit and Loss A/c	1,575	420
Current Liabilities		
Trade payables	555	210
Total	**13,530**	**4,065**
Assets		
Non-current assets		
Tangible assets	7,920	2,310
Non-current investments		
Equity shares in B Ltd. at cost	1,200	
Current Assets	4,410	1,755
Total	**13,530**	**4,065**

Directors of B Ltd. made a bonus Issue on 31.03.2012 in the ratio of one equity share of ₹ 10 each fully paid for every two equity shares held on that date.

Calculate as on 31.03.2012 the following:

- Cost of Control/Capital Reserve
- Minority Interest
- Consolidated Profit and Loss Account in each of the following cases
  - ➢ Before Issue of Bonus Shares
  - ➢ Immediately after the issue of Bonus Shares

It may be assumed that Bonus Shares were issued out of Post-Acquisition Profits by using General reserve. 10

OR

(b) In preparing the Consolidated Balance Sheet of A Ltd. as on 31.12.2012. You are required to show clearly what amount, if any, you would include in respect of B Ltd. with regard to:

(a) Cost of Control;

(b) Profit or Loss, and

(c) Minority Interest

Under each of the following assumptions:

1. 48,000 of the shares then in issue of B Ltd. were acquired at a cost of ₹ 75,000 on 1st March, 2010. A Ltd. participated in the proposed dividend of ₹ 8,000.
2. 48,000 of the shares then in issue of B Ltd., were acquired at a cost of ₹ 60,000 on 31st Dec. 2010: A Ltd. participated in the bonus issue but not in the proposed dividend of ₹ 9,000.
3. 60,000 of the shares then in issue of B Ltd. were acquired at a cost of ₹ 80,000 on 1st July, 2012. A Ltd. did not participate in the proposed dividend of ₹ 6,000.

The Balance Sheet of B Ltd. as on 31st December, 2012 showed:

Particulars	Amount
(a) Share Capital, authorised and issued of ₹ 1 each	₹ 80,000
(b) Undistributed Profits	₹ 24,000
(c) 7% Debentures	₹ 40,000

The Profit and Loss appropriation, for the four years ending 31.12.2012 were as follows:

Particulars	2009	2010	2011	2012
(a) Balance at the beginning of the year	16,000	22,000	43,000	28,000
(b) Bonus Issue of 1 share for every 4 shares: 1st Jan. 2011	Nil	Nil	(16,000)	Nil
(c) Profit for the year/(loss)	14,000	30,000	7,000	(4,000)
(d) Profits available for appropriation	30,000	52,000	34,000	24,000
(e) Propopsed Dividends	(8,000)	(9,000)	(6,000)	Nil
(f) Balance c/f	22,000	43,000	28,000	24,000

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5. (a) MANASI Ltd. leased a machine to SB Ltd. on the following terms:

	₹ in Lakhs
Fair Value of the Machine	4.00
Lease Term (Payable at each year-end)	5 years
Lease Rental per annum	1.00
Guaranteed Residual Value	0.20
Expected Residual Value	0.40
Internal Rate of Return	15%

Depreciation is provided on straight line method at 10% per annum. Ascertain Unearned Financial Income.

Show necessary Journal Entries in the books of the Lessee in the first year of operation.

Tabulate for the lease period, the lease rentals segregated into Finance charges and reduction of outstanding liability. 10

OR

(b) (i) A company purchased a plant for ₹ 50 lakhs during financial year 2012-2013 and installed the same immediately. The price charged by the vendor included Excise Duty (Cenvat Credit Available) of ₹ 5 lakhs. During this year, the Company also produced exciseable goods on which Excise Duty chargeable is ₹ 4.5 lakhs. Assume that deferred Cenvat credit will be available in the subsequent years.

Show the Journal Entries showing Cenvat Credit Treatment in 2012-13 and its disclosure in the Balance Sheet as at 31.3.2013. 5

(ii) An investor buys a Stock option of X Ltd. in September 2009 with a strike price on 30th September, ₹ 260 to be expired on 30th October, 2012. The premium is ₹ 30 per unit and the market lot is 100. The margin to be paid is ₹ 120 per unit.

Show the accounting treatment in the books of investor (buyer) when:

(i) the option is settled by delivery of the asset, and

(ii) the option is settled in cash and the index price is ₹ 270 per unit. 5

6. (a) (i) From the following information you are required to calculate EVA: 8

12% Debt Capital	₹ 2,000 crores
Equity Capital	₹ 500 crores
Reserves and Surplus	₹ 7,500 crores
Capital Employed	₹ 10,000 crores
Risk Free Rate	9%
Beta Factor	1.05
Market Rate of return	19%
Equity (market) risk premium	10%
Operating Profit after Tax	₹ 2,100
Tax Rate	30%

(ii) From the following details, compute according to Lev and Schwartz model, the total value of human resources of the employees skilled and unskilled groups.

	Skilled	Unskilled
(a) Annual average earning of an employee till the age of retirement	₹ 80,000	₹ 60,000
(b) Age of retirement	68 years	65 years
(c) Discount rate	20%	20%
(d) Number of employees in the group	40	30
(e) Average age	65 years	62 years

7

OR

(b) (i) From the information contained in the following income statements and Balance Sheet of X Ltd. prepare the Cash Flow Statement for the year ended 31st March 2013 in accordance with AS-3 (Revised):

Income Statement for the year ended March 31, 2013.

		₹
Net Sales	(A)	250,00,000
Less:		
Cash Cost of Sales		195,00,000
Depreciation		8,00,000
Salaries and Wages		25,00,000
Operating Expenses		7,00,000
Provision for Taxation		9,50,000
	(B)	244,50,000
Net Operating Profit (A–B)		5,50,000
Non-recurring Income-Profit on sale of equipment		1,10,000
		6,60,000

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Retained Earnings and profits brought forward	12,50,000
	19,10,000
Dividends declared and paid during the year	6,40,000
Profit and Loss account balance on 31.3.2013	12,70,000

The Balance Sheets of X Ltd. as on		**31.03.2012**			**31.03.2013**	
		₹	₹		₹	₹
Equity and Liabilities						
Shareholder's Funds						
Share Capital						
Equity Shares of Rs. 10 each, fully paid up			35,00,000			45,00,000
Reserves and Surplus						
Profit and Loss A/c			12,50,000			12,70,000
Current Liabilities						
Trade payables		26,60,000			25,50,000	
Other payables:						
Outstanding expenses		3,20,000			7,40,000	
Income tax payable		1,30,000	31,10,000		1,45,000	34,35,000
Total			**78,60,000**			**92,05,000**
Assets						
Non-current assets						
Tangible assets						
Land		5,00,000			10,00,000	
Plant and machinery (at cost)	35,00,000			56,00,000		
Less: Accumulated Depreciation	13,00,000	22,00,000	27,00,000	14,50,000	41,50,000	51,50,000
Current Assets						
Inventories		25,50,000			10,40,000	
Trade receivables		18,50,000			20,60,000	
Cash and cash equivalents		7,00,000			8,80,000	
Advances		60,000	51,60,000		75,000	40,55,000
Total			**78,60,000**			**92,05,000**

The original cost of the machine sold in 2012-13 was ₹ 8,00,000. 10

(ii) A Non-Banking Finance Company presents the following details of its advances as at 31st March 2013:

Particulars	₹ *Lacs*
Standard Assets	16,800
Sub-Standard Assets	1,820
Secured Portion of Doubtful Debts:	
Upto 1 year	320

One to three years	140
More than 3 years	40
Unsecured Portion of Doubtful Debts	174
Loss Assets	48

Compute the amount of provisions that must be made against the advances. 5

7. (a) Srihari Ltd. granted 500 options to each of its 2,500 employees in 2005 at an exercise price of ₹ 50 when the market price was the same. The constructual life (vesting and exercise period) of the options granted is 6 years with the vesting period and exercise period being 3 years each. The expected life is 5 years and the annual forfeitures are expected at 3%. The fair value per option is arrived at ₹ 15. During 2006, the management decides to revise its estimated forfeiture rate at 10% per annum. Of the 2,500 employees, 1,900 employees have completed the 3 year vesting period. 1,000 employees exercise their right to obtain shares vested in them in pursuance of ESOP at the end of 2009 and 500 employees exercise their right at the end of 2010. The rights of the remaining employees expire unexercised at the end of 2010. The face value per share is ₹ 10.

Show the necessary Journal Entries for the above information. 10

OR

(b) Explain the working principle and the features of XBRL (Extensible Business Reporting Language). 10

8. (a) (i) Write a note on Indian Government Accounting Standard–5 relating to Loans and Advances made by Governments. 7

(ii) Present a specimen report relating to the 'Financial Position' portion in the review of accounts by the Comptroller and Auditor General of India. 8

OR

(b) (i) Write a note on the Indian Government Accounting Standard–3 (IGAS-3) on cash flow statements of the Government. 10

(ii) What are the organisations that are subject to the audit of Comptroller and Auditor General of India? 5