FINAL EXAMINATION
December 2017

P–18(CFR)
Syllabus 2012

Corporate Financial Reporting

Time Allowed: 3 Hours

Full Marks: 100

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

All workings must form part of your answer.

Whenever necessary, suitable assumptions may be made and disclosed by way of a note.

Answer Question No. 1 *(carrying 20 marks) which is compulsory and also answer* any five *questions from* Question No. 2. *to* Question No. 8 *(carrying 16 marks each).*

1. Answer *any four* questions from the following (carrying 5 marks each): 5×4=20

(a) ZF Bearings Ltd. presents the following information for the year ending 31/03/2016 and 31/03/2017 from which you are required to calculate the Deferred Tax Asset/Liability assuming tax rate of 30% and state how the same should be dealt with as per relevant accounting standard.

	31/03/2016 ₹ (lakhs)	31/03/2017 ₹ (lakhs)
Depreciation	4010.10	4023.54
Unabsorbed carry forward business loss and depreciation allowance	2016.60	4110.00
Disallowance under Section 43B of Income Tax Act, 1961	518.35	611.45
Deferred Revenue Expenses	4.88	—
Provision for Doubtful Debts	282.51	294.35

Z Ltd. had incurred a loss of ₹ 504 lakhs for the year ending 31/03/2017 before providing for current tax of ₹ 26.00 lakhs.

(b) MLG Securities Ltd. wants to reclassify its investment in accordance with AS 13. Decide on the treatment to be given in each of the following case:

(i) A portion of Current Investments purchased for ₹ 20 lakhs to be reclassified as Long-term Investments, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.

(ii) Another portion of Current Investments purchased for 15 lakhs has to be reclassified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was ₹ 6·5 lakhs.

(c) Kamal & Company, a partnership firm signed an agreement with workers for increase in wages with retrospective effect. The outflow on account of arrears was for 2012-13 ₹ 20.00 lakhs, for 2013-14 ₹ 24.00 lakhs and for 2014-15 ₹ 18.00 lakhs. This amount is payable in September 2016. The accountant wants to charge ₹ 62.00 lakhs as prior period charges in financial statement for 2016-17. Discuss.

(d) Write a note on objective and scope of IGAS-3.

(e) X Ltd. has leased equipment over its useful life that costs ₹ 7,46,55,100 for a three year lease period. After the lease term the asset would revert to the Lessor. You are informed that:

(i) The estimated unguaranteed residual value would be ₹ 1 lakh only.

(ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.

(iii) Implicit interest rate is 10%.

You are required to ascertain the annual lease payment and the unearned finance income. P.V. factor @ 10% for years 1 to 3 are 0.909, 0.826 and 0.751 respectively.

2. Summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March, 2017 were as under:

	A Ltd. ₹	B Ltd. ₹
Paid up equity shares of ₹ 10 each	20,00,000	12,00,000
Premium Account	4,00,000	—
General Reserve	5,20,000	5,00,000
Profit and Loss Account	3,60,000	3,20,000
Debentures	10,00,000	—
Secures Loan	6,00,000	6,00,000
Sundry Creditors	—	3,40,000
Total	48,80,000	29,60,000
Land and Building	18,00,000	9,00,000
Plant and Machinery	10,00,000	7,60,000
Investments (10,000 shares in B Ltd.)	1,60,000	—
Stock	10,40,000	7,00,000
Motors	8,20,000	5,20,000
Bank	60,000	80,000
Total	48,80,000	29,60,000

Companies agree on a scheme of amalgamation on the following terms :

(a) A new Company AB Ltd. is to be formed.

(b) AB Ltd. to take over all assets and liabilities of the existing companies.

(c) For the purpose of amalgamation, the shares of the existing companies are to be valued as under:

A Ltd. – ₹ 18 per share

B Ltd. – ₹ 20 per share

(d) A contingent liability of A Ltd. of ₹ 1,20,000 is to be treated as real liability.

(e) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of AB Ltd.

(f) The shares of AB Ltd. are to be of ₹ 10 each.

Required :

(i) Show the computation the number of shares AB Ltd. will issue to the shareholders of the existing companies.

(ii) Pass the journal entries to close the books of A Ltd. and

(iii) Prepare the opening Balance Sheet of AB Ltd. as at 1.4.2017.

[Ignore liquidation and formation expenses] 16

3. Ganga Limited purchased 48000 shares in Yamuna Limited on 31st March 2015, at 50% premium over face value by issue of 8% debentures at 20% premium. The Balance Sheets of Ganga Limited and Yamuna Limited as on 31.03.2015, i.e., on the date of purchase were as under:

					(in ₹)
Liabilities	Ganga Ltd.	Yamuna Ltd.	Assets	Ganga Ltd.	Yamuna Ltd.
Share capital of			Fixed Assets	6,50,000	2,00,000
₹ 10 each	10,50,000	6,00,000	Inventory in Trade	3,00,000	1,80,000
General Reserve	1,20,000	40,000	Trade receivables	3,40,000	2,10,000
Profit and Loss A/c	80,000	—	Cash in hand	60,000	30,000
Trade payables	1,00,000	60,000	Profit and Loss A/c	—	80,000
	13,50,000	7,00,000		13,50,000	7,00,000

(a) Particulars of Ganga Limited:

(i) Profits made: 2015-16 ₹ 1,60,000
2016-17 ₹ 2,00,000

(ii) The above profit was made after charging depreciation of ₹ 60,000 and ₹ 40,000 respectively.

(iii) Out of profit shown above, every year ₹ 20,000 had been transferred to General Reserve.

(iv) 10% Dividend had been paid in both years.

(v) It has been decided to write down investment to face value of shares in 10 years and to provide for share of loss to subsidiary.

(b) Particulars of Yamuna Limited:

The company incurred losses of ₹ 40,000 and ₹ 60,000 in 2015-2016 and 2016-2017 after charging depreciation of 10% p.a. on the book value of Fixed Assets as on 01-04-2015.

Prepare consolidated Balance Sheet of Ganga Limited and its subsidiary as at 31st March, 2017 as per requirements of Schedule III. 16

4. (a) From the following Profit & Loss Account of Yash Ltd. prepare Gross Value Added Statement and show the reconciliation between Gross Value Added and Profit before Taxation.

Profit and Loss Account for the year ended 31st March, 2017

Particulars		(₹ in '000s)
Sales less return		21,350
Trading profit		1,920
Less: Depreciation	302	
Interest	140	(442)
Add: Other income		80
Profit before tax		1,558
Provision for tax		(688)
Profit after tax		870
Less: Extraordinary items		(15)
		855
Less: Proposed dividend		(340)
Retained profit		515

Notes:

1.	Trading profit is arrived at after charging the following : Salaries, wages etc. to employees Director's remuneration Audit fees Hire of equipment		(₹ in '000s) 3685 360 220 290
2.	Interest figure is ascertained as below Interest paid on bank loans and overdrafts Interest received	 160 (20)	 140
3.	Extraordinary items: Surplus on sale of properties Loss of Goods by fire	 20 (35)	 (15)
4.	The charge for taxation include a transfer of ₹1,48,000 to the credit of deferred tax account		

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(b) Write a note on Environmental Reporting. 4

5. (a) Suhana Ltd. issued secured debentures of ₹ 100 Lakhs on 01.05.2016, to be utilized as under:

Particulars	Amount (₹ in lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2017, construction of the factory building was completed and machinery was installed and ready for it's intended use. During the year 2016-2017, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest. The eligible borrowing cost is ₹ 9,00,000.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets. 8

(b) A Mutual Fund raised 100 lakhs on January 1, 2017 by issue of 10 lakhs units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakhs. The initial expenses amounted to ₹ 7 lakhs. During January, 2017, the fund sold certain securities of cost ₹ 38 lakhs for ₹ 40 lakhs and purchased certain other securities for ₹ 28.20 lakhs. The fund received ₹ 1.20 lakhs as dividend and 75% of realized earnings was distributed among unit holders. The fund management expenses for the month amounted to ₹ 4.50 lakhs of which ₹ 0.25 lakh was not paid till month end. The market value of the portfolio on 31.01.2017 was ₹ 101.90 lakhs. Determine NAV per unit. 8

6. (a) The Balance Sheet of Sick Ltd. on 31st March, 2017 is as under:

	(₹)		(₹)
Share Capital (₹ 100)	20,00,000	Goodwill	2,00,000
10000, 7% Preference Shares of ₹ 100 each	10,00,000	Plant and Machinery	18,00,000
		Stock	3,00,000
Sundry Creditors	7,00,000	Sundry Debtors	7,50,000
Bank Overdraft	3,00,000	Preliminary expenses	1,00,000
		Cash	1,50,000
		Profit and Loss account	7,00,000
	40,00,000		40,00,000

Two years' preference dividends are in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and paying dividend provided the capital base is reduced.

An internal reconstruction scheme as follows was agreed to by all concerned:

(i) Creditors agreed to forego 50% of the claim.

(ii) Preference shareholders withdrew arrear dividend claim. They also agreed to lower their capital claim by 20% by reducing nominal value in consideration of 9% dividend effective after reorganization in case equity shareholders' loss exceed 50% on the application of the scheme.

(iii) Bank agreed to convert overdraft into term loan to the extent required for making current ratio equal to 2 : 1.

(iv) Revalued figure for plant and machinery was accepted as ₹ 15,00,000.

(v) Debtors to the extent of ₹ 4,00,000 was considered good.

(vi) Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganization.

Show:

I. Total loss to be borne by the equity and preference shareholders;

II. Share of loss to the individual classes of shareholders; and

III. New structure of share capital after reorganization. 8

(b) From the following information, calculate the value of a share if you want to:

(i) buy a small lot of shares;

(ii) buy a controlling interest in the company.

Year	Profit	Capital Employed	Dividend
	(₹)	(₹)	%
2011	55,00,000	3,43,75,000	12
2012	1,60,00,000	8,00,00,000	15
2013	2,20,00,000	10,00,00,000	18
2014	2,50,00,000	10,00,00,000	20

The market expectation is 12%. 8

7. (a) From the following information, prepare a Cash Flow Statement:

Particulars	Note	31.03.2017 (₹)	31.03.2016 (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(a) Share Capital		12,50,000	10,00,000
(b) Reserves and Surplus	1	4,90,000	4,00,000
(2) Non-Current Liabilities [Loan]		4,00,000	5,00,000
(3) Current Liabilities			
Trade Payables		4,00,000	5,00,000
Short-term Provisions	2	1,85,000	1,50,000
Total		27,25,000	25,50,000
II. ASSETS			
(1) Non-Current Assets			
Tangible Fixed Assets	3	14,00,000	12,50,000
Non-Current Investments		50,000	1,00,000
(2) Current Assets			
Inventories		2,80,000	3,00,000
Trade Receivables		4,20,000	4,00,000
Cash & Cash Equivalents		5,75,000	5,00,000
Total		27,25,000	25,50,000

Note 1 : Reserves and Surplus

Particulars	31.03.2017 (₹)	31.03.2016 (₹)
General Reserve	3,00,000	2,50,000
Profit and Loss A/c	1,80,000	1,50,000
Capital Reserve	10,000	—
	4,90,000	4,00,000

Note 2 : Short-Term Provisions

Particulars	31.03.2017 (₹)	31.03.2016 (₹)
Proposed Dividend	1,25,000	1,00,000
Provision for Tax	60,000	50,000
	1,85,000	1,50,000

Note 3 : Tangible Fixed Assets

Particulars	31.03.2017 (₹)	31.03.2016 (₹)
Land & Building	4,80,000	5,00,000
Machinery	9,20,000	7,50,000
	14,00,000	12,50,000

Additional Information:

(i) Dividend of ₹ 1,00,000 was paid during the year.

(ii) Machinery during the year purchased for ₹ 1,25,000. Machinery of another company was purchased for a consideration of ₹ 1,00,000 payable in equity shares.

(iii) Depreciation written off on Land and Building ₹ 20,000.

(iv) Company sold some investment at a profit of ₹ 10,000, which was credited to Capital reserve.

(v) Income-tax provided during the year ₹ 55,000.

Required:

From the above particulars, prepare a Cash Flow Statement for the year ended March, 2017 as per AS 3 (indirect method). 10

(b) The Chief Accountant of PELF FIN STOCK Ltd. gives the following data regarding its six segments: (₹ In lakhs):

Particulars	M	N	O	P	Q	R	Total
Segment Assets	50	25	10	5	5	5	100
Segment Results	–50	–140	80	10	–10	10	–100
Segment Revenue	200	320	200	90	90	100	1000

Identify the Reportable Segments as per AS 17. 6

8. (a) State the major steps involved in undertaking the Triple Bottom Line (TBL) Reporting process. 8

(b) State the Procedure adopted by Government Accounting Standard Board (GASAB) for formulating Accounting Standards. 8