

FINAL EXAMINATION

JUNE 2015

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.

Answer all the questions.

All workings must form part of your answer.

Assumptions, if any, must be clearly indicated.

SECTION A

1. (a) Neel Limited is developing a new production process. During the financial year ended 31st March, 2014, the company has incurred total expenditure of ₹ 60 lakhs on the process. On 1st December, 2013 the process has met the norms to be recognised as intangible assets and the expenditure incurred till that date is ₹ 25 lakhs. During the financial year ending on 31st March, 2015, the company has further incurred ₹ 90 lakhs. The recoverable amount as on 31.3.2015 of the process is estimated to be ₹ 85 lakhs. You are required to work out as per AS-26:
- (i) Amount to be charged to Profit and Loss Account for the financial year ending on 31st March, 2014 and 31st March, 2015 (ignore depreciation), and
- (ii) Carrying value of intangible asset as at 31.3.2014 and 31.3.2015. 5
- (b) Zoom Limited purchased a machine four years ago for ₹ 30 lakhs and depreciates it at 10% p.a. on Straight-line Method. At the end of fourth year, it has revalued the machine at ₹ 15 lakh and has written off the loss on revaluation to Profit and Loss Account. However, on the date of revaluation, the market price is ₹ 14 lakhs and expected disposal costs are ₹ 50,000.
- (i) Compute amount of impairment loss as per AS-28, on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 12 lakh.
- (ii) What will be the accounting treatment in respect of impairment loss computed above? 5

SECTION B

Answer Question No 2(a) which is Compulsory (carrying 5 marks)

and answer any two (carrying 10 marks each) from the remaining Sub-questions.

2. (a) State any five salient points of distinction between 'Pooling of Interest Method' and 'Purchase Method' of Accounting for Mergers and Acquisitions. 5

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- (b) ANKIT LTD. agreed to absorb SHRIJA LTD. on March 31, 2015 whose summarized Balance Sheet Stood as follows:

(Amount in ₹ '000')

Equity and liabilities	Amount	Assets	Amount
<i>Share Capital:</i>		<i>Fixed Assets</i>	2100
2,40,000 shares of ₹ 10 each fully paid	2400	<i>Investments</i>	--
<i>Reserves & Surplus:</i>		<i>Current Assets, Loans and Advances;</i>	
General Reserve	300	Stock in Trade	300
<i>Secured Loan</i>	--	Sundry Debtors	600
<i>Unsecured Loan</i>	--		
<i>Current Liabilities & Provisions:</i>			
Sundry Creditors	300		
	3000		3000

The Consideration was agreed to be paid as follows:

- A payment in cash of ₹ 5 per share in SHRIJA LTD. and
- The issue of shares of ₹ 10 each in ANKIT LTD. on the basis of two equity shares (valued at ₹ 15) and one 10% cum-preference share (valued at ₹ 10) for every five shares held in SHRIJA LTD. The whole of the share capital consists of shareholding in exact multiple of five, except the following holdings:

A	348
B	228
C	216
D	84
Other Individuals	24 (Twenty four members holding one share each)

It was agreed that ANKIT LTD. will pay in cash for fractional shares equivalent at agreed value of share in SHRIJA LTD. i.e. ₹ 65 for five shares of ₹ 50 paid.

Required:

Prepare a statement showing the purchase consideration receivable by shareholders in shares and cash. 10

- (c) X Ltd. agreed to takeover Y Ltd. as on 1st October, 2014. No Balance Sheet of Y Ltd. was prepared on that date:

Summarised Balance Sheets of X Ltd. and Y Ltd. as at 31st March, 2014 were as follows:

Liabilities	X Ltd. ₹	Y Ltd. ₹	Assets	X Ltd. ₹	Y Ltd. ₹
Equity shares of ₹ 10 each fully paid up.	20,00,000	15,00,000	Fixed assets	15,50,000	12,60,000
<i>Reserves and Surplus:</i>			<i>Current Assets:</i>		
Reserve	3,90,000	3,40,000	Stock	5,35,500	3,81,500
Profit & Loss A/c	3,30,000	1,60,000	Debtors	3,49,500	2,31,000
Creditors	85,000	75,000	Bank	3,40,000	1,80,000
			<i>Miscellaneous Expenditure:</i>		
			Preliminary Expenses	30,000	22,500
Total	28,05,000	20,75,000	Total	28,05,000	20,75,000

Additional information available:

- For the six months period from 1st April 2014, X Ltd. and Y Ltd. made profits of ₹ 5,40,000 and ₹ 3,60,000 respectively, after writing off depreciation @ 10% per annum on their fixed assets.
- Both the companies paid on 1st August 2014, equity dividends of 10%. Dividend tax at 15% was paid by each of them on such payments.
- Goodwill of Y Ltd. was valued at ₹ 1,68,900 on the date of takeover. Stock of Y Ltd., subject to an abnormal item of ₹ 8,500 to be fully written off, would be appreciated by 20% for purpose of takeover.
- X Ltd. would issue to Y Ltd's shareholders fully paid equity shares of ₹ 10 each, on the basis of the comparative intrinsic values of the shares on the date of takeover.

You are required to:

- Calculate Purchase consideration payable by X Ltd.
- Calculate Number of shares to be issued by X Ltd to Y Ltd.
- Ascertain closing bank balance which will appear in the Balance Sheet of X Ltd.

(After absorption of Y Ltd.).

5+2+3=10

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- (d) The summarised Balance Sheets of A Ltd. and B Ltd. as on 31st March 2015 are given below. B Ltd. was merged with A Ltd. with effect from 31st March 2015 and the merger was in the nature of purchase.

Summarise Balance Sheets as on 31.03.2015

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
<i>Share Capital:</i>			Fixed assets	10,00,000	4,50,000
Equity Shares of ₹ 10 each	8,00,000	3,00,000	Investments (Non-trade)	1,50,000	50,000
General Reserve	3,00,000	2,00,000	Stock	1,60,000	50,000
Profit & Loss A/c	2,50,000	80,000	Debtors	80,000	90,000
12% Debentures	2,00,000	1,00,000	Advance Tax	60,000	30,000
Sundry Creditors	60,000	50,000	Cash and Bank	2,30,000	1,10,000
Provision For Taxation	90,000	50,000	Balance		
			Preliminary Expenses	20,000	-
Total	17,00,000	7,80,000	Total	17,00,000	7,80,000

A Ltd. would issue 12% Debentures to discharge the claims of the debenture holders of B Ltd. at par. Non-trade investments of A Ltd. fetched @ 20% while those of B Ltd. fetched @ 12%. Profit (Pre-tax) by A Ltd. and B Ltd. during 2012-13, 2013-14 and 2014-15 were as follows:

Year	A Ltd. ₹	B Ltd. ₹
2012-13	6,00,000	2,00,000
2013-14	7,00,000	2,50,000
2014-15	5,00,000	1,50,000

Goodwill may be calculated on the basis of capitalisation method taking 20% as the pre-tax normal rate of return. Purchase consideration is discharged by A Ltd. on the basis of intrinsic value per share.

Prepare Balance Sheet of A Ltd. after merger as per revised Schedule VI (Notes to accounts need not be given).

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SECTION C

Answer Question No 3(a) which is Compulsory (carrying 10 marks) and also answer any one (carrying 15 marks) from the remaining sub-questions.

3. (a) Tom Ltd. holds 45% of the paid up share capital of Bee Ltd. The shares were acquired at market price of ₹ 18 per share. The balance 55% shares of Bee Ltd. are held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:
- (i) The shares held by foreign company will be sold to Tom Ltd. The price per share will be calculated by capitalising the yield at 20%. Yield, for this purpose, would mean 50% of the average of pre-tax profits for last 3 years, which were ₹ 35 lakhs, ₹ 40 lakhs and ₹ 45 lakhs.

- (ii) The actual cost of the shares to the foreign company was ₹ 6,00,000. The profit that would accrue to them would be taxable at an average rate of 25%. The tax payable will be deducted from the proceeds and Tom Ltd. will pay it to government.
- (iii) Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after three years. The above agreement was approved by all concerned for being given effect to on 01.04.2015.

The total assets of Bee Ltd. as on 31.03.2015 were ₹ 110,00,000. It was decided to write down fixed assets by ₹ 2,10,000. Current Liabilities of Bee Ltd. as on the same date were ₹ 40,00,000. The paid-up share capital of Bee Ltd. was ₹ 20,00,000 divided into 2,00,000 equity shares of ₹ 10 each.

Required:

- (1) Compute purchase consideration.
 - (2) Prepare statement showing discharge of purchase consideration, and
 - (3) Find out Goodwill/Capital Reserve to Tom Ltd. on acquiring wholly the shares of Bee Ltd. 10
- (b) From the following Balance Sheets of a group of companies and the other information provided, draw up the Consolidated Balance Sheet as on 31.03.2015.

Balance Sheets as on 31.03.2015

(₹ in Lakhs)

Liabilities	R Ltd.	S Ltd.	T Ltd.	Assets	R Ltd.	S Ltd.	T Ltd.
	₹	₹	₹		₹	₹	₹
Share Capital (in Shares of ₹ 100 each)	350	150	100	Fixed assets less Depreciation	140	130	120
Reserves	60	50	40	<i>Cost of investment:</i>			
Profit & Loss balance	70	60	50	in S Ltd.	170	—	—
Creditors	40	20	20	in T Ltd.	40	80	—
				Stock	60	20	30
				Debtors	70	30	40
				Cash & Bank	40	20	20
Total	520	280	210	Total	520	280	210

Additional Information:

- (i) R Ltd. holds 1,20,000 shares in S Ltd. and 30,000 shares in T Ltd.; S Ltd. holds 60,000 shares in T Ltd. These investments were made on 01.07.2014, on which date the provision was as follows:

	₹ in lakhs	
	S Ltd.	T Ltd.
Reserves	30	20
Profit & Loss A/c	40	26

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- (ii) In December, 2014, S Ltd. invoiced goods to R Ltd. for ₹ 80 lakhs at cost plus 25%. The closing stock of R Ltd. includes such goods valued at ₹ 10 lakhs.
- (iii) T Ltd. sold to S Ltd. an equipment costing ₹ 24,00,000 at a profit of 25% on selling price on 01.01.2015. Depreciation at 10% per annum was provided by S Ltd. on this equipment.
- (iv) R Ltd. proposes dividend at 10%. 15
- (c) On 1st April, 2013 ROTEX Ltd. a new Company raised its first capital of ₹ 500 lakh from 50,00,000 Equity Shares of ₹ 10 each at par. Rotex Ltd. made the following acquisition on the same date:
- ANU Ltd.—3,00,000 Equity Shares of ₹ 10 each fully paid for ₹ 35 lakh
- BENTEK Ltd.—10,00,000 Equity Shares of ₹ 10 each fully paid for ₹ 72 lakh
- CINY Ltd.—8,00,000 Equity Shares of ₹ 10 each fully paid for ₹ 92 lakh

Apart from these transactions and those detailed below, ROTEX LTD. neither paid nor received other monies during the year 2013-2014.

The following are the summarized Balance Sheets of the three companies as on 31st March, 2014.

(Amount in ₹ lakh)

Liabilities	ANU Ltd.	BENTEK Ltd.	CINY Ltd.
<i>Share Capital:</i>			
Equity shares of ₹ 10 each fully paid up	40.00	120.00	100.00
<i>Reserves and Surplus:</i>			
Reserves (as on 1.4.2013)	3.00	—	7.50
Profit and Loss A/c	6.00	—	15.00
<i>Current Liabilities:</i>			
Sundry Creditors	5.00	22.00	5.00
	54.00	142.00	127.50
<i>Assets:</i>			
<i>Fixed Assets:</i>			
Goodwill	4.00	—	15.00
Freehold Property	8.00	52.00	50.00
Plant and Machinery	16.00	30.00	12.00
<i>Investments:</i>	—	—	—
<i>Current Assets, Loans and Advances:</i>			
Inventories (Stock)	11.00	32.00	21.00
Sundry Debtors	4.00	8.00	18.00
Cash at Bank	11.00	2.00	11.50
<i>Miscellaneous Expenditure:</i>			
Profit and Loss A/c	—	18.00	—
	54.00	142.00	127.50

The following relevant information is also available:

- (i) The freehold property of CINY Ltd. is to be revalued at ₹ 65 lakh as on 01.04.2013.
- (ii) Additional depreciation for the year 2013-2014 of ₹ 3 lakh on the Plant and Machinery of BENTEK Ltd. is to be provided.
- (iii) The inventories (stock) of ANU Ltd. as on 31st March, 2014 has been undervalued by ₹ 2 lakh and is to be adjusted.
- (iv) As on 31st March, 2014, ROTEX Ltd. owed ANU Ltd. ₹ 3.50 lakh and is owed ₹ 6 lakh by BENTEK Ltd. CINY Ltd. is owed ₹ 1 lakh by ANU Ltd. and ₹ 2 lakh by BENTEK Ltd.
- (v) The balances on Profit and Loss Accounts as on 31st March, 2013 were: Anu Ltd. ₹ 2 lakh (Credit); BenteK Ltd. ₹ 12 lakh (Debit); and Ciny Ltd. ₹ 4 lakh (Credit). The Credit Balances of Anu Ltd. and Ciny Ltd. were wholly distributed as dividends in June, 2013.
- (vi) During the year 2013-14, Anu Ltd. and Ciny Ltd. declared and paid interim dividends of 8% and 10% respectively.

Required:

Prepare Consolidated Balance Sheet of ROTEX Ltd. and its subsidiary companies, Anu Ltd. BenteK Ltd. and Ciny Ltd. as on 31st March, 2014, as per requirements of Revised schedule-VI. Ignor Taxation.

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(Notes/Schedules to Balance Sheet are not required,).

SECTION D

Answer Question No 4(a) which is Compulsory (carrying 5 marks) and answer any two (carrying 10 marks each) from the remaining sub-questions.

4. (a) Explain the term Extensible Business Reporting Language (XBRL).

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- (b) (i) From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz model.

	Skilled	Unskilled
Annual average income of an employee till the retirement age	₹ 70,000	₹ 50,000
Age of retirement	65 years	62 years
Discount rate	15%	15%
No. of employees in the group	25	35
Average age	62 years	60 years

- (ii) On the basis of the following information relating to trading in Options, you are required to pass relevant journal entries (at the time of inception and at the time of final settlement) in the books of Anand (buyer) and Sahid (seller). Assume that the price on expiry is ₹ 2,100 and both Anand and Sahid follow the calendar year as accounting year.

Date of purchase	Option type	Expiry date	Premium per unit	Contract lot	Multiplier
29.03.2015	Equity Index Call	31.05.2015	₹ 10	1000 (units)	1800 p.u.

5+5=10

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(c) INDIKAN Ltd. announced a 'Share Based Payment Plan' for its employees who have completed 3 years of continuous service on 1st April, 2011. The plan is subject to a 3-year vesting period. The following relevant information is provided to year in this regard:

- (i) The eligible employees can either have the option to claim the difference between the exercise price of ₹ 150 per share and the market price in respect of the share on vesting date in respect of 4000 shares or such employees are entitled to subscribe to 5000 shares at the exercise price.
- (ii) Any shares subscribed to, by the employees shall carry a 3-year lock-in restriction. All shares carry face value of ₹ 10.
- (iii) The current Fair value of the shares at (ii) above is ₹ 70 and that in respect of freely tradable shares is higher by 25%.
- (iv) The Fair value of the shares not subjected to Lock-in restriction at the end of each year increases by a given % from its preceeding value as under:

	year 2011-12	year 2012-13	year 2013-14
% of Increase	4	10	14

You are required to draw up the following Accounts under both options:

- (1) Employees' Compensation Account
- (2) Provision for Liability Component Account
- (3) ESOP outstanding Account

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(d) GALAXY Ltd. has provided the following Profit and Loss Account for the year ended March 31, 2015.

(Amount in ₹ lakh)

<i>Income:</i>		
Sales less Return	15,279	
Dividends and Interest	1	
Miscellaneous Income	5	
(A)		15,285
<i>Expenditure:</i>		
<i>Production & Operational Expenses:</i>		
Decrease in inventory of Finished Goods	261	
Consumption of Raw Materials	7,408	
Power and Lighting	1,200	
Wages, Salaries & Bonus	3,818	
Staff Welfare Expenses	262	
Excise Duty	145	
Other Manufacturing Expenses	326	
		13,420
<i>Administrative Expenses:</i>		
Directors' Remuneration	78	
Other Administrative Expenses	326	
		404

		(Amount in ₹ lakh)	
<i>Interest on:</i>			
9% Mortgage Debentures		144	
Long Term Loan from financial Institution		100	
Bank overdraft		1	
			245
Depreciation on Fixed Assets			506
	(B)		14,575
Profit before Taxation (A-B)			710
Provision for Income Tax (35%)			248
Profit after Taxation			462
Balance of Account as per last Balance Sheet			63
			525
Transferred to General Reserves		185	
Proposed Dividend (20%)		200	
Tax on Distributed Profits		21	
			406
Surplus carried to Balance Sheet			119

You are required to prepare:

- (1) Gross Value Added statement.
- (2) Statement showing Application of Value Added and Reconciliation of Gross Value Added with Profit before Taxation. 5+3+2=10

SECTION E

Answer any three sub-questions (carrying 5 marks each).

5. (a) Discuss the structure of Indian Government Accounting Standards Advisory Board. 5
- (b) State the scope of Indian Government Accounting Standard (IGAS)-3 on Cash Flow Statements of the Government. 5
- (c) Briefly describe the role of Committee on Public Undertakings. 5
- (d) Describe the process of election of Public Accounts Committee. 5