Paper – 17: Corporate Financial Reporting

Paper – 17 - Corporate Financial Reporting

Full Marks: 100 **Time allowed: 3 hours**

Question No.1 which is compulsory and carries 20 Marks and answer any 5 Question from Q. No 2 to Q No 8

1. Answer any four questions from the following. [4×5= 20]

(a) Rainbow Limited borrowed an amount of ₹150 crores on 01.04.2013 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. The weighted average cost of capital is 13% p.a. The accountant of Rainbow Ltd.,

capitalized interest of ₹19.50 crores for the accounting period ending on 31.03.2014. Due to surplus fund out of ₹150 crores, an income of ₹3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

(b) A Ltd. had acquired 80% shares in the B Ltd. for ₹15 lakhs. The net assets of B Ltd. on that day are ₹22 lakhs. During the year, A Ltd. sold the investment for ₹30 lakhs and net assets of B Ltd. on the date of disposal were ₹35 lakhs. Calculate the profit or loss on disposal of this investment to be recognized in the Financial Statements of A Ltd.

(c) Omega Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2012, 2013 and 2014 for ₹11,00,000, ₹16,00,000 and ₹21,00,000 respectively. However, for income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of ₹7,00,000, ₹18,00,000 and ₹23,00,000 for the years 2012, 2013 and 2014 respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/liability for the years 2012, 2013 and 2014.

(d) Write down the strategy for implementation of triple bottom line reporting.

(e) M Ltd. has equity capital of ₹40,00,000 consisting of fully paid equity shares of ₹10 each. The net profit for the year 2013-14 was ₹60,00,000. It has also issued 36,000, 15% convertible debentures of ₹50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. Compute the diluted earnings.

2. The following are the Balance Sheet of A Ltd. and B Ltd. as on 31st March, 2014.

	A Ltd. ₹	B Ltd. ₹
Liabilities		
Share capital:		
Equity Share of ₹ 10 each	4,00,000	2,00,000
10% Preference Shares of ₹10 each	2,00,000	1,00,000
Reserves and Surplus	2,00,000	1,00,000
12% Debentures	3,00,000	2,00,000
Sundry creditors	1,50,000	1,60,000
Total	12,50,000	7,60,000
Assets		

Fixed Assets	6,00,000	3,00,000
Stock	2,00,000	1,00,000
Debtors	3,00,000	2,00,000
Cash at bank	80,000	90,00,00
Investments in:		
4000 equity shares of B Ltd.	70,000	---
5000 equity shares of A Ltd.	----	70,000
Total	12,50,000	7,60,000

Fixed Assets of A Ltd. and B Ltd. are to be revalued at 15% and 10% respectively above book values. Stock and debtors 'of B Ltd. are to be taken over by A Ltd. at 5% less than their book values. While both the companies have 'already paid preference dividends, they are, yet to pay 10% equity dividends.

After the above transactions are given effect to, A Ltd. will absorb B Ltd. on the following terms:

(i) 6 equity shares of , ₹10 each will be issued by A Ltd. at par against 4 equity shares of B Ltd

(ii) 10% Preference Share of B Ltd. will be paid off at 10% discount by issue of 10% Preference Shares of ₹100 each of A Ltd. at par.

(iii) 20,000 to be paid by A Ltd. to B Ltd. for liquidation expenses.

(iv) 12% debenture holders of B Ltd. are to be paid off at 4% premium by 12% debentures in A Ltd. issued at a discount of 20%.

Prepare:

(i) a statement of Purchase consideration payable by A Ltd., and

(ii) a Balance Sheet of A Ltd. after its absorption of B Ltd. **[16]**

3. (a) ANTEK Ltd., SINTEX Ltd. and ROLX Ltd. Are members of a group. ANTEK Ltd. bought 70% of the shares of SINTEX Ltd. on October 1, 2012 and 30% of the shares' of ROLEX Ltd. on January 1, 2014. SINTEX Ltd. bought 60% of the shares of ROLEX Ltd. on October 1, 2013.

The following information is available:

Extracts of Profit and Loss Account

Company Name	Balance April 1,2013	Profit / (Loss) for 2013-14	Balance March 31, 2014	Company formed on
	₹	₹	₹	
ANTEK Ltd.	2,75,000	1,25,000	4,00,000	April 1, 2011
S1NTEX Ltd.	1,00,000 (Dr.)	2,37,500	1,37,500	April 1, 2012
ROLEX Ltd.	-	1,20,000 (Loss)	1,20,000 (Dr.)	April 1, 2013

Assume, Profit/Loss for the year accrues evenly throughout the year.

Required:

State how the Profits/ (Losses) will be reflected in the Consolidated Balance Sheet of the group as on 31st March, 2014. **[12]**

(b) Write a note on GAAP. **[4]**

4. (a) Discuss the income recognition criteria for NBFCs. **[8]**

(b) Write a note on "Users of Triple Bottom Line Reporting" **[8]**

5. G Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 2014:

Liabilities	₹	Assets	₹
6,000 Share of ₹ 60 each, ₹ 30 paid up First debentures Second debentures Unsecured creditors	3,00,000 6,00,000 4,50,000	Property, machinery and plant etc. (Cost ₹3,90,000) Estimated at Cash in hand of the receiver Charged under debentures Uncalled capital	1,50,000 2,70,000 4,20,000 1,80,000 6,00,000 7,50,000
	13,50,000		13,50,000

A holds the first debentures for ₹ 3,00,000 and second debentures for ₹ 3,00,000. He is also an unsecured creditor for ₹ 90,000. B holds second debentures for ₹ 3,00,000 and is an unsecured creditor for ₹ 60,000.

The following scheme of reconstruction is proposed:

1. A is to cancel ₹ 2,10,000 of the total debt owing to him, to advance 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 5,10,000 in satisfaction of all his claims.
2. B is to accept ₹ 90,000 in cash in satisfaction of all claims by him.
3. Unsecured creditors (other than A and B) are to accept four shares of ₹7.50 each, fully paid in satisfaction of 75% of every ₹60 of their claim. The balance of 25% is to be postponed and to be payable at the end of three years from the
4. date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.
5. Uncalled capital is to be called up in full and ₹ 52.50 per share cancelled, thus making the shares of ₹ 7.50 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries and the balance sheet of the company after the scheme has been carried into effect. **[16]**

6. **(a)** A Ltd. issued convertible 12% Debenture of ₹10,00,000 on 01.04.13.Interest is payable annually and the debentures are to be converted on 31.03.17. Similarly, Debenture without conversion carry 14% p.a. rate of interest. Calculate the value of Equity instrument and financial liability and the Debenture(Liability) A/c. **[10]**

(b) XY Ltd, a partnership firm, earned profits during the past 4 years as follows:

Year	**2012**	**2013**	**2014**	**2015**
Profits (₹)	42,000	46,000	52,000	46,500

Firm has total assets worth ₹ 82,000 and its current liability includes only creditors of ₹ 12,800. The normal rate return is 10%. Determine the value of goodwill on the basis of 2½ year's purchase of super profits. **[6]**

7. (a) From the following information determine the amount of unrealized profits to be eliminated and the apportionment of the same, if C Ltd. Holds 75% of the equity shares of D Ltd.

Sales by C Ltd to D Ltd-

(i) Goods costing ₹50,000 at a profit of 20% on sale price. Entire stock was lying unsold as on the Balance Sheet date.

(ii) Goods costing ₹70,000 at a profit of 25% on cost price. 40% of the goods were included in closing stock of D Ltd. **[6]**

(b) A company Amrit Ltd. announced a Stock Appreciation Right on 01/04/14 for each of its 525 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹ 125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31/03/17 but before 30/06/17. The fair value of SAR was ₹ 21 in 2014-15, ₹ 23 in 2015-16 and ₹ 24 in 2016-17. In 2014-15 the company estimates that 2% of the employees shall leave the company annually. This was revised to 3% in 2015-16. Actually, 10 employees left the company in 2014-15, 5 left in 2015-16 and 3 left in 2016-17. The SAR therefore actually vested to 482 employees. On 30/06/17, when the SAR was exercised, the intrinsic value was ₹ 25 per share.

Show Provision for SAR A/c by fair value method. **[10]**

8. (a) Discuss the role of Comptroller and Auditor General (CAG) in the context of Government Accounting in India. **[8]**

(b) Write a note on Indian Government Accounting Standard (IGAS)-3 relating to Loans and Advances made by the Governments. **[8]**