Paper – 17: Corporate Financial Reporting

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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) PP Private Limited has taken machinery on lease from RR Ltd. The information is as under:

Lease term = 4 years
Fair value at inception of lease = ₹ 20,00,000
Lease rent = ₹ 6,25,000 p.a. at the end of year
Guaranteed residual value = ₹ 1,25,000
Expected residual value = ₹ 3,75,000
Implicit interest rate = 15%
Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575, 0.5718 respectively. Calculate the value of lease liability as per AS-19.

(b) The following details relate to M/s XYZ, a firm:
Average profit of last four years : 7,00,000
Average capital employed by the firm : ₹ 55,00,000
Normal rate of return : 10%
Present value of annuity of ₹1 for 4 years @ 10% : 3.1699
Determine the value of goodwill on the basis of annuity of super profit.

(c) An enterprise has 100 kgs of tea valued at ₹6,00,000. It entered into a sale – future contract of ₹6,00,000 of tea - future. The date was 01.03.2015. On 31.03.2015 the market price of tea & tea future is ₹6,30,000. Pass the journal entries.

(d) Write a note on "Financial Assets".
(e) Write a note on "features of Equity Method of Accounting as per AS – 23".

2. (a) The Balance Sheet of Big Ltd. and Small Ltd. as at 31.03.2015:

(₹ in lakh)

	Big Ltd. ₹	Small Ltd. ₹		Big Ltd. ₹	Small Ltd. ₹
Share Capital	40	15	Sundry Assets (including cost of shares)	56	20
Profit & Loss A/c	7.5	–	Goodwill	4	5
Sundry Creditors	12.5	12.5	Profit and Loss A/c	–	2.5
	60.0	27.5		60.0	27.5

Additional Information:

(i) The two companies agree to amalgamate and form a new company, Medium Ltd.
(ii) Big Ltd. holds 10,000 shares in Small Ltd. acquired at a cost of ₹ 2,50,000 and Small Ltd. holds 5,000 shares in Big Ltd. acquired at a cost of ₹ 7,00,000.
(iii) The shares of Big Ltd. are of ₹ 100 and are fully paid and the shares of Small Ltd. are of ₹ 50 each on which ₹ 30 has been paid-up.

(iv) It is agreed that the goodwill of Big Ltd. would be valued at ₹ 1,50,000 and that of Small Ltd. at ₹ 2,50,000.
(v) The shares which each company holds in the other are to be valued at book value having regard to the goodwill valuation decided as given in (iv).
(vi) The new shares are to be of a nominal value of ₹ 50 each credited at ₹ 25 paid.

You are required to:
(i) prepare the Balance Sheet of Medium Ltd., as at 31st March, 2015 after giving effect to the above transaction; and
(ii) prepare a statement showing the shareholdings in the new company attributable to the shareholders of the merged companies. **[12]**

(b) The following information is available for a concern. Compute EVA. **[4]**

Debt Capital 12%	₹8,000 crores	Risk free rate	9%
Equity capital	₹2,000 crores	Beta factor	1.05
Reserves & Surplus	₹30,000 crores	Market rate of return	19%
Capital Employed	₹40,000 crores	Equity(market) risk premium	10%
Operating profit after tax	₹8,400 crores	Tax rate	30%

3. (a) A Ltd. acquired 5,000 Shares of S Ltd. at ₹ 48 per Share Cum-Dividend constituting 62.50% holding in the latter. Immediately after purchase, S Ltd. declared and distributed a dividend at ₹ 4 per share, which A Ltd. credited to its Profit and Loss Account.

One year later, S Ltd. declared a Bonus of 1 fully paid Equity Share of ₹ 10 each of every 5 shares held. Later on, S Ltd. proposed to raise funds and made a Rights Issue of 1 share for 5 held at ₹ 36 per share. A Ltd. exercised its right.

After some time, at its AGM, S Ltd. had decided to split its Equity Share of ₹ 10 into Two Equity Shares of ₹ 5 each. The necessary resolutions were passed and share certificates issued to all its existing shareholders.

To increase its stake in S Ltd. to 80%, A Ltd. acquired sufficient number of shares at ₹ 30 each.

Ascertain the Cost of Control as on 31st December, if S's share in Capital Profits (duly adjusted for purchase in lots) as on that date was ₹ 3,15,000. **[10]**

(b) A Factory started activities on 1st April. From the following data, obtain the Value of Closing Stock on 30th April.

- Raw Materials purchased during April = 80,000 kg at ₹12 (out of which Excise Duty = ₹2 per kg). Stock on hand as on 30th April = 5,000 kg.
- Production during April = 14,000 units (of which 10,000 units were sold). In addition to the production, 1,000 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).
- Wages and Production Overheads =₹30 per completed unit.
- Selling Price=₹110 per unit(of which Excise Duty is ₹10 per unit). **[6]**

4. (a) Mr. RAJA enters into certain equity derivative instruments contracts on March 27, 2010. The initial margin on these contracts, calculated as per SPAN, is ₹ 35,000. The margin for the subsequent days, calculated as per span is as follows:

On 29th March, 2010 — ₹ 40,000
On 30th March, 2010 — ₹ 30,000
On 31s' March, 2010 — ₹ 32,000

Show the journal entries for the Payment/Receipt of the initial margin and disclosure requirement in the Balance Sheet. **[8]**

(b) ABC Ltd. has three segments viz. A, B and C. The total assets of the company is ₹ 20 crores. The assets of each of the above segments are as under:

	₹ in crores
Segment A	2.10
Segment B	8.90
Segment C	9.00
	20.00

Assets of each segment include deferred tax assets of ₹ 0.60 crores in A, ₹ 0.50 crores in B and ₹ 0.40 crores in C.

The accountant of ABC Ltd. contends that all the segments are reportable segments. Comment. **[8]**

5. D Ltd. own 80% of S, 40% of J and 40% of A. J is Jointly controlled entity and A is an Associate. Balance Sheet of four companies as on 31.03.2014 are-

I. Equity &Liabilities	D	S	J	A
Share Capital ₹1 equity share	1,000	400	800	800
Reserves and Surplus – Retained earnings	4,000	3,400	3,600	3,600
Trade payables-creditors	200	300	250	250
Total	5,200	4,100	4,650	4,650
II. Assets	D	S	J	A
Non-current assets – fixed assets	1,000	800	1,400	1,000
Non-current Investments				
Investment in S	800	-	-	-
Investment in J	600	-	-	-
Investment in A	600	-	-	-
Current assets	2,200	3,300	3,250	3,650
Total	5,200	4,100	4,650	4,650

D Ltd. acquired shares in S many years ago when retained earnings of S were ₹520. D Ltd acquired its shares in J at the beginning of the year when retained earnings of J were ₹400. D Ltd. acquired its shares in A on 01.04.2013 when retained earnings of A were ₹400. The Balance of goodwill relating to S had been written off three years ago. The value of goodwill in J remains unchanged. Prepare the Consolidated Balance Sheet of D Ltd as on 31.03.2014 as per AS-21,23 and 27. **[16]**

6. (a) Discuss the features of XBRL Reporting. **[8]**

(b) Write a note on "Users of Financial Statements and their Information Needs". **[8]**

7. (a) While closing its books of accounts on 31st March, a NBFC has its advances classified as follows:

Particulars	₹ Lakhs

Standard Assets	10,000
Sub- Standard Assets	1,000
Secured Positions of Doubtful Debts:	
- Up to one year	160
- one year to three years	70
- more than three years	20
Unsecured Portions of Doubtful debts	90
Loss Assets	30

Calculate the amount of provision which must be made against the advances. **[6]**

(b) MS. AINDRILA, an investor buys a stock option of ANISHA LTD. in July, 2012 with a strike price on 30th July, 2012 ₹ 300, to be expired on 30th August, 2012. The premium is ₹ 25 per unit and the market lot is 100. The margin to be paid is ₹130 per unit.

Required:

Show the accounting treatment (Journal Entries) in the Books of MS. ANDRILA, when
(i) The option is settled by delivery of the asset;
(ii) The option is settled in cash and the index price is ₹ 310 per unit. **[10]**

8. (a) Discuss the general principles of Government Accounting. **[8]**
(b) Write a note on "Comparison between Government Accounting and Commercial Accounting. **[8]**