Paper 18 - Corporate Financial Reporting

1. Answer any two from Question No.1 **[2×5]**

(a) Samrat Ltd. acquired a patent at a cost of ₹60 lacs for a period of 5 years and the product-life cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹10 lacs per annum. After two years it was found that the product life-cycle may continue for another 4 years from then. The net cash flows from the product during these 4 years were expected to be ₹49,50,000; ₹54,00,000; ₹58,50,000 and ₹63,00,000. Find out the amortization cost of the patent for each of the year.

Answer:

As per AS-26, "Intangible Assets", the amortization method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise, if that pattern cannot be determined reliably, the straight line method should be used.
In the instant case, the pattern of economic benefit in the form of net cash flows is determined reliably after two years. In the initial two years, the pattern of economic benefits could not have been reliably estimated therefore amortization was done at straight-line method, i.e. ₹10 lacs per annum. However, after two years pattern of economic benefits for the next four years in the form of net cash flows is reliably estimated as under and therefore amortization will also be done as per the pattern of cash inflows:

Cash inflows (₹)	Amount of amortization in the next 4 years (₹)
49,50,000	[40,00,000 x 49,50,000/2,25,00,000] = 8,80,000
54,00,000	[40,00,000 x 54,00,000/2,25,00,000] = 9,60,000
58,50,000	[40,00,000 x 58,50,000/2,25,00,000] =10,40,000
63,00,000	[40,00,000 x 63,00,000/2,25,00,000] =11,20,000
2,25,00,000	**Balance of WDV = 40,00,000**

(b) Kalpana Ltd. purchased an old well for $200 million. It estimates that the well contains 500 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 20,000 barrels of oil during the first year, how much depletion expense should be recognized as per IFRS 6?

Answer:

In the above situation will compute the depletion rate and depletion expense as per IFRS 6

"Exploration for and Evaluation of Mineral Resources"

Depletion rate = current period production / Total barrels of production

= 20,000 barrels / 500,000,000 barrels
=0.00004

Depletion expense for the first year
=Purchase price x Depletion rate
= $ 200,000,000 x 0.00004
= $ 8000.

(c) Write a note on IFRS.

Answer:

The term IFRS refers to the International Financial Reporting Standards issued by International Accounting Standard Board (IASB). It also encompasses the International Accounting Standards (IAS) issued by the International Accounting Standard Committee (IASC). Interpretations of IASs and IFRSs are developed by the International Financial Reporting Interpretations Committee (IFRIC). IFRIC is the new name for the Standing Interpretations Committee (SIC) approved by the IASC Foundation Trustees. IFRS includes these interpretations also.

2. (a) AB Ltd. and BA Ltd. decided to amalgamate their business with a view to a public share issue. A holding company, ABA Ltd. is to be incorporated on 1st May 2012 with an authorised capital of ₹1,20,00,000 in ₹ 10 ordinary shares. The company will acquire the entire ordinary Share capital of AB Ltd. and BA Ltd. in exchange for an issue of its own shares.
The consideration for the acquisition is to be ascertained by multiplying the estimated profits available to the ordinary shareholders by agreed price earnings ratio. The following relevant figures are given:

	AB Ltd. ₹	BA Ltd. ₹
Issued Share capital		
Ordinary shares of ₹ 10 each	**60,00,000**	**24,00,000**
6% Cumulative Preference shares of ₹ 100 each	**–**	**20,00,000**
5% Debentures, redeemable in 2013		**16,00,000**
Estimated annual maintainable profits, before deduction of debenture interest and taxation	**12,00,000**	**4,80,000**
Price / Earning Ratio	**15**	**10**

The shares in the holding company are to be issued to members of the subsidiaries on 1st June 2012, at a premium of ₹ 2.50 per share and thereafter these shares will be marketable on the Stock Exchange.

It is anticipated that the merger will achieve significant economics but will necessitate additional working capital. Accordingly, it is planned that on 31st December, 2012, ABA Ltd. will make a further issue of 1,20,000 ordinary shares the public for cash at the premium of ₹ 3.75 a share. These shares will not rank for dividends until 31st December, 2012.

In the period ended 31st December, 2012, bank overdraft facilities will provide funds for the payment of ABA Ltd. of preliminary expenses estimated at ₹ 1,00,000 and management etc. expenses estimated at ₹ 12,000.

It is further assumed that interim dividends on ordinary shares, relating to the period from 1st June to 31st December, 2012 will be paid on 31st December 2012 by ABA Ltd. at 3.5% by AB Ltd. at 5% and by BA Ltd. at 2%.
You are required to project, as on 31st December 2012 for ABA Ltd. the Balance Sheet as it would appear immediately after fully subscribed share issue.
Assume the rate of corporation tax to be 40% you can make any other assumption you consider relevant. [15]

Answer:

Computation of Purchase Consideration

	AB Ltd. (₹)	BA Ltd. (₹)
Earnings before interest and tax (EBIT)	12,00,000	4,80,000
Less: Interest	------	(80,000)
Earnings before tax (EBT)	12,00,000	4,00,000
Less: Tax @ 40%	(4,80,000)	(1,60,000)
Earnings after tax (EAT or PAT)	7,20,000	2,40,000
Less: Preference dividend	------	(1,20,000)
Profit for Equity Shareholders	7,20,000	1,20,000
P/E Ratio	15	10
Total Consideration (Profit x P/E ratio)	1,08,00,000	12,00,000
Share Capital (8,64,000x10)	86,40,000	
Share Premium (8,64,000x2.5)	21,60,000	
Share Capital (96,000x10)		9,60,000
Share Premium (96,000x2.5)		2,40,000

Projected Profit and Loss Account for the period ending on 31st Dec. 2012 (₹)

Dividend Received from Subsidiaries	
AB Ltd. 60,00,000x5%	3,00,000
BA Ltd. 24,00,000x2%	48,000
	3,48,000
Less: Management Expenses	12,000
Less: Dividend @ 3.5% on 96,00,000	3,36,000
Projected Profit	Nil

Bank Account

Dr. Cr.

Particulars	₹	**Particulars**	₹
To Shares issued (1,20,000 × ₹13.75)	16,50,000	By Preliminary expenses	1,00,000
To Dividend Received-AB Ltd.	3,00,000	By Management expenses	12,000
BA Ltd.	48,000	By Dividend paid	3,36,000
		By Balance c/d	15,50,000
	19,98,000		19,98,000

Name of the Company: ABA Ltd.

Balance Sheet as at 31.12.2012

Ref No.	**Particulars**		**Note No.**	**As at 31st December, 2012**	**As at 31st December, 2011**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		Share capital	**1**	1,08,00,000	
		Reserves and surplus	**2**	27,50,000	

		Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		Long-term borrowings			
		Deferred tax liabilities (Net)			
		Other Long term liabilities			
		Long-term provisions			
	4	Current Liabilities			
		Short-term borrowings			
		Trade payables			
		Other current liabilities			
		Short-term provisions			
		Total		1,35,50,000	
	II.	Assets			
	1	Non-current assets			
		Fixed assets			
		Tangible assets			
		Intangible assets			
		Capital work-in-progress			
		Intangible assets under development			
		Non-current investments	3	1,20,00,000	
		Deferred tax assets (Net)			
		Long-term loans and advances			
		Other non-current assets			
	2	Current assets			
		Current investments			
		Inventories			
		Trade receivables			
		Cash and cash equivalents	4	15,50,000	

		Short-term loans and advances			
		Other current assets			
		Total		1,35,50,000	

		(₹)	
Note 1. Share Capital		**As at 31st December, 2012**	**As at 31st December, 2011**
Authorized 6,00,000 Equity Share of ₹10 Each		1,20,00,000	
Issued , Subscribed and fully paid			
Equity Share of ₹ 10 each		1,08,00,000	
Total		1,08,00,000	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st December, 2012**		**As at 31st December, 2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.01.11			NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	10,80,000	1,08,00,000	NIL	NIL
	10,80,000	1,08,00,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	10,80,000	1,08,00,000	NIL	NIL

Note 2. Reserves and Surplus		**As at 31st December, 2012**	**As at 31st December, 2011**
Share Premium			
AB Ltd.		21,60,000	
BA Ltd.		2,40,000	
Others(1,20,000×3.75)		4,50,000	
Total		28,50,000	
Less: Preliminary Expenses		1,00,000	
Total		27,50,000	

Note 3. Non-current Investments	As at 31st December, 2012	As at 31st December, 2011
Investments: Subsidiaries Shares at Cost	1,20,00,000	
Total	1,20,00,000	

Note 4.Cash and Cash Equivalents	As at 31st December, 2012	As at 31st December, 2011
Bank	15,50,000	
Total	15,50,000	

Note : The preliminary expenses are to be written off against Securities Premium A/c.

Or,

(b) The Trial Balance (Extract) of X Ltd. before reconstruction is:

Particulars	Debit (₹)	Credit (₹)
12,000 7% Preference Shares of ₹50 each		6,00,000
7,500 Equity Shares of ₹100 each		7,50,000
Loan		5,73,000
Sundry Creditors		2,07,000
Other Liabilities		35,000
Building (at Cost less Depreciation)	4,00,000	
Plant (at Cost less Depreciation)	2,68,000	
Trade Marks and Goodwill at Cost	3,18,000	
Stock (Opening)	4,00,000	
Sundry Debtors	3,28,000	
Preliminary Expenses	11,000	
Profit & Loss A/c	4,40,000	
	21,65,000	21,65,000

Note:

- **Loan is assumed to be of less than 12 months, hence treated as short term borrowings (ignoring interest).**
- **Preference dividend is in arrear for five years.**

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both classes of shareholders. A summary of the scheme is as follows:

a. **Closing Stock of X Ltd. is also ₹4,00,000.**
b. **The Equity Shareholders have agreed that their ₹100 shares should be reduced to ₹5 by cancellation of ₹95 per share. They have also agreed to subscribe in each for the six new Equity Shares of ₹5 each for two Equity Share held.**
c. **The Preference Shareholders have agreed to cancel the arrears of dividends and to accept for each ₹50 share, 4 new 5% Preference Shares of ₹10 each, plus 3 new Equity Shares of ₹5 each, all credited as fully paid.**

d. Lenders to the Company of ₹1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹10 each and 6,000 new equity share of ₹5 each.

e. The Directors have agreed to subscribe in cash for 20,000, new Equity Shares of ₹5 each in addition to any shares to be subscribed by them under (b) above.

f. Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the Company.

g. The equity Share capital cancelled is to be applied:

i. to write off the preliminary expenses;
ii. to write off the debit balance in the Profit and Loss A/c ; and
iii. to write off ₹ 35,000 from the value of Plant.

Any balance remaining is to be used to write down the value of Trade Marks and Goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of company after reconstruction as on 31.03.2012. The nominal capital as reduced is to be increased to the old figures of ₹6,00,000 for Preference capital and ₹7,50,000 for Equity capital. [15]

Answer :

	Particulars		**Debit** ₹	**Credit** ₹
1.	Reduction of Equity capital			
	Equity Share capital A/c (Face Value ₹ 100)	Dr.	7,50,000	
	To Equity Share capital (Face value ₹ 5) A/c			37,500
	To Reconstruction A/c			7,12,500
2.	Right issue : (7,500 × 3 = 22,500 Shares)			
	(a) Bank A/c	Dr.	1,12,500	
	To Equity Share Application A/c			1,12,500
	(b) Equity Share Application A/c	Dr.	1,12,500	
	To Equity Share Capital A/c			1,12,500
3.	Cancellation of arrears of preference dividend			
	NO ENTRY (as it was not provided in the Books of Accounts)			
	Note :			
	(a) On cancellation, it ceases to be a contingent liability and hence no further disclosure			
	(b) Preference shareholders have to forego voting rights presently enjoyed at par with equity share holders			
4.	Conversion of preference shares			
	7% Preference Share Capital A/c	Dr.	6,00,000	
	Reconstruction A/c (balancing figure)	Dr.	60,000	
	To 5% Preference Share Capital (12,000×4×10)			4,80,000
	To Equity Share Capital (12,000 × 3 × 5)			1,80,000

5.	Conversion of Loan			
	Loan A/c	Dr.	1,50,000	
	To 5% Preference Share Capital A/c			1,20,000
	To Equity Share Capital A/c			30,000
6.	Subscription by directors:			
	(a) Bank A/c	Dr.	1,00,000	
	To Equity Share Application A/c			1,00,000
	(b) Equity Share Application A/c	Dr.	1,00,000	
	To Equity Share Capital A/c			1,00,000
7.	Repayment of loan			
	Loan A/c	Dr.	2,00,000	
	To Bank			2,00,000
8.	Utilisation of reconstruction surplus			
	Reconstruction A/c	Dr.	6,52,500	
	To Preliminary Expenses A/c			11,000
	To Profit and Loss A/c			4,40,000
	To Plant A/c			35,000
	To Trademark and Goodwill A/c			1,66,500

Reconstruction Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Preference shareholders	60,000	By Equity Share capital (FV ₹ 50)	7,12,500
To Preliminary expenses	11,000		
To Profit and Loss A/c	4,40,000		
To Plant A/c	35,000		
To Trademark and Goodwill	1,66,500		
	7,12,500		7,12,500

Bank Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Equity share application A/c	1,12,500	By Loan A/c	2,00,000
To Equity share application A/c	1,00,000	By Balance c/d	12, 500
	2,12,500		2,12,500

Name of the Company: X Ltd.				
Balance Sheet as at 31st March, 2012 (and Reduced)				
Ref No.	**Particulars**	**Note No.**	**As at 31st March, 2012**	**As at 31st March, 2011**
			(₹)	(₹)
	I. Equity and Liabilities			

	1	**Shareholders' funds**			
		(a) Share capital	1	10,60,000	
		(b) Reserves and surplus	2	-	
		(c) Money received against share warrants			
	2	**Share application money pending allotment**			
	3	**Non-current liabilities**			
		(a) Long-term borrowings			
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	**Current Liabilities**			
		(a) Short-term borrowings	3	2,23,000	
		(b) Trade payables	4	2,07,000	
		(c) Other current liabilities	5	35,000	
		(d) Short-term provisions			
		Total		15,25,000	
	II.	**Assets**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	6	6,33,000	
		(ii) Intangible assets	7	1,51,500	
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments			
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	**Current assets**			
		(a) Current investments			
		(b) inventories	8	4,00,000	
		(c) trade receivables	9	3,28,000	
		(d) Cash and cash equivalents	10	12,500	
		(e) Short-term loans and advances			
		(f) Other current assets	11	-	

		Total		15,25,000	

		(₹)
Note 1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
Authosired Share Capital		
60,000 5% Preference Shares of ₹ 10 each	6,00,000	
1,50,000 Equity shares of ₹ 5 each	7,50,000	
	13,50,000	
Issued, subscribed and paid-up		
92,000 Equity shares of ₹ 5 each 60,000 5% Preference Shares of ₹ 10 each	4,60,000 6,00,000	
Total	10,60,000	

FOR EQUITY SHARE :-	**31.3.2012**		**31.3.2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance	7,500	37,500.00	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	84,500	4,22,500.00	NIL	NIL
	92,000	460,000.00	NIL	NIL
Less: Buy Back of shares	-		-	-
	92,000	460,000.00	NIL	NIL
FOR 7% PREFERENCE SHARE :-	**31.3.2012**		**31.3.2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance	12,000	6,00,000.00	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	NIL	NIL	NIL	NIL
	12,000	6,00,000.00	NIL	NIL
Less: Buy Back of shares (here is no buy back, 7% Preference Shares are cancelled and 5% Preference Shares are issued)	12,000	6,00,000.00	-	-
	NIL	NIL	NIL	NIL
FOR 5% PREFERENCE SHARE :-	**31.3.2012**		**31.3.2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**

Opening Balance	NIL	NIL	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	60,000	600,000.00	NIL	NIL
	60,000	600,000.00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	60,000	600,000.00	NIL	NIL

Note 2. Reserves and Surplus	**As at 31st March, 2012**	**As at 31st March, 2011**
Profit and Loss A/c	(4,40,000)	
Less: Written off	4,40,000	
Total	0.00	

Note 3. Short term borrowings	**As at 31st March, 2012**	**As at 31st March, 2011**
Loan	5,73,000	
Less: Reduced and Repaid(1,50,000+2,00,000)	3,50,000	
Total	2,23,000	

Note 4. Trade Payables	**As at 31st March, 2012**	**As at 31st March, 2011**
Sundry Creditors	2,07,000	
Total	2,07,000	

Note 5. Other Current Liabilities	**As at 31st March, 2012**	**As at 31st March, 2011**
Other Liabilities	35,000	
Total	35,000	

Note 6. Tangible Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Building at cost Less Depreciation	4,00,000	
Plant at Cost Less Depreciation		
(2,68,000-35,000)	2,33,000	
Net Block	6,33,000	

Note 7. Intangible assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Trade Mark at Goodwill at cost	3,18,000	
Less: Reduction	1,66,500	
Total	1,51,500	
8. Inventories	**As at 31st March, 2012**	**As at 31st March, 2011**
Inventories	4,00,000	
Total	4,00,000	
9. Trade receivables	**As at 31st March, 2012**	**As at 31st March, 2011**
Debtors	3,28,000	
Total	3,28,000	
10. Cash & Cash Equivalents	**As at 31st March, 2012**	**As at 31st March, 2011**
Bank	12,500	
Total	12,500	
Note: Loan is assumed to be of less than 12 months. Hence, treated as short term borrowings (ignoring		
11. Other Current Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Preliminary Expenses	11,000	
Less: Reduced	11,000	
Total	NIL	

3. (a) Soham and Mohan had been carrying on business independently, agree to amalgamate and form a company Nirmal Ltd. with an authorised Share capital of ₹ 2,00,000 divided into 40,000 equity shares of ₹ 5 each.
On 31st December, 2012, the respective figures of Soham and Mohan were as follows :

Particulars	***Soham*** ₹	***Mohan*** ₹
Fixed Assets	**3,17,500**	**1,82,500**
Current Assets	**1,63,500**	**83,875**
	4,81,000	**2,66,375**

Less : Current liabilities	**2,98,500**	**90,125**
	1,82,500	**1,76,250**

Additional Information :
Revalued figures of Fixed and Current assets were as follows :

Particulars	Soham	Mohan
Fixed Assets	**6,55,000**	**2,95,000**
Current Assets	**1,49,750**	**78,875**

The purchase consideration is satisfied by issue of the following shares and debentures:

i. **30,000 equity shares of Nirmal Ltd. to Soham and Mohan in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows :**

Particulars	S	M
2009 Profit	**2,24,788**	**1,36,950**
2010 (Loss) / Profit	**(1,250)**	**1,71,050**
2011 Profit	**1,88,962**	**1,79,500**

ii. **15% debentures in Nirmal Ltd. at par to provide an income equivalent to 10% return on capital employed in their respective business as on 31st December 2012 after revaluation of assets.**

You are required to :

Compute the amount of debentures and shares to be issued to Soham and Mohan . [10]

Answer :

Calculation of shares to be issued and No. of debentures to be issued

Calculation of average profit for the past 3 years.

Soham

$$= \frac{₹2,24,788 - ₹1,250 + ₹1,88,962}{3} = ₹1,37,500$$

Mohan

$$= \frac{₹1,36,950 - ₹1,71,050 + ₹1,79,500}{3} = ₹1,62,500$$

Determination of shares to be distributed to each company

Distribution of Shares : 30,000 Equity Shares of Nirmal Ltd. are to be distributed between the Soham Ltd. and Mohan Ltd. in their profitability ratio. i.e. 1375 : 1625

Shares to be Issued to Soham Ltd.

$$= \frac{1,375}{3,000} \times 30,000 = 13,750 \text{ shares}$$

Shares to be Issued to Mohan Ltd.

$= \frac{1,625}{3,000} \times 30,000 = 16,250$ shares

Calculation of the number of debentures to be issued :

Calculation of 10% return on capital employed and Value 15% Debenture to be issued: (at revalued figures)

Particulars	Soham	Mohan
	₹	₹
a. Fixed Assets	6,55,000	2,95,000
b. Current Assets	1,49,750	78,875
	8,04,750	3,73,875
c. Current liabilities	(2,98,500)	(90,125)
d. Capital employed	5,06,250	2,83,750
e. Return on capital employed @ 10%	50,625	28,375
f. Number of 15% debenture to be issued in order to get same return of ₹ 50,625 and ₹ 28,375 respectively. $(\frac{50,625}{15\%}, \frac{28,375}{15\%})$	₹3,37,500	₹1,89,167
Total		₹5,26,667

Or,

(b) The following is the Balance Sheet of Ting-Tong Ltd.

Name of the Company: Ting- Tong Ltd.
Balance Sheet as at: 31st March, 2012 **(₹ in lakh)**

Ref No.		Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
	I	**EQUITY AND LIABILITIES**			
	1	Shareholder's Fund			
		(a) Share capital	1	4,00,000	
		(b) Reserves and surplus	2	8,00,000	
		(c) Money received against share warrants			
	2	**Share application money pending allotment**			
	3	**Non-current liabilities**			
		(a) Long-term borrowings	3	4,00,000	
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	**Current Liabilities**			

		(a) Short-term borrowings	4	12,00,000	
		(b) Trade payables			
		(c) Other current liabilities	5	2,00,000	
		(d) Short-term provisions			
		Total (1+2+3+4)		**30,00,000**	
	II	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	6	14,00,000	
		(ii) Intangible assets			
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments	7	8,00,000	
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	**Current assets**			
		(a) Current investments			
		(b) Inventories			
		© Trade receivables			
		(d) Cash and cash equivalents			
		(e) Short-term loans and advances			
		(f) Other current assets	8	8,00,000	
		Total (1+2)		**3,00,000**	

(₹ in lakh)

Note 1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
Authorized, Issued, Subscribed and paid-up Share capital:		
Equity Shares of ₹10 each	4,00,000	
Total	4,00,000	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	**As at 31st March, 2012**		**As at 31st March, 2011**	
	Nos.	**Amount (₹)**	**Nos.**	**Amount (₹)**
Opening Balance as on 01.04.11	4,000	4,00,000		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)	----	----		

	4,000	4,00,000		
Less: Buy Back of share	---	---		
Total	4,000	4,00,000		

Note 2. Reserve & Surplus	As at 31st March, 2012	As at 31st March, 2011
Reserves & Surplus	8,00,000	
Total	8,00,000	

Note 3. Long-term Borrowings	As at 31st March, 2012	As at 31st March, 2011
Secured Loan (assumed to be of more than 1 year)	4,00,000	
Total	4,00,000	

Note 4. Short term Borrowings	As at 31st March, 2012	As at 31st March,2011
Unsecured Loan (assumed to of less than 1 year)	12,00,000	
Total	12,00,000	

Note 5. Other Current Liabilities	As at 31st March, 2012	As at 31st March,2011
Current Liabilities	2,00,000	
Total	2,00,000	

Note 6. Tangible Assets	As at 31st March, 2012	As at 31st March,2011
Fixed Assets	14,00,000	
Total	14,00,000	

Note 7. Non-current Investments	As at 31st March, 2012	As at 31st March,2011
Investments (Market Value ₹18,00,000)	8,00,000	
Total	8,00,000	

Note 8. Other Current Assets	As at 31st March, 2012	As at 31st March,2011
Current Assets	8,00,000	
Total	8,00,000	

The company consists of three divisions. The scheme was agreed upon, according to which a new company Ding-Dong Ltd. is to be formed. It will take over investments at ₹18,00,000 and unsecured loans at balance sheet value. It is to allot equity shares of ₹10 at par to the shareholders of Ting-Tong Ltd. in satisfaction of the amount due under the arrangement. The scheme was duly approved by the High Court.

Pass Journal entries in the books of Ting-Tong Ltd. [10]

Answer:

In the Books of Ting-Tong Ltd.

Particulars			Debit ₹	Credit ₹
1.	Ding- Dong Ltd. A/c	Dr.	18,00,000	
	To Investments A/c			8,00,000
	To Shareholders A/c			10,00,000
	[Being investments transferred at agreed value of ₹ 18,00,000]			
2.	Unsecured Loans A/c	Dr.	12,00,000	
	To Ding-Dong Ltd. A/c			12,00,000
	[Being unsecured loan taken over by Ding - Dong Ltd.]			
3.	Shareholders A/c	Dr.	6,00,000	
	To Ding - Dong Ltd. A/c			6,00,000
	[Being allotment by Ding - Dong Ltd. of 60,000 Equity shares of ₹ 10 each to shareholders of the company]			
4.	Shareholders A/c	Dr.	4,00,000	
	To Capital Reserve			4,00,000
	[Being balance in Shareholders A/c transferred to Capital Reserve]			

4. (a) (i) Mayukh Ltd. wanted to buy 30% equity shares of Omkar Ltd. with an intention to establish an associate relationship between the two on 01.04.2011 Mayukh Ltd. purchased such percentage of equity shares at a cost of ₹15 Lakhs. On that date the balance sheet of Omkar Ltd. Was as under:

Name of the Company: Omkar Ltd.
Balance Sheet as at: 1st April, 2011 **(₹ in lakh)**

Ref No.		Particulars	Note No.	As at 1st April, 2011	As at 1st April, 2010
	I	**EQUITY AND LIABILITIES**			
	1	Shareholder's Fund			
		(a) Share capital	1	30.00	
		(b) Reserves and surplus	2	9.00	
		(c) Money received against share warrants			
	2	**Share application money pending allotment**			
	3	**Non-current liabilities**			
		(a) Long-term borrowings			
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			

		(d) Long-term provisions			
	4	**Current Liabilities**			
		(a) Short-term borrowings	3	1.00	
		(b) Trade payables	4	3.00	
		(c) Other current liabilities			
		(d) Short-term provisions			
		Total (1+2+3+4)		**43.00**	
	II	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	36.00	
		(ii) Intangible assets			
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments			
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	**Current assets**			
		(a) Current investments			
		(b) Inventories	6	3.00	
		(c) Trade receivables	7	3.00	
		(d) Cash and cash equivalents	8	1.00	
		(e) Short-term loans and advances			
		(f) Other current assets			
		Total (1+2)		**43.00**	

(₹ in lakh)

Note 1. Share Capital	**As at 1st April, 2011**	**As at 1st April, 2010**
Authorized, Issued, Subscribed and paid-up Share capital:		
30,000 Equity share of ₹ 100 each	30.00	
Total	30.00	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	**As at 1st April, 2011**		**As at 1st April, 2010**	
	Nos.	**Amount (₹)**	**Nos.**	**Amount (₹)**
Opening Balance as on 01.04.11	30,000	30.00		

Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)	----	----		
	30,000	30.00		
Less: Buy Back of share	---	---		
Total	30,000	30.00		

Note 2. Reserve & Surplus	**As at 1st April, 2011**	**As at 1st April, 2010**
Reserves & Surplus	9.00	
Total	9.00	

Note 3. Short term borrowings	**As at 1st April, 2011**	**As at 1st April, 2010**
Bank Overdraft	1.00	
Total	1.00	

Note 4. Trade Payables	**As at 1st April, 2011**	**As at 1st April, 2010**
Sundry Creditors	3.00	
Total	3.00	

Note 5. Tangible Assets	**As at 1st April, 2011**	**As at 1st April, 2010**
Tangible Assets	36.00	
Total	36.00	

Note 6. Inventories	**As at 1st April, 2011**	**As at 1st April, 2010**
Stock in trade	3.00	
Total	3.00	

Note 7. Trade Receivables	**As at 1st April, 2011**	**As at 1st April, 2010**
Sundry debtors	3.00	
Total	3.00	

Note 8. Cash and cash equivalents	**As at 1st April, 2011**	**As at 1st April, 2010**
Balance at Bank	1.00	
Total	1.00	

During the year 2011-12 Omkar Ltd. earned a profit of ₹15 lakhs and on 2012 – 13 it suffered a loss of ₹90 lakhs. Mayukh Ltd. did not have any subsidiary during 2011-12 but on 01.04.2012 it purchase 60% equity shares of Umang Ltd. for ₹160 lakhs.

Discuss the impact of the associate relationship on the balance sheet of 2011-12 & 2012-13 of Mayukh Ltd. [12]

Answer:

As per AS-23 investment in associates will be accounted for as per equity method in consolidated financial statements of the investor. Therefore, Mayukh Ltd. should show the investment as under:

Cost of purchase ₹15 lakhs. 30% of equity fund of Omkar Ltd. 30/100 x ₹(30 + 9) lakhs = ₹11.7 lakhs.

Goodwill identified: ₹15 lakhs – ₹11.7 lakhs = ₹3.3 lakhs. Carrying amount of investment on 31.3.2012 as per equity method ₹15 lakhs + (30/100 x ₹15 lakhs) = ₹19.5 lakhs (including Goodwill).

But here Mayukh Ltd. did not give any disclosure as there was no consolidated balance sheet prepared by Mayukh Ltd. as it did not have any subsidiary at that time i.e., on 31.03.2012.

The amount of investment will be shown in the Balance Sheet of Mayukh Ltd. at cost i.e. at ₹15 lakhs (as per AS – 13).

On the other hand during 2012-13 Omkar Ltd. suffered a loss of ₹90 lakhs i.e., carrying amount of investment as per equity method will be ₹19.5 lakhs – (30 / 100 x ₹90 lakhs) = (-)₹7.5 lakhs. As the carrying amount of investment (as per equity method) is (-)₹7.5 lakhs, investment will be reported at Nil value in the consolidated balance sheet and any further loss of associates will not be recognized by Mayukh Ltd.

Name of the Company: Consolidated Balance Sheet (Extract) of Mayukh Ltd. and its Subsidiary Umang Ltd.
Balance Sheet as at: 31st March, 2013 (₹ in lakh)

Ref No.		Particulars	Note No.	As at 31st March, 2013	As at 31st March, 2012
		ASSETS			
		Non-current assets			
		(b) Non-current investments		NIL	

(ii)
From the following information determine the amount of unrealized profit to be eliminated and the apportionment of the same. Beauty Ltd. holds 80% Equity Shares of Fool Ltd.

Again, Beauty Ltd. sold goods costing ₹13,50,000 on which it made a profit of 25% on Sale Price. 60% of the value of goods was included in closing stock of Fool Ltd. [3]

Answer:

Transaction	Sale by Om Ltd. to Shanti Ltd. [Holding ⟶ Subsidiary]
Nature of Transfer	**Downstream Transaction**
Profit on Transfer	Cost ₹13,50,000 × Profit on Sale Price i.e.25% ÷ Cost on Sale i.e. 75% = ₹4,50,000
% of Stock included in Closing Stock	60%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 4,50,000 × 60% = ₹2,70,000
Share of Majority – Reduced from Group Reserve	100% × ₹2,70,000 = ₹2,70,000
Share of Minority	Unrealised Profit in case of a Downstream Transaction is fully adjusted against Group Reserves. Minority Interest is not relevant here.

Or,

(b) A Limited is a holding company and B Limited and C Limited are subsidiaries of A Limited. Their Trial Balance (Extract) as on 31.12.2012 are given below:

Particulars	A Ltd.		B Ltd.		C Ltd.	
	Debit (₹)	Credit (₹)	Debit (₹)	Credit (₹)	Debit (₹)	Credit (₹)
Share Capital	-	3,00,000	-	3,00,000	-	1,80,000
Reserves	-	1,44,000	-	30,000	-	27,000
Profit and Loss A/c	-	48,000	-	36,000	-	27,000
C Ltd. Balance	-	9,000	-	-	-	-
Sundry Creditors	-	21,000	-	15,000	-	-
A Ltd.	-	-	-	21,000	-	-
Fixed Assets	60,000	-	1,80,000	-	1,29,000	-
Investments:						
Shares in B Ltd.	2,85,000	-	-	-	-	-
Shares in C Ltd.	39,000	-	1,59,000	-	-	-
Stock in Trade (Opening)	36,000	-	-	-	-	-
B Ltd. Balance	24,000	-	-	-	-	-
Sundry Debtors	78,000	-	63,000	-	96,000	-
A Ltd. Balance	-	-	-	-	9,000	-
Total	5,22,000	5,22,000	4,02,000	4,02,000	2,34,000	2,34,000

The following particulars are given:

(i) The Share Capital of all companies is divided into shares of ₹ 10 each.

(ii) A Ltd. held 24,000 shares of B Ltd. and 3,000 shares of C Ltd.

(iii) B Ltd. held 12,000 shares of C Ltd.

(iv) All these investments were made on 30.6.2012.

(v) On 31.12.2011, the position was as shown below:

	B Ltd.	C Ltd.

	₹	₹
Reserve	**24,000**	**22,500**
Profit & Loss Account	**12,000**	**9,000**
Sundry Creditors	**15,000**	**3,000**
Fixed Assets	**1,80,000**	**1,29,000**
Stock in Trade	**12,000**	**1,06,500**
Sundry Debtors	**1,44,000**	**99,000**

(vi) 10% dividend is proposed by each company.

(vii) The whole of stock in trade of B Ltd. as on 30.6.2012 (₹ 12,000) was later sold to A Ltd. for ₹13,200 and remained unsold by A Ltd. as on 31.12.2012.

(viii) Cash-in-transit from B Ltd. to A Ltd. was ₹ 3,000 as at the close of business.

(ix) Closing Stock of A Ltd. is also ₹36,000.

You are required to Prepare the Consolidated Balance Sheet of the group as on 31st December,2012. [15]

Answer:

Name of the Company: A Ltd. and its subsidiary B Ltd. and C Ltd.
Consolidated Balance Sheet as at 31st December,2012

Ref No.		Particulars	Note No.	As at 31st December,2012	As at 31st December,2011
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**		-	
		(a) Share capital	1	3,00,000	-
		(b) Reserves and surplus	2	1,80,915	-
		(c)Money received against share warrants		-	-
				-	-
	2	**Minority Interest**		1,13,460	-
	3	**Non-current liabilities**		-	
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	36,000	-
		(c) Other current liabilities			-
		(d) Short-term provisions	4	30,000	-
					-

Ref No.		Particulars	Note No.	As at 31st December,2012	As at 31st December,2011
				₹	₹
		TOTAL (1+2+3+4)		6,60,375	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets		-	
		(i) Tangible assets	5	3,69,000	-
		(ii) Intangible assets	6	16,575	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments		-	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				-	-
	2	**Current assets**		-	
		(a) Current investments		-	-
		(b) Inventories	7	34,800	-
		(c) Trade receivables	8	2,37,000	-
		(d) Cash and cash equivalents	9	3,000	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets		-	-
				-	-
		TOTAL (1+2)		6,60,375	-

Annexure

Note 1. Share Capital	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Authorised,issued, Subscribed and paid –up Share Capital:		
1,00,000 Equity Shares of ₹10 each	3,00,000	
Total	3,00,000	

Note 2. Reserves and Surplus	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Reserves	1,47,975	
Profit & Loss A/c	32,940	
Total	1,80,915	

Note 3. Trade Payables	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Sundry Creditors (21,000+15,000)	36,000	
Total	36,000	

Note 4. Short term Provision	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Proposed Dividend	30,000	
	30,000	

Note 5. Tangible Assets	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Fixed Assets	3,69,000	
Total	3,69,000	

Note 6. Intangible Assets	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Goodwill	16,575	
Total	16,575	

Note 7. Inventories	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Stock in Trade	36,000	
Less: Unrealised Profit	1,200	
Total	34,800	

Note 8. Trade Receivables	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Sundry Debtors (78,000+63,000+96,000)	2,37,000	

Total	2,73,000	

Note 9. Cash and Cash Equivalents	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Cash in Transit (24,000-21,000)	3,000	
Total	3,000	

Working Notes:

(i) Position on 30.06.2012

	Reserves	**Profit and Loss Account**
B Ltd.	₹	₹
Balance on 31.12.2012	30,000	36,000
Less: Balance on 31.12.2011	24,000	12,000
Increase during the year	6,000	24,000
Estimated increase for half year	3,000	12,000
Balance on 30.06.2012	27,000 (24,000+3,000)	24,000 (12,000 + 12,000)
C Ltd.		
Balance on 31.12.2012	27,000	27,000
Balance on 31.12.2011	22,500	9,000
Increase during the year	4,500	18,000
Estimated increase for half year	2,250	9,000
Balance on 30.06.2012	24,750 (22,500+2,250)	18,000 (9,000 + 9,000)

(ii) Analysis of Profits of C Ltd.

	Capital Profit	**Revenue Reserve**	**Revenue profit**
	₹	₹	₹
Reserves on 30.6.2012	24,750		
Profit and Loss A/c on 30.6.2012	18,000		
Increase in reserves		2,250	
Increase in profit	______	_____	9,000
	42,750	2,250	9,000
Less: Minority interest (1/6)	7,125	375	1,500
	35,625	1,875	7,500
Share of A Ltd. (1/6)	7,125	375	1,500
Share of B Ltd. (4/6)	28,500	1,500	6,000

(iii) Analysis of Profits of B Ltd.

	Capital Profit	Revenue Reserve	Revenue profit
	₹	₹	₹
Reserves on 30.6.2012	27,000		
Profit and Loss A/c on 30.6.2012	24,000		
Increase in reserves		3,000	
Increase in profit			12,000
Share in C Ltd.	_____	1,500	6,000
	51,000	4,500	18,000
Less: Minority interest (2/10)	10,200	900	3,600
Share of A Ltd. (8/10)	40,800	3,600	14,400

(iv) Cost of control

	₹	₹
Investments in		
B Ltd.	2,85,000	
C Ltd.	1,98,000	
		4,83,000
Paid up value of investments in		
B Ltd.	2,40,000	
C Ltd.	1,50,000	
		(3,90,000)
Capital profits in		
B Ltd.	40,800	
C Ltd.	35,625	
		(76,425)
Goodwill		16,575

(v) Minority Interest

Share Capital:	₹	₹
B Ltd.	60,000	
C Ltd.	30,000	90,000
Share in profits and reserves (Pre and Post-Acquisitions)		
B Ltd.	14,700	
C Ltd.	9,000	23,700
		1,13,700
Less: Provision for unrealized profit (20% of ₹ 1,200)		240

		1,13,460

(vi) Reserves – A Ltd.

		₹
Balance as on 31.12.2012 (given)		1,44,000
Share in		
B Ltd.		3,600
C Ltd.		375
		1,47,975

(vii) Profit and Loss Account – A Ltd.

		₹
Balance as on 31.12.2012 (given)		48,000
Share in		
B Ltd.		14,400
C Ltd.		1,500
		63,900
Less: Proposed dividend (10% of ₹ 3,00,000)		30,000
Provision for unrealised profit on stock 80% of (₹ 13,200 – ₹ 12,000)		960
		32,940

5. (a) Following are the balances extracted from the Balance Sheet of Blue Ltd. and Green Ltd.

- **i. As on 31.03.2013 Equity Share Capital at the rate of ₹10 each of Blue Ltd. and Green Ltd. are ₹80,000; ₹1,00,000 respectively.**
- **ii. As on 31.03.2013 shares of Green Ltd. held by Blue Ltd. is ₹99,000.**
- **iii. Profit and Loss A/c balances as on 31.03.2013 of Blue Ltd. is ₹22,000 and Green Ltd. is ₹30,000.**
- **iv. Net Profit during 2012-13 included in above were : Blue Ltd. ₹18,000; Green Ltd. ₹9,000.**
- **v. Both the companies have proposed a dividend of 10% which is yet to be recorded for the year ended 2012-13.**
- **vi. On 01.04.2012, Blue Ltd. was formed and on the same day it acquired 4,000 shares of Green Ltd. at ₹55,000.**
- **vii. On 31.07.2012, 10% dividend was received from Green Ltd. and also bonus shares at 1:4 was received. The dividend was credited to P&L A/c.**
- **viii. On 31.08.2012 Blue Ltd. purchased another 3,000 shares of Green Ltd. at ₹44,000.**

Analyse the profit . [10]

Answer:

Company Status	Date of Acquisition
Holding Co.– Blue Ltd. Subsidiary Co.– Green Ltd.	Lot 1 4,000 Shares = 01.04.12 Bonus 1,000 Shares 31.07.12 Lot 2 3,000 Shares = 31.08.12

Period	No. of Shares acquired	Status
Before 01.04.12	All shares acquired i.e. 80%	Pre-acquisition
01.04.12 to 31.08.12	Shares acquired on 31.08.12 i.e. 30%	Pre-acquisition
01.04.12 to 31.08.12	Shares acquired before 31.08.12 i.e. 40%	Post acquisition
After 31.08.12	All shares acquired i.e. 80%	Post acquisition

Holding Status:

Holding Company = 80%
Minority Interest = 20%
Date of Consolidation = 31.03.2013

Analysis of Profit & Loss Account of Green Ltd.

P&L balance on 31.03.2013	₹ 30,000
Less: Proposed Dividend for FY 2012-13 (₹ 1,00,000×10%)**(Note 1)**	(₹10,000)
Correct Profit	**₹ 20,000**

Balance as on 01.04.2012

Balance as on 31.03.2013	₹30,000
Less: Net Profit during 2012-13	(₹9,000)
Less: 2012-13 Dividend(Bal. of Div.)	(₹1,000)
Capital Profit	**₹20,000**

Profit from 01.04.12 to 31.03.13

Profit during 2012-13	₹9,000
Less: Dividend for 2012-13	(₹9,000)
Revenue Profit	**NIL**

Note :

1.Dividend declared and paid by Green Ltd. is ₹10,000 (₹1,00,000 × 10%).

Dividend for 2012-13

Dividend for 2012-13 ₹10,000

Out of Profit as at 01.04.2012 ₹1,000

Out of Profit for FY 12-13 ₹9,000

01.04.12 to 31.08.12 (5 Months) ₹3,750

01.09.12 to 31.03.13 (7 Months) ₹5,250

Consolidation of Balances

Particulars	**Total** ₹	**Minority Interest** ₹	**Pre-Acquisition** ₹	**Post Acquisition**
Green Ltd. (Holding 80%, Minority 20%)				P&L A/c ₹
Equity Capital	1,00,000	20,000	80,000	
Profit and Loss A/c	20,000	4,000	16,000	
Proposed Dividend	10,000	2,000	1,925 (Note 2)	6,075 (Note 3)
Minority Interest		26,000		
Total [Cr.]			97,925	
Cost of Investment [Dr.]			(99,000)	
Parent's Balance (22,000-8,000-1,925)				12,075
For consolidated Balance Sheet			**1,075 Goodwill**	**18,150**

Note:

1. **Pre-acquisition : [80 % × ₹1,000 = ₹800] + [30% × ₹3,750] = ₹1,925.**
2. **Post acquisition : [50% × 3,750 = ₹1,875] + [80% × ₹5,250] = ₹6,075.**

Or,

(b) 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 S 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 for 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]

Answer:

A. Cost of Investment

	Particulars		Shares	₹
	Cost of First Acquisition	(5,000 x ₹ 48)	5,000	2,40,000
Less:	Pre-Acquisition Dividend	(5,000 × ₹ 4 per Share)	N.A.	(20,000)
	Corrected Cost of Investment		5,000	2,20,000
Add:	Bonus Shares	(1/5 × 5,000 Shares)	1,000	–
	Cost after Bonus Shares		6,000	2,20,000
Add:	Rights Shares	(1/5 x 6,000 Shares x ₹ 36)	1,200	43,200
	Cost after Rights Issue before Share Split		**7,200**	**2,63,200**
	Cost after share split (WN 1)	(2 Sh. for 1 for 7,200 Sh = 7,200 x 2)	14,400	2,63,200
Add:	Acquisition to increase holding to 80% (WN 2)	(4,032 x ₹ 30)	4,032	1,20,960
	Balance on date of Consolidation		**18,432**	**3,84,160**

Notes:

- **Share Split:** In case of Share Split, the Cost of Acquisition will not undergo any change. Only the number of Equity Shares and the face value will change. This is similar to adjustment for Bonus Issue. However, for Bonus Issue, the face value and paid up value of the share will be the same as the original share. In share split, the face value and paid up value will be lesser than that of the original shares.

- **Calculation of Number of Shares to be acquired to increase stake to 80%**

	Particulars			Shares
a.	Shares held before acquisition			14,400
b.	% of holding			62.5%
c.	Hence, Total Number of Shares of S Ltd.	(a ÷ b)	= (14,400 ÷ 62.50%)	23,040
d.	80% of above (c x 80%)		= (23,040 x 80%)	18,432
e.	Number of Shares to be acquired	(d - a)	= (18,432 - 14,400)	4,032

2. Cost of Control

Particulars		₹
Cost of Investment	**(A)** (from 1 above)	**3,84,160**
Nominal Value of Equity Capital	(18,432 x ₹ 5 per Share)	92,160
Share in Capital Profit		3,15,000
Total of Above	**(B)**	**4,07,160**
Capital Reserve (if B < A)	**(B-A)**	23,000

6.(a) (i) From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz (1971) model:

	Skilled	Unskilled
(i) Annual average earning of an employee till the retirement age.	**₹70,000**	**₹50,000**
(ii) Age of retirement	**65 years**	**62 years**
(iii) Discount rate	**15%**	**15%**
(iv) No. of employees in the group	**30**	**40**
(v) Average age	**62 years**	**60 years**

[9]

Answer:

According to Lev and Schwartz, the value of human capital embodied in a person of age τ is the present value of his remaining future earnings from employment. Their valuation model for a discrete income stream is given by the following formula:

$$V = \sum_{t=r}^{t} \frac{I(t)}{(1+r)^{t-\tau}}$$

Where,

V = the human capital value of a person

I(t) = the person's annual earnings up to retirement.

r = a discount rate specific to the person.

t = retirement age.

Value of Skilled Employees:

$$= \frac{70{,}000}{(1+0.15)^{65-62}} + \frac{70{,}000}{(1+0.15)^{65-63}} + \frac{70{,}000}{(1+0.15)^{65-64}}$$

$$= \frac{70{,}000}{(1+0.15)^{3}} + \frac{70{,}000}{(1+0.15)^{2}} + \frac{70{,}000}{(1+0.15)^{1}}$$

= ₹ $(46{,}026.14 + 52{,}930.06 + 60{,}869.57)$ = ₹ 1,59,825.77.

Total value of skilled employees is

₹ 1,59,825.77× 30 employees = ₹ 47,94,773.

Value of Unskilled Employees:

$$= \frac{40{,}000}{(1+0.15)^{62-60}} + \frac{40{,}000}{(1+0.15)^{62-61}}$$

$$= \frac{40{,}000}{(1+0.15)^{2}} + \frac{40{,}000}{(1+0.15)^{1}}$$

= ₹ $(30{,}245.75 + 34{,}782.61) =$ ₹ 65,028.36

Total value of Unskilled employees is

=₹ 65,028.36 × 40 employees = ₹ 26,01,134.40.

Total value of human resources (Skilled and Unskilled)

= ₹(47,94,773 + 26,01,134.40)= ₹ 73,95,907.40.

(ii) A factory started it activities on 1st April, 2012. From the following data, compute the value of closing stock on 30th April, 2012.

- **Raw Materials purchased during April - 40,000 kg at ₹24 (out of which Excise Duty = ₹ 4 per kg). Stock on hand as on 30th April – 2,500 kg.**
- **Production during April – 7,000 units (of which 5,000 units were sold). In addition to the production, 500 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).**
- **Wages and Production Overheads - ₹60**
- **Selling Price - ₹ 220 per unit (of which Excise Duty is ₹20 per unit). [6]**

Answer:

Particulars	Computation	₹
1. Raw Material Valuation (net of Input Excise Duty)	2,500kg x ₹ 20 per kg	50,000
2. WIP Valuation (net of RM input duty)	(₹100 + 60% of ₹60) x 500 units	68,000
3. Finished Goods Valuation (including ED on SP)	(RM 100 + Lab & OH 60 + ED 20) = ₹180 x (7,000 units – 5,000 units)	3,60,000
Total		**4,78,000**

Computation of Cost per unit of production:

- Raw Materials: (40,000 – 2,500) = 37,500 kg for 7,500 units total = 5 kg x ₹ 20 (net of ED) = ₹100
- Wages and Production Overhead = ₹60 per completed unit (given).

Or,

(b) (i) Write a note on Sustainability Reporting. [5]

Answer:

A sustainability report is an organizational report that gives information about economic, environmental, social and governance performance.
An increasing number of companies and organizations want to make their operations sustainable. Establishing a sustainability reporting process helps them to set goals, measure performance, and manage change. A sustainability report is the key platform for communicating positive and negative sustainability impacts.
To produce a regular sustainability report, organizations set up a reporting cycle – a program of data collection, communication, and responses. This means that their sustainability performance is monitored on an ongoing basis. Data can be provided regularly to senior decision makers to shape company strategy and policy, and improve performance.
Sustainability reporting is therefore a vital step for managing change towards a sustainable global economy – one that combines long term profitability with social justice and environmental care. Sustainability reporting can be considered as synonymous with other terms for non-financial reporting; triple bottom line reporting, corporate social responsibility

(CSR) reporting, and more. It is also an intrinsic element of integrated reporting; a recent development that combines the analysis of financial and non-financial performance.
A sustainability report enables companies and organizations to report sustainability information in a way that is similar to financial reporting, which gives comparable data, with agreed disclosures and metrics.

(ii) The following figures for a period were called out from the books of Asha Corporation:

Particulars	₹
sales	**24,80,000**
Purchase of raw materials	**10,00.000**
Agent's commission	**20,000**
Consumable stores	**25,000**
Packing material	**10,000**
Stationery	**10,000**
Audit fees	**4,000**
Staff welfare expenses	**1,58,000**
Insurance	**26,000**
Rent rate & taxes	**16,000**
Managing director's remuneration	**84,000**
Traveling expenses	**21,000**
Fuel and oil	**9,000**
Electricity	**5,000**
Material used in repairs:	
1. Materials to plant and machinery	**24,000**
2. Materials to buildings	**10,000**
Advertisement	**25,000**
Salaries and wages	**6,30,000**
Postage and telegraphs	**14,000**
Contribution to provident fund, etc.	**60,000**
Directors' sitting fees & traveling expenses	**40,000**
Subscription paid	**2,000**
Carriage	**22,000**
Interest on loans taken	**18,000**
Dividend to shareholders	**30,000**
Depreciation provided	**55,000**
Income-tax provided	**1,00,000**
Retained earnings	**1,25,000**
Opening stock : raw Material	**85,000**
Finished goods	**2,00,000**
Closing Stock: raw Material	**1,08,000**
Finished goods	**2,40,000**

From the above you are required to prepare a statement detailing the source and disposal to added value. [10]

Answer:
Statement showing the sources and disposal of Added Value

Sources:	**Amount (₹)**	**Amount (₹)**
Sales		24,80,000

Less: Agents' commission		20,000
Add: change in finished stocks (W.N 1)		40,000
Gross Output		25,00,000
Less:		
(a) Raw Materials :		
Purchases	10,00,000	
Less: Change in Stock	23,000	
	9,77,000	
Other Materials:		
Consumables	25,000	
Packing Materials	10,000	
Stationary	10,000	
Fuel & oil	9,000	
Electricity	5,000	
Repair – Plant & Machinery	24,000	
Repair – Building	10,000	
Cost of brought in inputs	10,70,000	
(b) Purchased Services:		
Audit Fees	4,000	
Insurance	26,000	
Rent, Rates & Taxes	16,000	
Traveling Expenses	21,000	
Advertisement	25,000	
Postal & Telegraph	14,000	
Subscription	2,000	
Staff Welfare Expenses	1,58,000	
Carriage	22,000	
		13,58,000
Added Value		11,42,000
Disposal:		
To Employee Costs		
MD Remuneration	84,000	
Director Sitting Fees & Expenses	40,000	
Salaries & Wages	6,30,000	
Contribution to PF	60,000	8,14,000
To Government		
Tax Provided		1,00,000
Provider of Finance		
Interest on Loan		18,000
To, Pay Share Holders		
Dividend		30,000
To Entity		
Depreciation	55,000	
Retained Earnings	1,25,000	1,80,000
Added Value		11,42,000

W.N 1 This adjustment is necessary because the cost relating to this closing stock stands included in purchase.

7.(a)(i) Write a note on Market Value Added (MVA). **[5]**

Market Value Added (MVA)

Market value Added (MVA) is the difference between the current market value of a firm and the capital contributed by investors. If MVA is positive, the firm has added value. If it is negative the firm has destroyed value.
To find out whether management has created or destroyed value since its inception, the firm's MVA can be used:
MVA=Market value of capital – capital employed
This calculation shows the difference between the market value of a company and the capital contributed by investors (both bondholders and shareholders). In other words, it is the sum of all capital claims held against the company plus the market value of debt and equity.
The higher the MVA, the better . A high MVA indicates that the company has created substantial wealth for the shareholders. A negative MVA means that the value of the actions and investments of management is less than the value of the capital contributed to the company by the capital markets, meaning wealth or value has been destroyed.
The aim of the company should be to maximize MVA. The aim should not be to maximize the value of the firm, since this can be easily accomplished by investing ever-increasing amounts of capital.

(ii) Write short note on Interest Rate Swaps. **[5]**

Answer:

Interest Rate Swaps

Interest rate swap can be defined as a financial contract between two parties (called counter parties) to exchange on a particular date in the future, one series of cash flows (fixed interest) for another series of cash flows (variable or floating interest) in the same currency on the same principal (an agreed amount called notional principal) for an agreed period of time. The contract will specify the interest rates, the benchmark rate to be followed, the notional principal amount for the transaction, etc. Interest rates are of two types, fixed interest rates and floating rates which vary according to changes in a standard benchmark interest rate. An investor holding a security which pays a floating interest rate is exposed to interest rate risk. The investor can manage this risk by entering into an interest rate swap.

Or,

(b) (i) What is the objective of AS-32? **[3]**

Answer:

The objective of "AS-32 - Financial Instruments - Disclosures "is to require entities to provide disclosures in their financial statements, that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

(ii) Briefly explain the nature of risks as classified under AS-32. **[3]**

Answer:

Under AS -32, the risks are classified as - credit risk, liquidity risk and market risk

- Credit risk - the risk that one party to a financial instrument will cause a financial loss for the other party, by failing to discharge an obligation.
- Liquidity risk - the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities
- Market risk - the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. This risk can again be sub-classified as currency risk (changes in foreign exchange rates), interest rate risk (changes in market interest rates) and other price risk (changes in market prices other than those arising from interest rate risk or currency risk).

(iii)

Return on Operating Capital	**17%**
Weighted Average Cost of Capital	**14%**
Spread	**3%**
Capital Employed	**₹2,00,000**

Calculate Economic Value Added. **[4]**

Answer:

Economic Value Added
= (Return on Operating Capital – Weighted Average Cost of Capital) × Capital Employed
= (17% - 14%)×₹2,00,000
=₹6,000.

8. (a) (i) Discuss the general principles of Government Accounting in India and its basic structure. **[7]**

Answer:

The general principles of Government Accounting are as follows:

1. The Government Expenditure are classified under Sectors, major heads, minor heads, sub-heads and detailed heads of account, the accounting is more elaborate than that followed in commercial accounts. The method of budgeting and accounting under the service heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates.
2. In its Budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the later. Similarly, in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts, Government determines (a) whether it will be justified in curtailing or expanding its activities (b) whether it can and should increase or decrease taxation accordingly.
3. In the field of Government accounting, the end products are the monthly accounts and the annual accounts. The monthly accounts serve the needs of the day-to-day

administration, while the annual accounts present a fair and correct view of the financial stewardship of the Government during the year.

Basic Structure of the form of the accounts:

(1) Period of Accounts: The annual accounts of the central, state and union territory government shall record transactions, which take place during financial year running from 1st April to 31st March.
(2) Cash Basis Accounts: With the exception of such book adjustments as may be authorized by these rules on the advice of the Comptroller and Auditor General of India (CAG). The transaction in government accounts shall represent the actual cash receipt and disbursement during a financial year.

Form of Accounts: There are mainly three parts i.e. consolidated fund, contingency fund and public account.
All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund.
The Contingency Fund of India records the transactions connected with Contingency Fund set by the Government of India under Article 267 of the Constitution of India.
Public account transactions relating to the debt deposit, advances, remittances and suspense shall be recorded.

(ii) Describe the process of election of Public Accounts Committee. [5]

Answer:

Composition

The Committee on Public Accounts is constituted by Parliament each year for examination of accounts showing the appropriation of sums granted by Parliament for expenditure of Government of India, the annual Finance Accounts of Government of India, and such other Accounts laid before Parliament as the Committee may deem fit, such as accounts of autonomous and semi-autonomous bodies (except those of Public Undertakings and Government Companies which come under the purview of the Committee on Public Undertakings).

The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajya Sabha elected by that House in like manner are associated with the Committee. The Chairman is appointed by the Speaker from amongst its members of Lok Sabha. The Speaker, for the first time, appointed a member of the Opposition as the Chairman of the Committee for 1967-68. This practice has been continued since then. A Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment.

(iii) Discuss the applicability of IGAS 10 (Public Debt and Other Liabilities of Governments: Disclosure Requirements). [3]

Answer:

The proposed IGAS shall apply to the financial statements prepared by the Union and State Governments and Union Territories with legislature. The IGAS shall also cover "other obligations" as defined in paragraph 4 of this Standard relating to definitions. The IGAS shall not include in its ambit, guarantees and other contingent liabilities and non-binding assurances.

Or,

(b) (i) Write a note on the objectives of Indian Government Accounting Standard 4 (General Purpose Financial Statements of Government). [5]

Answer:

The purpose of this Standard is to lay down the principles to be followed in presentation of general purpose financial reports of Governments and to prescribe the minimum requirements relating to structure and contents of financial statements of government prepared under cash basis of accounting.

The statement of receipts and disbursements during the year and information about cash flows of an Entity enable stakeholders to evaluate the likely sources and uses of cash and the ability of an Entity to generate adequate cash in the future. This information also indicates the expenditure priorities of the Entity in the delivery of goods and services as well as the impact of the taxation policies of the Entity. Stakeholders can then assess the sustainability of the Entity's activities (whether future budgetary resources will be sufficient to sustain public services and to meet obligations as they become due) and appraise financial accountability.

All Financial Statements need to be standardized to obtain optimal information, to ensure comparability with the Entity's own financial Statements of previous periods and with those of other entities. The basis and policies of accounting need to be uniform to permit meaningful consolidation to develop Whole of Government Accounts. Desirable attributes need to defined to obtain a basic standard for financial reporting.

To achieve these objectives, this Standard sets out the financial elements for the presentation of financial reports prepared under the cash basis of accounting. It also requires that the selection of accounting policy should ensure certain qualitative characteristics in the information being presented. Desirable attributes of financial reporting are required to heighten their value to the users.

General Purpose Financial Statements (GPFS) essentially consists of Finance Accounts and Appropriation Accounts. The Financial Statements referred to in this standard are the General Purpose Financial Reports (GPFR).

(ii) Discuss in brief the "Standard – setting procedure" of Government Accounting Standards Advisory Board. [10]

Answer:

Standard-setting Procedure for Government Accounting Standards

A. The following procedures are adopted by the Government Accounting Standards Advisory Board (GASAB) for formulating Standards:

(i) The GASAB Secretariat identifies areas for Standard formulation and places them before the GASAB for selection and approval. While doing so, the Secretariat places before the GASAB all important suggestions, references, proposals received from various sections of the Union and State Governments, members of GASAB, members of Civil Society, Professional Bodies and other stakeholders. The priorities, as approved by the GASAB, guide further functioning of the GASAB Secretariat.
(ii) The GASAB Secretariat thereafter prepares the discussion paper on the selected issues for consideration of the GASAB.
(iii) While doing so, the Secretariat studies the existing rules, codes and principles as internal sources, and documents/pronouncements/Standards issued by other national and international Standard setting and regulatory bodies. The Secretariat may also hold consultation with such other persons as are considered necessary for this purpose.
(iv) On consideration of the Discussion paper and the comments received thereon, the GASAB finalizes the Exposure Draft.
(v) The GASAB may constitute Standing Committee and/or Task based Groups from amongst the Members or their representatives to consider specific areas before finalization.
(vi) The Exposure Draft, as approved for issue by the GASAB, are widely circulated in the public domain and forwarded to all stakeholders. The Exposure Draft is required to be hosted at the website of GASAB.
(vii) Based on the comments received on the Exposure Draft, the Standards are finalized by the GASAB. The Standards, as finalized, are forwarded to the Government for notification in accordance with the provisions of the Constitution of India.

B. The meetings are normally chaired by the Chairperson. In unforeseen circumstances when Chairperson is unable to attend, the senior-most member from the Central Government will chair the meeting. The Comptroller & Auditor General of India will be kept informed of the important developments in the meetings of GASAB.
C. The GASAB may meet as often as is deemed necessary but generally not less than four times in a financial year. The decisions of the GASAB may preferably be by general consensus. In case differences persist, the decision shall be on the basis of voting favoring the recommendation. The dissenting views should also be forwarded to the Government along with the recommendations.
D. GASAB allows an exposure period of 90 days for inviting comments on Exposure Draft.