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.

(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?

(c) Write a note on IFRS.

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]

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]

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]

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]**

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]

(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]

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]**

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]

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]

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]

(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]**

Or,

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

(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]

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

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

Or,

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

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

(iii)

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

Calculate Economic Value Added. [4]

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

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

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

Or,

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

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