Paper 18 - Corporate Financial Reporting

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

(a) Five Star Ltd. expects that a plant has become useless which is appearing in the books at `20 lakhs gross value. The Company charges SLM depreciation on a period of 10 years estimated scarp value of 3%. At the end of 7th year the plant has been assessed as useless. Its estimated net realizable value is `6,20,000. Determine the loss/gain on retirement of the fixed assets.

Answer:

Cost of the plant	`20,00,000
Estimated realizable value	`60,000
Depreciable amount	`19,40,000
Depreciation per year	`1,94,000

Written down value at the end of 7th year= `20,00,000 - `(1,94,000 x 7)=`6,42,000

As per Para 14.2 of AS-10, items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realizable value and are shown separately in the financial statements. Any expected loss is recognized immediately in the profit and loss statement. Accordingly, the loss of `22,000(6,42,000 - 6,20,000) to be shown in the profit and loss account and asset of `6,20,000 to be shown in the balance sheet separately.

(b) Explain the treatment of the following:

(i) A firm acquired a fixed asset for `500 lakhs on which the Government grant received was 40%.
(ii) Capital subsidy received from the Central Government for setting up a plant in the notified backward region. Cost of the plant `600 lakhs, subsidy received `200 lakhs.
(iii) `100 lakhs received from the State Government for the setting up of water treatment plant.
(iv) `50 lakhs received from the local authority for providing medical facilities to the employees.

Answer:

(i) The total cost of the fixed asset is `500 lakhs and the grant is 40% i.e., `200 lakhs. In the Balance Sheet, the asset will be shown at the net amount (`500 lakhs - `200 lakhs) i.e., `300 lakhs only. This will be depreciated over the life of the asset.
(ii) In this case, the subsidy received for setting up a plant in the notified region, should be treated as capital subsidy. The amount of subsidy i.e., `200 lakhs be added to the Capital Reserves and the plant should be shown at `600 lakhs.
(iii) `100 lakhs received from State Government for setting up of water treatment plant should be deducted from the cost of the plant in the balance sheet.
(iv) It is a case of revenue grant and should be shown in the profit and loss account. However, if the medical facilities are to be provided over a period of more than one year, it may be treated as deferred income and then taken to profit and loss account on a systematic basis.

(c) From the following details of an asset

(i) Find out impairment loss
(ii) Treatment of impairment loss
(iii) Current year depreciation

Particulars of Asset:	
Cost of asset	**`112 lakhs**
Useful life period	**10 years**
Salvage value	**Nil**
Current carrying value	**`54.60 lakhs**
Useful life remaining	**3 years**
Recoverable amount	**`24 lakhs**
Upward revaluation done in last year	**`28 lakhs**

Answer:

According to Para 59 of AS 28 "Impairment of Assets". An impairment loss on a revalued asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

Impairment Loss and its treatment

Particulars	`
Current carrying amount (including revaluation of `28 lakhs)	54,60,000
Less: Current recoverable amount	24,00,000
Impairment Loss	30,60,000
Impairment loss charged to revaluation reserve	28,00,000
Impairment loss charged to profit and loss account	2,60,000

As per para 61 of AS 28, "after the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life".
In the given case, the carrying amount of the asset will be reduced to `24,00,000 after impairment. This amount is required to be depreciated over remaining useful life of 3 years (including current year). Therefore, the depreciation for the current year will be `8,00,000.

2. **(a) The Balance Sheet of Akash Ltd. and Barish Ltd. are as Follows:**

Name of the Companies: Akash Ltd. and Barish Ltd.
Balance Sheet as at: 31st December,2012

Ref No.	**Particulars**	**Note No.**	**Akash Ltd.** `		**Barish Ltd.** `	
			As at 31st December, 2012	**As at 31st December, 2011**	**As at 31st December, 2012**	**As at 31st December, 2011**

	I	**EQUITY AND LIABILITIES**					
	1	Shareholder's Fund					
		(a) Share capital	1	20,00,000		5,00,000	
		(b) Reserves and surplus	2	6,20,000		1,80,000	
		(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					
		(b) Trade payables	3	3,00,000		2,00,000	
		(c)Other current liabilities					
		(d) Short-term provisions					
		Total (1+2+3+4)		**29,20,000**		**8,80,000**	
	II	**ASSETS**					
	1	Non-current assets					
		(a) Fixed assets					
		(i) Tangible assets	4	20,00,000		8,00,000	
		(ii) Intangible assets					
		(iii) Capital work-in-progress					
		(iv) Intangible assets under development					
		(b) Non-current investments	5	6,00,000			
		(c) Deferred tax assets (Net)					
		(d) Long-term loans and advances					
		(e) Other non-current assets					
	2	**Current assets**					
		(a) Current investments					
		(b) Inventories					
		(c) Trade receivables	6	3,20,000		80,000	
		(d) Cash and cash equivalents					
		(e) Short-term loans and advances					
		(f) Other current assets					
		Total (1+2)		**29,20,000**		**8,80,000**	

	Akash Ltd. `		**Barish Ltd.** `	
Note 1. Share Capital	**As at 31st December,**	**As at 31st December,**	**As at 31st December,**	**As at 31st December,**

	2012	2011	2012	2011
Authorized, Issued, Subscribed and paid-up Share capital:				
Equity share of ` 10 each	20,00,000		5,00,000	
Total	20,00,000		5,00,000	

RECONCILIATION OF SHARE CAPITAL

	Akash Ltd. `				Barish Ltd. `			
FOR EQUITY SHARE	**As at 31st December, 2012**		**As at 31st December, 2011**		**As at 31st December, 2012**		**As at 31st December, 2011**	
	Nos.	**Amount (`)**	**Nos.**	**Amount (`)**	**Nos.**	**Amount (`)**	**Nos.**	**Amount (`)**
Opening Balance as on 1st January ,2012	2 lakhs	20,00,000			50,000	5,00,000		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)								
	2 lakhs	20,00,000			50,000	5,00,000		
Less: Buy Back of share								
Total	2 lakhs	20,00,000			50,000	5,00,000		

	Akash Ltd. `		Barish Ltd. `	
Note 2. Reserve & Surplus	**As at 31st December, 2012**	**As at 31st December, 2011**	**As at 31st December, 2012**	**As at 31st December, 2011**
Reserve	2,00,000		50,000	
Profit and Loss A/c as on 1st Jan, 2012	3,00,000		1,00,000	
Profit for the year	80,000		80,000	
Add: Dividend from Barish Ltd.	40,000		-	
Less: Dividends paid	-		(50,000)	
Total	6,20,000		1,80,000	

	Akash Ltd. `		Barish Ltd. `	
Note 3. Trade Payables	**As at 31st December, 2012**	**As at 31st December, 2011**	**As at 31st December, 2012**	**As at 31st December, 2011**
Creditors	3,00,000		2,00,000	

Total	3,00,000		2,00,000	

	Akash Ltd. `		Barish Ltd. `	
Note 4. Tangible Assets	**As at 31st December, 2012**	**As at 31st December, 2011**	**As at 31st December, 2012**	**As at 31st December, 2011**
Fixed Assets	20,00,000		8,00,000	
Total	20,00,000		8,00,000	

	Akash Ltd. `		Barish Ltd. `	
Note 5. Non-current Investments	**As at 31st December, 2012**	**As at 31st December, 2011**	**As at 31st December, 2012**	**As at 31st December, 2011**
Shares in Barish Ltd. at cost – 30,000 shares	6,00,000		-	
Total	6,00,000		-	

	Akash Ltd. `		Barish Ltd. `	
Note 6. Trade receivables	**As at 31st December, 2012**	**As at 31st December, 2011**	**As at 31st December, 2012**	**As at 31st December, 2011**
Debtors	3,20,000		80,000	
Total	3,20,000		80,000	

Akash Ltd. had acquired 40,000 shares in Barish Ltd. at ` 20 each on 1st Jan,2012 and sold 10,000 of them at the same price on 1st Oct, 2012. The sale is cum dividend. An interim dividend of 10% was paid by Barish Ltd. on 1st July, 2012.

Required: The Consolidated Balance Sheet of Akash Ltd. and its Subsidiary as at 31.12.2012. [10]

Answer:

Name of the Company: Akash Ltd. and its subsidiary Barish 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	20,00,000	-

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				`	`
		(b) Reserves and surplus	2	6,38,000	-
		(c)Money received against share warrants		-	-
	2	**Share application money pending allotment**		-	
				26,38,000	-
	3	**Minority Interest**		2,72,000	-
	4	**Non-current liabilities**			
		(a) Long-term borrowings		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	5	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	5,00,000	-
		(c) Other current liabilities			-
		(d) Short-term provisions		-	-
				5,00,000	-
		TOTAL (1+2+3+4+5)		34,10,000	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	28,00,000	-
		(ii) Intangible assets	5	2,10,000	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments		-	
		© Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				30,10,000	-
	2	**Current assets**			

Ref No.	Particulars		Note No.	As at 31st December, 2012 `	As at 31st December, 2011 `
		(a) Current investments		-	-
		(b) Inventories		-	-
		© Trade receivables	6	4,00,000	-
		(d) Cash and cash equivalents		-	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets		-	-
				4,00,000	-
		TOTAL (1+2)		34,10,000	-

Annexure

Note 1. Share Capital

Particulars	**As at 31st December, 2012 (`)**	**As at 31st December, 2011(`)**
Share Capital in Equity Shares of ` 10 each	20,00,000	
Total	20,00,000	

Note 2. Reserves and Surplus

Particulars	**As at 31st December, 2012(`)**	**As at 31st December, 2011(`)**
Reserves	2,00,000	
Profit and Loss A/c	4,38,000	
Total	6,38,000	

Note 3. Trade Payables

Particulars	**As at 31st December, 2012(`)**	**As at 31st December, 2011(`)**
Creditors (3,00,000+2,00,000)	5,00,000	
Total	5,00,000	

Note 4. Tangible Assets

Particulars	**As at 31st December, 2012(`)**	**As at 31st December, 2011(`)**
Fixed Assets	28,00,000	
Total	28,00,000	

Note 5. Intangible Assets

Particulars	**As at 31st December,**	**As at 31st December,**

	2012(`)	2011(`)
Goodwill	2,10,000	
Total	2,10,000	

Note 6. Trade Receivables

Particulars	As at 31st December, 2012(`)	As at 31st December, 2011(`)
Debtors [3,20,000+80,000]	4,00,000	
Total	4,00,000	

Working Notes:

(A) Analysis of Profit of Barish Ltd.	Capital Profits `	Revenue Profits `
Reserves(as there is no other information on the date of acquisition of shares and on the date of balance sheet (Consolidated Balance Sheet) it is presumed that the reserve balance is capital in nature and it remained unchanged throughout the year)	50,000	
Profit and Loss A/c on 01.01.2012	1,00,000	
Profit for the year (80,000-50,000)		30,000
	1,50,000	30,000
Akash Ltd.'s share (60% i.e. 30,000 shares)	90,000	18,000
Minority Interest (40%)	60,000	12,000

(B) Minority Interest	`
Share Capital	2,00,000
Capital Profits	60,000
Revenue Profits	12,000
Total	2,72,000

(C) Cost of Control	`	`
Investment in Barish Ltd.		6,00,000
Less: Face of Investment	3,00,000	
Capital Profits	90,000	3,90,000
Goodwill		2,10,000

(D) Profit and Loss Account- Akash Ltd.	`
Balance on 01.01.2012	3,00,000
Profit for the year	80,000
	3,80,000
Add; Dividends from Barish Ltd.	40,000
	4,20,000
Profit or Loss on sale of shares	----
	4,20,000
Add: Share in Barish Ltd.	18,000
	4,38,000

Or,

(b) **Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS 3:**

Particulars		(` in Lakhs)	(` in Lakhs)
Net Profit			**1,00,000**
Add:	**Sale of Investments**		**70,000**
	Depreciation on Assets		**11,000**
	Issue of Preference Shares		**9,000**
	Loan raised		**4,500**
	Decrease in Stock		**12,000**
			2,06,500
Less:	**Purchase of Fixed Assets**	**65,000**	
	Decrease in Creditors	**6,000**	
	Increase in Debtors	**8,000**	
	Exchange gain	**8,000**	
	Profit on sale of investments	**12,000**	
	Redemption of Debenture	**5,700**	
	Dividend paid	**1,400**	
	Interest paid	**945**	**1,07,045**
			99,455
Add:	**Opening cash and cash equivalent**		**12,341**
Closing cash and cash equivalent			**1,11,796**

[10]

Answer:

Cash Flow Statement

Particulars	(` in Lakhs)	(` in Lakhs)
Cash flows from operating activities		
Net profit		1,00,000
Less: Exchange gain		(8,000)

Less: Profit on sale of investments		(12,000)
		80,000
Add: Depreciation on assets		11,000
Operating Profit before working Capital changes		91,000
(-) Increase in debtors	(8,000)	
(+) Decrease in stock	12,000	
(-) Decrease in creditors	(6,000)	(2,000)
Net cash from operating activities		89,000
Cash Flows from Investing Activities		
Sale of investments	70,000	
Purchase of fixed assets	(65,000)	
Net cash from Investing activities		5,000
Cash Flows from Financing Activities		
Issue of preference shares	9,000	
Loan raised	4,500	
Redemption of Debentures	(5,700)	
Interest paid	(945)	
Dividend paid	(1,400)	
Net cash from financing activities		5,455
Net increase in cash & cash equivalents		99,455
Add: Opening cash and cash equivalents		12,341
Closing cash and cash equivalents		**1, 11,796**

3. **(a) R Ltd. owns 80% of S and 40% of T and 40% of Q. T is jointly controlled entity and Q is an associate. The Trial Balance (Extract) of R Ltd., S Ltd., T Ltd. and Q Ltd. as on 31.03.2012 are as follows:**

(` in lakhs)

Particulars	R Ltd.		S Ltd.		T Ltd.		Q Ltd.	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Investment in S	1,200	—	—	—	—	—	—	—

Investment in T	**900**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Investment in Q	**900**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Fixed Assets	**1,500**	**—**	**1,200**	**—**	**2,100**	**—**	**1,500**	**—**
Current Assets	**3,300**	**—**	**4,950**	**—**	**4,875**	**—**	**5,475**	**—**
Share capital (`1 per Equity Share)	**—**	**1,500**	**—**	**600**	**—**	**1,200**	**—**	**1,200**
Retained Earnings	**—**	**6,000**	**—**	**5,100**	**—**	**5,400**	**—**	**5,400**
Creditors	**—**	**300**	**—**	**450**	**—**	**375**	**—**	**375**
	7,800	**7,800**	**6,150**	**6,150**	**6,975**	**6,975**	**6,975**	**6,975**

R Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were `780 lakhs. R Ltd. acquired its shares in 'T' at the beginning of the year when 'T" retained earnings were `600 lakhs. R Ltd. acquired its shares in 'Q' on 01.04.2011 when 'Q' retained earnings were `600 Lakhs.

The balance of goodwill relating to 'S' had been written off three years ago. The value of goodwill in 'T' remains unchanged.

Prepare the Consolidated Balance Sheet of R Ltd. as on 31.03.2012 as per AS 21, 23 and 27. [15]

Answer:

Name of the Company: R Ltd.
Consolidated Balance Sheet as at 31st March, 2012 (` in lakhs)

Ref No.		Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
				`	`
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	1,500	-
		(b) Reserves and surplus	2	13,200	-
		(c)Money received against share warrants		-	-
	2	**Share application money pending allotment**		14,700	-
	3	**Minority Interest**		1,140	-
	4	**Non-current liabilities**			
		(a) Long-term borrowings		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	5	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	900	-

Ref No.		Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
				`	`
		(c) Other current liabilities		-	-
		(d) Short-term provisions		-	-
				900	-
		TOTAL (1+2+3+4+5)		16,740	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	3,540	-
		(ii) Intangible assets	5	180	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments	6	2,820	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				6,540	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories		-	-
		(c) Trade receivables		-	-
		(d) Cash and cash equivalents		-	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	7	10,200	-
				10,200	-
		TOTAL (1+2)		16,740	-

Annexure

(` in lakhs)

Note 1. Share Capital	**As at 31st March,2012**	**As at 31st March,2011**
Share Capital in Equity Shares	1,500	
Total	1,500	

(` in lakhs)

Note 2. Reserves and Surplus	As at 31st March,2012	As at 31st March,2011
Retained Earnings (W.N 2)	13,200	
Total	13,200	

(` in lakhs)

Note 3. Trade Payables	As at 31st March,2012	As at 31st March,2011
Creditors [300+450+40% of 375]	900	
Total	900	

(` in lakhs)

Note 4. Tangible assets	As at 31st March,2012	As at 31st March,2011
Fixed Assets [1,500 +1,200 + 840(2,100×40%)]	3,540	
Total	3,540	

(` in lakhs)

Note 5. Intangible assets	As at 31st March,2012	As at 31st March,2011
Goodwill (W.N 1)	180	
Total	180	

(` in lakhs)

Note 6. Noncurrent investments	As at 31st March,2012	As at 31st March,2011
Investment in Associates (W.N 4)	2,820	
Total	2,820	

(` in lakhs)

Note 7. Other current assets	As at 31st March,2012	As at 31st March,2011
Current Assets [3,300+4,950+ 1,950 (4,875 × 40%)]	10,200	
Total	10,200	

Working Notes:

1. **Computation of Goodwill**

S Ltd. (subsidiary)

		` in lakhs
Cost of Investment		1,200
Less: Paid up value of shares acquired	480	
Share in pre-acquisition profits of S Ltd. (780 × 80%)	624	1,104
Goodwill		96

T Ltd. (Jointly Controlled Entity)

		` in lakhs
Cost of Investment		900
Less: Paid up value of shares acquired (40% of 1,200)	480	
Share in pre-acquisition profits (40% of 600)	240	720
Goodwill		180

Note: Jointly controlled entity 'T' to be consolidated on proportionate basis i.e. 40% as per AS 27

Associate Q Ltd. (AS 23)

		` in lakhs
Cost of investment		900
Less: Paid up value of shares acquired (1,200 × 40%)	480	
Share in pre-acquisition profits (600 × 40%)	240	720
Goodwill		180

Goodwill shown in the Consolidated Balance Sheet

	` in lakhs
Goodwill of 'T'	180
Goodwill of 'S'	96
Less: Goodwill written off of 'S'	96
Goodwill	180

2. **Consolidated Retained Earnings**

	` in lakhs
R Ltd.	6,000
Share in post acquisition profits of S - 80% (5,100 – 780)	3,456
Share in post acquisition profits of T - 40% (5,400 – 600)	1,920
Share in post acquisition profits of Q - 40% (5,400 – 600)	1,920
Less: Goodwill written off	(96)
	1,3200

3. **Minority Interest 'S'**

	` in lakhs
Share Capital (20% of 600)	120
Share in Retained Earnings (20% of 5,100)	1,020
	1,140

4. **Investment in Associates**

	` in lakhs
Cost of Investments (including goodwill ` 180 lakhs)	900
Share of post acquisition profits	1,920
Carrying amount of Investment (including goodwill ` 180 lakhs)	2,820

Or,

(b) **On 31.03.2011, R Ltd. acquired 1,05,000 Shares of S Ltd. for ` 12,00,000. The Trial Balance of S Ltd. on that date was as under -**

Trial Balance
as at 31.03.2011

	Dr.	**Cr**

Particulars	Amount (`)	Amount (`)
Equity Shares (1,50,000 @ ` 10)	-	15,00,000
Pre – incorporation Profits	-	30,000
Profit and Loss Account	-	60,000
Creditors	-	75,000
Fixed Assets (Tangible)	10,50,000	-
Current Assets	6,15,000	
	16,65,000	16,65,000

On 31.03.2012, the Trial Balance of the two Companies were as follows -

Trial Balance
as at 31.03.2011

Particulars	R Ltd.		S Ltd.	
	Amount (`)	Amount (`)	Amount (`)	Amount (`)
Equity Shares of ` 10 each fully paid (before Bonus Paid)	-	45,00,000	-	15,00,000
Securities Premium	-	9,00,000	-	-
Pre – incorporation Profits	-	-	-	30,000
General Reserve	-	60,00,000	-	19,05,000
Profit and Loss Account	-	15,75,000	-	4,20,000
Creditors	-	5,55,000	-	2,10,000
Fixed Assets (Tangible)	79,20,000	-	23,10,000	-
Investments (1,05,000 Equity Shares in S Ltd at cost)	12,00,000	-	-	-
Current Assets	44,10,000	-	17,55,000	-
	1,35,30,000	1,35,30,000	40,65,000	40,65,000

Directors of S Ltd. made a bonus issue on 31.03.2012 in the ratio of one Equity Share of ` 10 each fully paid for every two Equity Shares held on that date.

Calculate as on 31.3.2012 (i) Cost of Control/Capital Reserve ; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases: (1) Before issue of Bonus Shares; (2) Immediately after the issue of Bonus Shares. It may be assumed that Bonus Shares were issued out of Post-Acquisition Profits by using General Reserve.
Prepare a Consolidated Balance Sheet after the Bonus Issue. [15]

Answer:

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = R Ltd.Subsidiary = S Ltd.	Acquisition: 31.03.2011 Consolidation: 31.03.2012	Holding Company = 70% Minority Interest = 30%

2. Analysis of Reserves and Surplus of S Ltd.

(a) Pre-Incorporation Profits = ` 30,000 – **Capital Profit**

(b) General Reserve

Before Bonus Issue		After Bonus Issue		
As on 31.3.2012	19,05,000	As on 31.3.2012	19,05,000	
		Less: Bonus Issue	7,50,000	(15 Lacs x 1/2)
		Corrected Bal	11,55,000	
As on 01.04.11 **NIL** **Capital**	Tfr between 01.04.11 & 31.3.2012 **19,05,000** **Revenue**	01.04.2011 **NIL** **Capital**	Tfr between 1.4.11 & 3 1.3.12 **11,55,000** **Revenue**	

(c) Profit & Loss Account

As on 31.03.2012 ` 4,20,000

As on 01.04.2011	Profits between 01.04.2011 & 31.03.2012
60,000 **Capital**	**3,60,000** **Revenue**

3. Analysis of Net Worth of S Ltd.

Particulars	Before Bonus Issue			After Bonus Issue		
	Total	**R**	**Minority**	**Total**	**R**	**Minority**
	100%	**70%**	**30%**	**100%**	**70%**	**30%**
(a) Share Capital	15,00,000			15,00,000		
Add: Bonus Issue	–			7,50,000		
	15,00,000	10,50,000	4,50,000	**22,50,000**	15,75,000	6,75,000
(b) **Capital Profits**						
Pre Incorporation Profits	30,000			30,000		
General Reserve	NIL			NIL		
Profit and Loss Account	60,000			60,000		
	90,000	63,000	27,000	**90,000**	63,000	27,000
(c) **Revenue Reserve:** Gen. Reserve	**19,05,000**	13,33,500	5,71,500	**11,55,000**	8,08,500	3,46,500
(d) **Revenue Profits:** P & L A/c	**3,60,000**	2,52,000	1,08,000	**3,60,000**	2,52,000	1,08,000
Minority Interest			**11,56,500**			**11,56,500**

4. Cost of Control

	Particulars	Before Bonus Issue	After Bonus Issue
	Cost of Investment	12,00,000	12,00,000
Less:	(a) Nominal Value of Share Capital	(10,50,000)	(15,75,000)
	(b) Share in Capital Profits	(63,000)	(63,000)

Goodwill / Capital Reserve on Consolidation	**87,000**	**(4,38,000)**

5. Consolidation of Reserves & Surplus

	Particulars	Before Bonus Issue		After Bonus Issue	
		Gen. Res.	**P&L A/c**	**Gen. Res.**	**P&L A/c**
	Balance as per Balance Sheet of R Ltd.	60,00,000	15,75,000	60,00,000	15,75,000
Add:	Share of Revenue	13,33,500	2,52,000	8,08,500	2,52,000
	Consolidated Balance	**73,33,500**	**18,27,000**	**68,08,500**	**18,27,000**

Name of the Company: R Ltd. And its subsidiary S Ltd.

Consolidated Balance Sheet as at 31st March 2012

Ref No.	Particulars		Note No.	As at 31st March, 2012	As at 31st March, 2011
				`	`
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	45,00,000	-
		(b) Reserves and surplus	2	99,73,500	-
		(c) Money received against share warrants		-	-
				1,44,73,500	-
	2	**Minority Interest**		11,56,500	-
	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		-	-
		(b) Trade payables		-	-
		(c) Other current liabilities	3	7,65,000	-
		(d) Short-term provisions		-	-
				7,65,000	-
		TOTAL (1+2+3+4)		**1,63,95,000**	**-**

Ref No.	Particulars		Note No.	As at 31st March, 2012 `	As at 31st March, 2011 `
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	1,02,30,000	-
		(ii) Intangible assets		-	-
		(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		-	-
				1,02,30,000	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories		-	-
		(c) Trade receivables		-	-
		(d) Cash and cash equivalents		-	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	5	61,65,000	-
				61,65,000	-
		TOTAL (1+2)		**1,63,95,000**	**-**

Note 1. Share Capital		
	As at 31st March, 2012	**As at 31st March, 2011**
Equity Shares	45,00,000	
	45,00,000	

Note 2. Reserve and Surplus :-		
	As at 31st March, 2012	**As at 31st March, 2011**

Note 3. Current Liabilities :-		
	As at 31st March, 2012	**As at 31st March, 2011**

General Reserve	68,08,500	-
Profit and loss	18,27,000	-
Capital reserve on consolidation	4,38,000	-
Securities Premium	9,00,000	-
	99,73,500	-

Bills Payable:-		
- R Ltd	5,55,000	-
- S Ltd	2,10,000	-
	7,65,000	-

Note 4. Tangible Assets:-		
	As at 31st March, 2012	**As at 31st March, 2011**
Fixed Assets		
- R Ltd	79,20,000	-
- S Ltd	23,10,000	-
	1,02,30,000	-

Note 5. Current Assets:-		
	As at 31st March, 2012	**As at 31st March, 2011**
Current Assets		
- R Ltd	44,10,000	-
- S Ltd	17,55,000	-
	61,65,000	-

4. (a) Zee Ltd. agreed to absorb Gulf Ltd. on 31st March, 2012, whose Balance sheet stood as follows :

Name of the Company: Gulf Ltd.

Consolidated Balance Sheet as at 31st March, 2012

Ref No.		Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
				`	`
	A	**EQUITY AND LIABILITIES**			
	1	Shareholders' funds			
		(a) Share capital	1	80,00,000	-
		(b) Reserves and surplus	2	10,00,000	-
		(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		-	-
		(b) Trade payables	3	10,00,000	-

Ref No.		Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
				`	`
		(c) Other current liabilities		-	-
		(d) Short-term provisions		-	-
		TOTAL (1+2+3+4)		1,00,00,000	-
	B	ASSETS			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	4	70,00,000	-
		(ii) Intangible assets		-	-
		(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	5	10,00,000	-
		(c) Trade receivables		-	-
		(d) Cash and cash equivalents		-	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	6	20,00,000	-
		TOTAL (1+2)		1,00,00,000	-

Annexure

`

Note 1. Share Capital	**As at 31st March,2012**	**As at 31st March,2011**
80,000 Share Capital in Equity Shares of `100 each fully paid	80,00,000	
Total	80,00,000	

Note 2. Reserves and Surplus	**As at 31st March,2012**	**As at 31st March,2011**
General Reserve	10,00,000	
Total	10,00,000	

Note 3. Trade Payables	As at 31st March,2012	As at 31st March,2011
Creditors	10,00,000	
Total	10,00,000	

Note 4. Tangible assets	As at 31st March,2012	As at 31st March,2011
Fixed Assets	70,00,000	
Total	70,00,000	

Note 5. Inventories	As at 31st March,2012	As at 31st March,2011
Stock in trade	10,00,000	
Total	10,00,000	

Note 6. Trade Receivables	As at 31st March,2012	As at 31st March,2011
Debtors	20,00,000	
Total	20,00,000	

Note : Assumed that secured and unsecured loan is of less than 12 months, hence to be treated as short term borrowings (ignoring interest)

The consideration was agreed to be paid as follows :

a. A payment in cash of ` 50 per share in Gulf Ltd. and

b. The issue of shares of ` 100 each in Zee Ltd., on the basis of 2 Equity Shars (valued at ` 150) and one 10% cumulative preference share (valued at ` 100) for every five shares held in Gulf Ltd.

It was agreed that Zee Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in Gulf Ltd. i.e. ` 650 for five shares of ` 500 paid.

The whole of the Share capital consists of shareholdings in exact multiple of five except the following holding.

Bharati	**116**	
Sonu	**76**	
Hitesh	**72**	
Jagat	**28**	
Other individuals	**8**	**(eight members holding one share each)**
	300	

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

Answer :

Statement of consideration paid for fraction shares

	Particulars	**Bharti**	**Sonu**	**Hitesh**	**Jagat**	**Others**	**Total**
a.	Holding of shares	116	76	72	28	8	300
b.	Non-exchangeable shares (Payable in Cash)	1	1	2	3	8	15
c.	Exchangeable Shares [(a) - (b)]	115	75	70	25	—	285
d.	Above shares						
	i. in Equity shares (2:5)	46	30	28	10	—	114
	ii. in Preference shares (1:5)	23	15	14	5	—	57

Number of shares to be issued

a. Exchangeable shares :

= Total shares – Non Exchangeable shares

= 80,000 – 15 = 79,985

b. Equity shares to be issued :

$= \frac{79,985}{5} \times 2$ = 31,994 Shares (i.e. 2 shares for every 5 shares)

c. Preference shares to be issued

$= \frac{79,985}{5} \times 1$ = 15,997 Shares (i.e. 1 shares for every 5 shares)

Cash to be paid

	Particulars	`
a.	79,985 shares @ ` 50 each	39,99,250
b.	Consideration for non-exchangeable $[15\times100]\times\frac{650}{500}$ (i.e. ` 650 for five shares of ` 500 paid)	1,950
c.	Total	40,01,200

Statement of Purchase Consideration :

Particulars	`

a. In Shares :		
i. 31,994 Equity shares @ ` 150 each	47,99,100	
ii. 15,997 Preference shares @ ` 100 each	15,99,700	63,98,800
b. In Cash		40,01,200
c. Total (a+b)		1,04,00,000

Or,

(b) **The Extract Trial Balance of P Ltd. and R Ltd. for the year ended 31.3.2012 are as under :**

Particulars	**P Ltd.**		**R Ltd.**	
	Debit (`)	**Credit (`)**	**Debit (`)**	**Credit (`)**
Equity Share Capital (in shares of `100 each)	**-**	**24,00,000**	**-**	**12,00,000**
8% Preference Share Capital (in shares of `100 each)	**-**	**8,00,000**	**-**	**-**
10% Preference Share Capital (in share of `100 each)	**-**	**-**	**-**	**4,00,000**
Reserves	**-**	**30,00,000**	**-**	**24,00,000**
Current Liabilities	**-**	**18,00,000**	[redacted]	[redacted]
Fixed Assets	**55,00,000**	**-**	[redacted]	[redacted]
Current Assets	**25,00,000**	**-**	[redacted]	**-**
	80,00,000	**80,00,000**	**50,00,000**	**50,00,000**

A. The following information is provided:

	P Ltd.	**R Ltd.**
	`	`
a) Profit before tax	**10,64,000**	**4,80,000**
b) Taxation	**4,00,000**	**2,00,000**
c) Preference dividend	**64,000**	**40,000**
d) Equity dividend	**2,88,000**	**1,92,000**

B. The Equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.

C. P. Ltd. proposes to absorb R Ltd. as on 31.3.2012. The terms of absorption are as under :

a. Preference shareholders of R Ltd. will receive 8% preference shares of P. Ltd. sufficient to increase the income of preference shareholders of R Ltd. by 10%

b. The equity shareholders of R Ltd. will receive equity shares of P Ltd. on the following basis:

(i) **The equity shares of R Ltd. will be valued by applying to the earnings per share of R Ltd. 75% of price earnings ratio of P Ltd. based on the results of 2011-2012 of both the companies.**

(ii) **The market price of equity shares of P Ltd. is ` 400 per share.**

(iii) **The number of shares to be issued to the equity shareholders of R Ltd. will be based on the above market value.**

(iv) **In addition to equity shares, 8% preference share of P Ltd. will be issued to the equity shareholders of R Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2011-2012.**

D. The assets and liabilities of R Ltd. as on 31.3.2012 are revalued by professional valuer as under :

	Increased by	*Decreased by*
	`	`
Fixed assets	**1,60,000**	**—**
Current assets	**—**	**2,00,000**
Current liabilities		**40,000**

E. For the next two years, no increase in the rate of equity dividend is expected.

You are required to :

Calculate purchase consideration. **[10]**

Answer:

Computation of Purchase Consideration

A. Preference Shareholders

8% preference shares of P Ltd. sufficient to increase income by 10%.

Particulars	`
Current income from Preference shares of R Ltd. (` 4,00,000 × 10%)	40,000
Add : 10% increase	4,000
Income from Preference Shares of P Ltd.	44,000
Value of 8% Preference Shares of R Ltd. to be issued [44,000×100/8]	**5,50,000**

B.Equity Shareholders

i. Consideration by way of Equity shares

Valuation of shares of P Ltd.

(12,000 shares × ` 240 [WN # 3]

` 28,80,000

Share Capital	Share Premium
[7,200 shares* ×` 100]	[7,200 shares* × ` 300]
` 7,20,000	` 21,60,000

* No. of Equity Shares to be issued = ` 28,80,000 ÷ ` 400

= 7,200 Shares

ii. Consideration by way of Preference Shares

	Particulars	`
i.	Current equity dividend from R Ltd.	1,92,000
ii.	Less: Expected Equity dividend from P Ltd.	86,400

$$\left(\frac{\text{` }2,88,000}{\text{` }24,00,000}\times \text{` }7,20,000\right)$$

iii.	Loss in income	1,05,600
iv.	Value of 8% Preference Shares to be issued (1,05,600 ÷ 8%)	**13,20,000**

C. Total Purchase Consideration

[5,50,000 + 28,80,000 + 13,20,000] ` 47,50,000

Working Notes:

Computation of EPS

`

Particulars	***P Ltd.***	***R Ltd***
Profit before tax (PBT)	10,64,000	4,80,000
Less : Tax (given)	(4,00,000)	(2,00,000)
Profit after tax (PAT)	6,64,000	2,80,000
Less : Preference dividend	[redacted]	[redacted]
Profit available to equity shareholders	[redacted]	[redacted]
Earnings per share (Profit for Equity Shareholders ÷ No of Shares)	25	20

P/E ratio of R Ltd.

$$\text{P/E ratio} = \frac{\text{Market Price}}{\text{EPS}} = \frac{400}{25} = \text{` }16$$

75% of P/E ratio = (16×0.75) = ` 12

Value per share of P Ltd.

= EPS × P/E ratio

= ` 20 × ` 12

= ` 240

5. **(a) The following Trial Balance (Extract) of Alpha Ltd. and Beta Ltd. as at 31st March, 2012 is given to you:**

Particulars	**Dr. (`)**		**Cr.(`)**	
	Alpha Ltd.	**Beta Ltd.**	**Alpha Ltd.**	**Beta Ltd.**
Equity Share Capital of ` 10 each			**30,00,000**	**10,00,000**
General Reserve			**4,00,000**	**2,00,000**
Fixed Assets	**20,00,000**	**1,00,000**		
Sundry Debtors	**5,80,000**	**3,00,000**		

Stock (Opening)	**9,60,000**	**4,20,000**		
20,000 shares in Beta Ltd.	**3,00,000**	**-**		
60,000 shares in Alpha Ltd.	**-**	**10,00,000**		
Cast at Bank	**2,80,000**	**1,80,000**		
Profit and Loss Account			**3,20,000**	**20,000**
10% Debenture			**-**	**6,00,000**
Current Liabilities			**4,00,000**	**1,80,000**
Total	**41,20,000**	**20,00,000**	**41,20,000**	**20,00,000**

Note: Closing Stock of Alpha Ltd. and Beta Ltd. are ` 9,60,000 and ` 4,20,000.

Beta Ltd. traded raw material which were required by Alpha Ltd. for manufacture of its products. Stock of Alpha Ltd. includes ` 2,00,000 for purchases made from Beta Ltd. on which the company (Beta Ltd.) made a profit of 12% on selling price. Alpha Ltd. owed ` 50,000 to Beta Ltd. in this respect. It was decided that Alpha Ltd. should absorb Beta Ltd. on the basis of the intrinsic value of the shares of the two companies. Before absorption, Alpha Ltd. declared a dividend of 10%. Alpha Ltd. also decided to revalue the shares in Beta Ltd. before recording entries relating to the absorption.

Show the journal entries, which Alpha Ltd. must pass to record the acquisition and prepare its balance sheet immediately thereafter. All workings should from part of your answer. [15]

Answer:

Part I - Purchase consideration - Net Asset Method.

WN #1: Net assets excluding intercompany investment at the time of Amalgamation

`

Particulars	Alpha Ltd.	Beta Ltd.
Fixed Assets	20,00,000	1,00,000
Sundry Debtors	5,80,000	3,00,000
Stock	9,60,000	4,20,000
Cash	2,80,000	1,80,000
Dividend Receivable		60,000
Less:		
10% Debentures	—	(6,00,000)
Current liabilities	(4,00,000)	(1,80,000)
Proposed Dividend	(3,00,000)	
	31,20,000	**2,80,000**

WN # 2: Intrinsic value of investment

Let, Net Assets of Alpha Ltd. is A and that of Beta Ltd. is B

$$
\begin{aligned}
A &= 31{,}20{,}000 + 0.2\,B \\
B &= 2{,}80{,}000 + 0.2\,A \\
A &= 31{,}20{,}000 + 0.2\,(2{,}80{,}000 + 0.2A) \\
A &= 31{,}20{,}000 + 56{,}000 + 0.04A \\
0.96A &= 31{,}76{,}000 \\
A &= 33{,}08{,}333.33 \\
B &= 2{,}80{,}000 + 0.2\,(33{,}08{,}333.33) \\
&= 9{,}41{,}666.67
\end{aligned}
$$

Summary:

Particulars		Alpha Ltd.	Beta Ltd.
(a)	Net Assets (`)	33,08,333	9,41,667
(b)	No. of shares outstanding	3,00,000	1,00,000
(c)	Intrinsic value per share	` 11	` 9.4

WN # 3: Purchase consideration

Total no. of Beta Ltd.'s shares outstanding		1,00,000
Less: No. of shares held by Alpha Ltd		20,000
Shares held by outsiders		80,000
Value of the above shares (80,000 × ` 9.40)		` 7,52,000
Number of shares issuable at intrinsic value (7,52,000÷11)		68,364
Less: Number of shares already held by Beta Ltd.		60,000
Number of shares to be issued		8,364
Purchase consideration (8,364 x 11)	` 92,004	

In Shares	In Cash
` 92,000	` 4

Part II - In the books of Selling Company - Beta Ltd.
Section A: Pre-Amalgamation Event

Particulars		[redacted]	
i. Dividend Receivable			
Dividend Receivable A/c	Dr.	60,000	
To Profit and Loss A/c			60,000

Note: Revised Profit and Loss A/c balance = ` 20,000 + 60,000
= ` 80,000

Section B: Entries relating to Amalgamation

Realisation Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Fixed Assets	1,00,000	By Debentures	6,00,000
To Debtors	3,00,000	By Creditors	1,80,000
To Stock	4,20,000	By Alpha Ltd.'s A/c (Purchasing Co.)	92,004
To Cash	1,80,000	By Share Capital (Head as Investment)	2,00,000
To Dividend Receivable	60,000		
To Profit transferred to share holders	12,004		
	10,72,004		**10,72,004**

Particulars		Debit `	Credit `
1. Transfer to Realisation Account			
a. Transfer of Assets			
Realisation A/c	Dr.	10,60,000	
To Fixed Assets A/c			1,00,000
To Debtors A/c			3,00,000

		Particulars		Debit	Credit
		To Stock A/c			4,20,000
		To Cash A/c			1,80,000
		To Dividend Receivable A/c			60,000
		(Being assets taken over by transferred to Realisation A/c)			
	b.	**Transfer of Liabilities**			
		10% Debentures A/c	Dr.	6,00,000	
		Creditors A/c	Dr.	1,80,000	
		To Realisation A/c			7,80,000
		(Being liabilities taken over by Alpha Ltd. transferred to Realisation A/c)			
2.					
	a.	**Purchase consideration due:**			
		Alpha Ltd A/c	Dr.	92,004	
		To Realisation A/c			92,004
	b.	**Receipt of Purchase Consideration:**			
		Cash A/c	Dr.	4	
		Equity shares of Alpha Ltd A/c	Dr.	92,000	
		To Alpha Ltd A/c			92,004
3.		**Cancellation of paid up capital to the extent of Alpha Ltd's Interest (Purchasing Co.) :**			
		Share Capital A/c	Dr.	2,00,[redacted]	
		To Realisation A/c			[redacted]
4.	a.	**Amount due to outside shareholders:**			
		Transfer of remaining Share capital and all reserves			
		Share Capital A/c	Dr.	8,00,000	
		General Reserve A/c	Dr.	2,00,000	
		Profit & Loss A/c	Dr.	80,000	
		To Shareholders A/c			10,80,000
	b.	**Transfer of profit on realisation to shareholders:**			
		Realisation A/c	Dr.	12,004	
		To Shareholders A/c			12,004
5.		**Settlement of amount to outsiders**			
		Shareholders A/c (10,80,000 + 12,004)	Dr.	10,92,004	
		To Equity shares of Alpha Ltd. (10,00,000 + 92,000)			10,92,000
		To Cash A/c			4

PART III - In the books of Alpha Ltd (Purchasing co.)

Section A - Pre Amalgamation Events.

	Particulars		**Debit**	**Credit**
1.	**Proposed dividend:**			
	Profit & Loss A/c	Dr.	3,00,000	
	To Proposed Dividend A/c			3,00,000
2.	**Revaluation of Investments**			
	Profit and Loss A/c	Dr.	1,12,000	
	To Investments A/c [3,00,000 - (20,000 × 9.4)]			1,12,000

Section B - Amalgamation events

- Nature of Amalgamation : Merger
- Method of Accounting : Pooling of Interest

(`)

	Particulars					Debit	Credit
3.	**For Purchase Consideration Due:**						
	Business Purchase A/c				Dr.	92,004	
	To Liquidator of Beta Ltd.'s A/c						92,004
4.	**For assets and liabilities taken over:**						
	a. Aggregate investment Consideration Paid						
	i. Investment of Alpha Ltd. in Beta Ltd.		1,88,000				
	ii. Paid to outsiders.						
	I. Now issued	92,004					
	II. Already held by Beta Ltd.	10,00,000	10,92,004				
			12,80,004				
	III. Less: Paid up capital		(10,00,000)				
	IV. Excess		2,80,004				
	b. Above excess to be adjusted against						
	i. General reserve of Beta Ltd.			2,00,000			
	ii. P & L A/c of Beta Ltd.			80,000			
	c. Balance of Beta Ltd. reserve to be incorporated			2,80,000			
	i. General reserve (2,00,000 – 2,00,000)					Nil	
	ii. Profit and Loss A/c (80,000 – 80,000)						Nil
	Fixed Assets A/c				Dr.	1,00,000	
	Sundry Debtors A/c				Dr.	3,00,000	
	Stock A/c				Dr.	4,20,000	
	Cash at Bank A/c (1,80,000 + 4)				Dr.	1,80,004	
	Dividend Receivable A/c				Dr.	60,000	
	To Debentures A/c						6,00,000
	To Creditors A/c						1,80,000
	To Business Purchase A/c						92,004
	To Investments in Beta Ltd. Ltd A/c						1,88,000
5.	**Discharge of Purchase Consideration:**						
	Liquidator of Beta Ltd. A/c				Dr.	92,004	
	To Equity Share Capital A/c						83,636
	To Securities Premium A/c						8,364
	To cash A/c						4
6.	**Others**						
	a. Cancellation of inter-company dividends						
	Proposed Dividend A/c				Dr.	60,000	
	To Dividend Receivable A/c						60,000
	b. Cancellation of inter-company owings						
	Creditors A/c				Dr.	50,000	
	To Debtors A/c						50,000
	c. Creation of Stock Reserve						

Profit & Loss A/c	Dr.	24,000	
To Stock Reserve A/c			24,000

Name of the Company: Alpha Ltd. (after absorption)

Balance Sheet as at 31.03.2012

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	30,83,640	
	(b) Reserves and surplus	2	2,92,364	
	(c) Money received against share warrants			
2	Share application money pending allotment			
3	Non-current liabilities			
	(a) Long-term borrowings	3	6,00,000	
	(b)Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
4	Current Liabilities			
	(a) Short-term borrowings			
	(b) Trade payables			
	(c)Other current liabilities	4	5,30,000	
	(d) Short-term provisions	5	2,40,000	
	Total		47,46,004	
II.	Assets			
1	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	6	21,00,000	
	(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	7	13,56,000
	(c) Trade receivables	8	8,30,000
	(d) Cash and cash equivalents	9	4,60,004
	(e) Short-term loans and advances		
	(f) Other current assets		
	Total		47,46,004

(`)

Note 1. Share Capital	A [redacted] 2012	2011
Authorised, Issued, and paid up Capital of ` 100 each (out of which 8,364 shares were issued for consideration other than cash)	30,83,640	
Total	30,83,640	

RECONCILATION 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	3,00,000	30,00,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	8,364	83,640	NIL	NIL
	3,08,364	30,83,640	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	3,08,364	30,83,640	NIL	NIL

Note 2. Reserves and Surplus	As at 31st March, 2012	As at 31st March, 2011
Securities Premium	8,364	
General Reserve	4,00,000	
Profit and Loss A/c	(1,16,000)	

Total	2,92,364	

Note 3. Long Term borrowing	**As at 31st March, 2012**	**As at 31st March, 2011**
10% Debentures	6,00,000	
Total	6,00,000	

Note 4. Other Current Liabilities	**As at 31st March, 2012**	**As at 31st March, 2011**
Current Liabilities	5,30,000	
Total	5,30,000	

Note 5. Short-term provision	**As at 31st March, 2012**	**As at 31st March, 2011**
Proposed Dividend	2,40,000	
Total	2,40,000	

Note 6. Tangible	**As at 31st March, 2012**	**As at 31st March, 2011**
Fixed Assets (20,00,000 + 1,00,000)	21,00,000	
Total	21,00,000	

Note 7. Inventories		**As at 31st March, 2012**	**As at 31st March, 2011**
Stock (9,60,000 + 4,20,000)	13,80,000		
Less : Reserves	24,000	13,56,000	
Total		13,56,000	

Note 8. Trade	**As at 31st March, 2012**	**As at 31st March, 2011**
Debtors [(5,80,000+3,00,000)-50,000]	8,30,000	
Total	8,30,000	

Note 9. Cash and Cash Equivalent	**As at 31st March, 2012**	**As at 31st March, 2011**
Cash at Bank	4,60,004	
Total	4,60,004	

Or,

(b) **The following Trial Balance (Extract) of Fat Ltd. and Thin Ltd. for the year ending on 31st March, 2012.**

(` in Crores)

Particulars	**Fat Ltd.**		**Thin Ltd.**	
	Dr.	**Cr.**	**Dr.**	**Cr.**
Equity Share Capital @ ` 10 each		**50**		**40**
12% Preference Share of ` 100 each		**-**		**60**
Reserve and Surplus		**200**		**150**
Loan Secured		**100**		**100**
Fixed assets (at cost less depreciation) Tangible	**150**		**150**	
Current Assets	**300**		**300**	
Current Liabilities		**100**		**100**
Total	**450**	**450**	**450**	**450**

Note: Secured Loan to repayable within 12 months.

The present worth of fixed assets of Fat Ltd. is ` 200 crores and that of Thin Ltd. is ` 429 crores. Goodwill of Fat Ltd. is ` 40 crores and of Thin Ltd. is 75 crores.

Thin Ltd. absorbs Fat Ltd. by issuing equity shares at par in such a way [redacted] maintained.

Goodwill account is not to appear in the books. Fixed assets are to appear at old figures.

(a) Show the Balance Sheet after absorption.

(b) Draft a statement of valuation of shares on intrinsic value basis and prove the accuracy of your workings. [15]

Answer:

Part-I: Purchase consideration

WN # 1: Intrinsic Value of Equity Shares

(` in Crores)

Particulars	***Fat Ltd.***	***Thin Ltd.***
a) Assets:		
i. Goodwill	40	75
ii. Fixed assets	200	429
iii. Current asset	300	300
	540	804
b) Liabilities		
i. Current Liabilities	(100)	(100)
ii. Secured Loans	(100)	(100)
iii. 12% Preference Share capital	-	(60)
c) Net Assets attributable to Equity shareholders	340	544
d) Number of Shares (in Crores)	5	4
e) Value per share of ` 10 each	` 68	` 136

WN # 2 : ***Determination of Exchange Ratio and the number of shares to be issued***

Exchange Ratio is based on intrinsic value per share of the companies

		Fat Ltd.	:	Thin Ltd.
i.	Intrinsic value	` 68	:	` 136
ii.	Exchange ratio	1	:	2

1 share of Thin Ltd. for 2 shares of Fat Ltd.

Therefore, Number of shares to be issued = Number of shares of Fat Ltd. × %

= 5 crores × 50% (i.e. ratio is 1:2 =50%)

= 2.5 crores

Journal Entries in the books of Thin Ltd.

- Nature of Amalgamation - Purchase
- Method of Accounting – Purchase

(` in Crores)

Particulars		[redacted]	
1. For Business Purchase			
Business Purchase A/c	Dr.	25	
To Liquidator of Fat Ltd.			25
2. For assets and liabilities taken over :			
Fixed Assets A/c	Dr.	150	
Current Assets A/c	Dr.	300	
To Secured Loans A/c			100
To Current Liabilities A/c			100
To Capital Reserve A/c			225
To Business Purchase A/c			25
3. For Discharge of Purchase Consideration:			
Liquidator of Fat Ltd. A/c	Dr.	25	
To Equity Share Capital A/c			25

Name of the Company: Thin Ltd. (After absorption)

Balance Sheet as at 31.03.2012

Ref No.	Particulars	Note No.	**As at 31st March, 2012**	**As at 31st March, 2011**
			(` in Crore)	**(` in Crore)**
	I. Equity and Liabilities			

1	Shareholders' funds		
	(a) Share capital	1	125
	(b) Reserves and surplus	2	375
	(c) Money received against share warrants		
2	Share application money pending allotment		
3	Non-current liabilities		
	(a) Long-term borrowings	3	200
	(b) Deferred tax liabilities (Net)		
	(c) Other Long term liabilities		
	(d) Long-term provisions		
4	Current Liabilities		
	(a) Short-term borrowings		
	(b) Trade payables		
	(c) Other current liabilities	4	200
	(d) Short-term provisions		
	Total		900
II.	**Assets**		
1	Non-current assets		
	(a) Fixed assets		
	(i) Tangible assets	5	300
	(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		
	(c) Trade receivables		
	(d) Cash and cash equivalents		
	(e) Short-term loans and advances		
	(f) Other current assets	6	600
	Total		900

(` in Crore)

Note 1. Share Capital	[redacted]	
Authorised, issued, subcribed and paid up 6.5 crore equity shares of `10 each (of the above shares ,2.5 crores equity shares are allotted as fully paid up for consideration other than cash)	65	
12% Preference Share capital (60 lakhs shares of `100 each)	60	
Total	125	

RECONCILATION 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	40.00	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	2.5	25.00	NIL	NIL
	6.5	65.00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	6.5	65.00	NIL	NIL

FOR 12% PREFERENCE SHARE :-	**As at 31st March, 2012**		**As at 31st March, 2011**	
	Nos	**Amount (`)**	**Nos**	**Amount (`)**

Opening Balance as on 01.04.11	6	60	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)		-	NIL	NIL
	6	60	NIL	NIL
Less: Buy Back of shares	-		-	-
	6	60	NIL	NIL

Note 2. Reserves and Surplus	**As at 31st March, 2012**	**As at 31st March, 2011**
Capital Reserve	225	
Other Reserve	150	
Total	375	

Note 3. Short-term borrowings	**As at 31st March, 2012**	**As at 31st March, 2011**
Secured Loan (100+100)	200	
Total	200	

Note 4. Other Current Liabilities	**As at 31st March, 2012**	**As at 31st March, 2011**
Current Liabilities(100+100)	200	
Total	200	

Note 5. Tangible assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Fixed Assets (150+150)	300	
Total	300	

Note 6. Other Current Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Current Assets (300+300)	600	
Total	600	

* Secured loan is repayable within 12 months.

WN 3: Statement to prove the accuracy of workings

		(` in Crores)
(i)	Equity Share capital (after absorption)	65
	Add: Reserves Surplus (after absorption)	375
	Add: Unrecorded value of goodwill (40+75)	115
	Add: Unrecorded incremental value of Fixed assets (50+279)	329
	Value of the Business	884
(ii)	Number of Equity shares (4 + 2.5)	6.5 Crores
(iii)	Intrinsic value of an equity share (884/6.5)	` 136

6. (a) (i) Explain the term Extensible Business Reporting Language (XBRL). [6]

Answer:

XBRL stands for e**X**tensible **B**usiness **R**eporting **L**anguage. It is one of a family of "XML" (Extensible Markup Language) languages which is becoming a standard means of communicating information between businesses and on the internet. XBRL provides major benefits in the preparation, analysis and communication of business information and is fast becoming an accepted reporting language globally. It offers major benefits to all those who have to create, transmit, use or analyse such information.

Meaning of the term:

i. Extensible: It means the user can extend the application of a particular business data beyond its original intended purpose and the major advantage is that the extended use can be determined even by the users and not just the ones who merely prepare the business data. This is achieved by adding tags which are both human and machine readable – describing what the data is.

The property of extensibility is very handy in situations when list of items reported for various elements of the financial statements are not the same across firms, industries, and countries. For example, many of item constituting non-current assets in Oil and Gas Industry (items like rigs, exploratory oil and gas wells) may not be applicable to companies in general. In a situation of this kind, XBRL may prepare a taxonomy called a 'Global Common Document' (GCD) for items common to all the firms, industries, and countries, and, any country specific, industry specific and firm-specific variations (extensions / limitations) can, then, be written as independent taxonomies that can be imported and incorporated with the GCD.

ii. Business: It means relevant to the type of business transaction. XBRL focus is on describing the financial statements for both public and private companies.

iii. Reporting: The intention behind promoting use of XBRL is to have all companies report their financial statements in a consolidated manner using the specified formats.

iv. Language: XBRL is based on XML, which prescribes the manner in which the data can be "marked-up" or "tagged" to make it more meaningful to human readers as well as to computers-based system.

(ii) Discuss the process of Triple Bottom Line Reporting. [9]

Answer:

The major steps involved in undertaking the reporting process are:

1. Planning for Reporting

• Understand the national, international and industry sector trends in Triple Bottom Line Reporting [(TBL) reporting].

• Identify key stakeholders

• Establish the 'business case' and set high-level objectives for TBL reporting

• Secure support from the Board and senior executives

• Identify resource requirements and determine budget

2. Setting the Direction for TBL Reporting

• Engage with stakeholders to understand their requirements

• Prioritise stakeholder requirements and concerns

• Set overall objectives for TBL reporting

• Review current approach and assess capability to deliver on reporting objective

• Identify gaps and barriers associated with current approach, and prioritise risks associated with overall reporting objective

• Review of associated legal implications

• Develop TBL reporting strategy

• Determine performance indicators for inclusion in report

• Establish appropriate structure and content of the report

3. Implementation of TBL Reporting Strategy

• Implementation of TBL reporting strategy (including required data collection and review processes)

• Clarify relationship to statutory financial reporting

4. Publication of TBL Report

• Prepare draft report

• Review content and structure of report internally, and modify accordingly

• Obtain independent assurance - external verification

• Publish TBL report

• Seek feedback from stakeholders and incorporate into planning for the next period's reporting.

Or,

(b) (i) What are the disclosures, that should be made as per AS – 20? [6]

Answer:

As per AS – 20 an enterprise should disclose the following:

– Positive as well as negative earning per share (EPS);

– Basic and diluted EPS for current and previous period, in the face of P & L;

– The amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period;

– The weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other;

– The nominal value of shares along with the earnings per share figures;

– Terms and conditions of contract generating potential equity shares;

– Components of Net Profit – ordinary activities;

– Post Balance Sheet events where relevant.

Additionally, if applicable the enterprise shall disclose

– The Fact that Restatement has been made for events after Balance sh[redacted]

– If a component of net profit is used which is not reported as a line ite[redacted] profit and loss, a reconciliation should be provided between the component used and a line item which is reported in the statement of profit and loss.

It has been clarified by the ICAI that earning per share to be disclosed in Part IV of the Schedule VI to the Companies Act,1956 should be in accordance with AS – 20 whether its equity shares or potential equity shares are listed on a recognised stock exchange in India or not.

(ii) Discuss what is meant by Capital Adequacy Ratio for Non- Banking Financial Companies (NBFC). [4]

Answer:

Non- Banking Financial Companies (NBFC) are required to maintain adequate capital. Every NBFC shall maintain a minimum capital ratio consisting of Tier I[1] and Tier II[2] capital which shall not be less than 12% of its aggregate risk – weighted assets. The total of Tier II capital, at any point of time, shall not exceed 100% of Tier I capital. Capital adequacy is calculated as under:

$$\frac{(\text{Tier I} + \text{Tier II})\text{Capital}}{\text{Risk Adjusted Assets}} \text{x}100$$

Note:

1. "Tier- I Capital" means owned fund reduced by investment in shares of other NBFCs and in shares, debenture, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, 10% of the owned fund.

2. "Tier –II Capital" includes (i) Preference Shares, (ii) Revaluation Reserves at discount rate of 55%, (iii) General Provisions and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets, (iv) hybrid debt capital instruments, (v) subordinated debt.

(iii) M/s. MS Ltd. has entered into a contract by which it has the option to sell its specified asset to NS Ltd. for `100 lakhs after 3 years whereas the current market price is `150 lakhs. Company always settles account by delivery. What type of option is this? Is it a financial instrument? Explain with reference with reference to the relevant accounting standard. [5]

Answer:

As per AS 31 "Financial Instruments: Presentation". A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In the given case, M/s MS Ltd. has entered into a contract with NS Ltd. and company settles its account by delivery, and does not give rise to any financial asset or financial liabilities. Hence there is no option.
Since, the above transaction does not give rise to a financial asset of one [redacted] liability or equity instrument of another entity; this is not a financial i[redacted] financial contract.

7. (a) (i) Why Human Resources Asset is not recognised in the Balance sheet? [4]

Answer:

Although human beings are considered as the prime mover for achieving productivity, and are placed above technology, equipment and money, the conventional accounting practice does not assign significance to the human resources. Human resources are not recognized in balance sheet as there are no measurement criteria for recognition of human resources. Human resource accounting is at developing stage and no accounting principles have been established for valuation of human assets. Costs incurred on human resources are recognised as expenses in profit and loss account. Leading public sector units like OIL, BHEL, NTPC and SAIL etc. have started reporting human resources in their annual reports as additional information.

(ii)

Particulars	
Equity Share Capital	**` 10,00,000**
Reserves & Surplus	**` 3,00,000**
12% Preference Share Capital	**` 2,00,000**
10% Debenture	**` 4,00,000**
Immovable property (held as investment)	**` 1,00,000**
Profit after tax	**` 2,00,000**
Rate of tax	**40%**

Companies with Beta factor of 1 in similar business have market rate of return 15% . Beta factor of Anant Ltd. is 1.1 calculate EVA assuming Risk Free Return-7%. [6]

Answer:

EVA = (Return on operating capital – weighted average cost of capital) X Operating Capital =(12.44%-13.33%) X 18,00,000 = (16,020)

Working Note – 1

Operating Capital	`
Equity Share Capital	10,00,000
Reserves & Surplus	3,00,000
12% Preference Share Capital	2,00,000
10% Debenture	4,00,000
Total	19,00,000
Less: Non operating Investment	1,00,000
Operating Capital	18,00,000

Working Note – 2
Calculation of Return on operating Capital

	`
NOPAT = Profit after Tax	2,00,000
$(2{,}00{,}000 \times 40 / 60)$	[redacted]
+ Taxes	
	3,33,333
+Interest Expense	40,000
Operating EBIT	3,73,333
(-) Economic taxes @ 40%	1,49,333
NOPAT	2,24,000

Working Note – 3

Calculation of WACC

Kd = 10% (1-0.40) X 4,00,000/19,00,000=	1.26%	
Kp = 12% X 2,00,000/19,00,000 =	1.26%	
Ke = 7% + 1.1(15%-7%) = 15.8% X 13/19 =	10.81%	13.33%

Working Note – 4
Return on operating capital (%) = (`2,24,000/`18,00,000)×100=12.44%.

Or,

(b) (i) State the Key challenges associated with implementation of Triple Bottom Line Reporting.

[5]
Answer:

Key challenges associated with the implementation of Triple Bottom Line (TLB) Reporting are:

Specific challenges associated with TBL reporting vary from company to company and between industry sectors. The challenges may be outlined as under:

- awareness of relevant issues associated with TBL to the reporting organization is required;

• clear understanding of the requirements of key stakeholders in relation to public reporting is needed;
• maintenance of clarity in relation to the company's objectives and the risks related to reporting is another requirement; and
• proper determination of key indicators of environmental, social and economic performance, and basis of measurement.

Lack of all the above mentioned components may hamper the total effort of establishing Triple Bottom Line Reporting.

(ii) Write a note on Squaring off of the position with respect to Option contracts. [5]

Answer:

Meaning: "Squaring Off of the position" refers to the process of entering a reverse contract, after entering into an option contract, in the same series with the same strike price.

Gain/Loss: The gain or loss of the client will be the difference between the Option Premium Received and Paid after reducing/adding the brokerage charged by the Clearing Member.

Objective: It is a tool to mitigate the loss to the difference in the premium amounts by squaring off the position before the Expiry Date.

Example: A buyer/holder having bought S&P CNX NIFTY **call option** of January 2005 series with strike price of ` 1,120 can square off his position by **selling/writing** S&P CNX NIFTY call option of January 2005 series with `1,120 as strike price.

8. (a) (i) Discuss the structure of Indian Government Accounting Standards Advisory Board. [6]

Answer:

Government Accounting Standards Advisory Board (GASAB) is a representative body and is represented by main stakeholders connected with accounting reforms of Union Government of India and States.

The board consists of the following members:

1. Deputy Comptroller and Auditor General (Accounts) as Chairperson
2. Controller General of Accounts
3. Financial Commissioner, Railways
4. Controller General of Defence Accounts
5. Member (Finance) Telecom Commission, Department of Telecom
6. Additional / Joint Secretary (Budget), Ministry of finance, Govt. of India
7. Secretary, Department of Post
8. Deputy Governor, Reserve Bank of India or his nominee
9. Director General, National Council of Applied Economic Research (NCAER)
10. President, Institute of Chartered Accountants of India (ICAI) or his nominee
11. President, Institute of Cost and Works Accountants of India or his nominee

12-15. Principal Secretary (Finance) of four States by rotation

16. Principal Director in GASAB as Member secretary.

(ii) State the Objectives and the scope of Indian Government Accounting Standard 3 (Cash Flow Statements). **[6]**

Answer:

Objectives of Government Accounting Standard 3 (Cash Flow Statements)

The objective of this Standard is to provide information about the historical changes in cash and cash equivalents of the Government by means of a cash flow statement, which classifies cash flows during the period into operating, investing and financing activities.

Scope of Government Accounting Standard 3 (Cash Flow Statements)

The cash flow statement should be presented as an integral part of Financial Statements of the Union and State Governments for each period for which such Financial Statements are presented. It should be prepared in accordance with the requirements of this Standard. The Financial Statements should not be described as complying with this Standard unless they comply with all its requirements. The transactions that do not require the use of cash or cash equivalents (non-cash transactions) should be excluded from a cash flow statement.

Information about cash flows may be useful to users of the Government Financial Statements in assessing its cash flows and assessing compliance with legislation and [illegible] authorized budgets where appropriate). Accordingly this Standard requires Governments to present a cash flow statement.

Some activities undertaken by Government do not have direct impact on their current cash flows. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions include accounting for interest payable on provident fund deposits of employees, conversion of debt into equity of an entity. Summary and impact of such non-cash transactions should be disclosed in the notes to Cash Flow Statement forming part of the Financial Statements in a way that provides all the relevant information about these activities.

(iii) What is objective of IGAS 10 (Public Debt and Other Liabilities of Governments: Disclosure Requirements)? **[3]**

Answer:

The objective of the IGAS is to lay down the principles for identification, measurement and disclosure of public debt and other obligation of Union and the State Governments including Union Territories with legislatures in their respective financial statements. It ensures consistency with international practices for accounting of public debt in order to ensure transparency and disclosure in the financial statements of Government for the benefit of various stake holders.

Or,

(b) (i) Write a note Committee on Public Undertaking. **[5]**

Answer:

The Committee on Public Undertakings exercises the same financial control on the public sector undertakings as the Public Accounts Committee exercises over the functioning of the Government Departments. The functions of the Committee are:

i. to examine the reports and accounts of public undertakings.
ii. to examine the reports of the Comptroller & Auditor General on public undertakings.
iii. to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.
The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.
The objective of the Financial Committees, in doing so, is not to focus only on the individual irregularity, but on the defects in the system which led to such irregularity, and the need for correction of such systems and procedures.

(ii) Discuss the role of GASAB towards Government Accounting in India. [6]

Answer:

Government Accounting Standards Advisory Board (GASAB) has been constituted by Comptroller and Auditor General of India (CAG), with the support of Government of India through a notification dated 12th August, 2002.
The decision to set-up GASAB has been taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace with the International [redacted]
The new priorities focus on good governance, fiscal prudence, efficien[redacted]
public spending instead of just identifying resources for public scheme fun[redacted]
The accounting systems, the world over, are being revisited with an emphasis on transition from rule to principle based standards and migration from cash to accrual based system of accounting.
GASAB, as a nodal advisory body in India, is taking similar action to establish and improve standards of government accounting and financial reporting and enhance accountability mechanisms.

Responsibilities of the Board

a. To establish and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
b. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
c. To keep the standards current and reflect change in the Governmental environment;
d. To provide guidance on implementation of standards.
e. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
f. To improve the understanding of the nature and purpose of information contained in the financial reports.

(iii) Write a note on Methods of Government Accounting. [4]

Answer:

The mass of the Government accounts being on cash basis is kept on Single Entry. There is, however, a portion of the accounts which is kept on the Double Entry System, the main purpose of which is to bring out by a more scientific method the balance of accounts in regard to which Government acts as banker or remitter, or borrower or lender. Such balances are, of course, worked out in the subsidiary accounts of single entry compilations as well but their accuracy can be guaranteed only by a periodical verification with the balance brought out in the double entry accounts.

Business and merchant accounting methods are different than government accounting system because government accounting system is ruling over the nation and keeps various departments i.e. production, service utility or entertainment industry etc. The operations of department of government sometimes include under taking of a commercial or quasi-commercial character and industrial factory or a store. It is still necessary that the financial results of the undertaking should be expressed in the normal commercial form so that the cost of the services or undertaking may be accurately known.