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.

(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.

(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

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

	2012	2011	2012	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]**

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]

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]**

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

Particulars	Dr. Amount (₹)	Cr 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]**

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	-
		(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			

Ref No.		Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
				₹	₹
		(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]**

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	-	8,00,000	-	-

(in shares of ₹100 each)				
10% Preference Share Capital (in share of ₹100 each)	-	-	-	4,00,000
Reserves	-	30,00,000	-	24,00,000
Current Liabilities	-	18,00,000	-	10,00,000
Fixed Assets	55,00,000	-	27,00,000	-
Current Assets	25,00,000	-	23,00,000	-
	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]**

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]**

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 that intrinsic net worth is 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]**

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

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

Or,

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

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

(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]**

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

(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]**

Or,

(b) (i) State the Key challenges associated with implementation of Triple Bottom Line Reporting. **[5]**

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

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

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

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

Or,

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

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

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