Paper – 18 - Corporate Financial Reporting

This paper contains 5 questions, divided in sub-questions. Each question represents the specified weightage in sections as prescribed syllabus for this paper. Answers must be given against all questions. However, students are requested to read the instructions against each individual question also. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

Question No. 1 is compulsory.

(a) What are the disclosure requirements of Contingent Liability as per AS-29? [5]
(b) (i) Describe Disposal group as per IFRS 5 (Non-Current Assets held for sale and discontinued Operations) [3]
(ii) State the objective of IFRS-7 (Financial Instruments- Disclosures) [2]

Answer:

(a) An enterprise should disclose for each class of Contingent liability at the balance sheet date–

- A brief description of the nature of the contingent liability where practicable.
- An estimate of the amount as per measurement principles as prescribed for provision.
- An indication of the uncertainties about those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events.
- The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.
- Where any of the information required as above is not disclosed because it is not practicable to do so, that fact should be stated.

(b) (i) Disposal group

- It is a group of assets (and directly associated liabilities) which are to be disposed of through a single transaction.
- The group includes goodwill acquired in business combination if the group is a cash generating unit to which goodwill has been allocated in accordance with the requirements of Paras 80-87 of IAS-36 Impairment of Assets.
- A cash generating unit is the smallest identifiable group of assets that generates cash inflow and that such cash inflow is largely independent of other assets or group assets of the entity.

(ii) The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate:

(a) The significance of financial instruments for the entity's financial position and performance;
(b) The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

Question No. 2 : Answer to Question No. 2(a) is Compulsory. Answer any two from the remaining sub-questions.

(a) T Ltd was incorporated for the purpose of acquiring B Ltd. V Ltd. and S Ltd. The balances in the books of these Companies as on 30th June of a Financial Year are as follows:

Particulars	B Ltd.	V Ltd.	S Ltd.
Tangible Fixed Assets at Cost Less Depreciation	**5,00,000**	**4,00,000**	**3,00,000**
Goodwill	**---**	**60,000**	**---**
Other Assets	**2,00,000**	**2,80,000**	**85,000**
Total Assets	**7,00,000**	**7,40,000**	**3,85,000**
Liabilities:			
Issued Ordinary Share Capital Shares of ₹ 10 each	**4,00,000**	**5,00,000**	**2,50,000**
Profit & Loss Account	**1,50,000**	**1,10,000**	**60,000**
10% Debentures	**70,000**	**---**	**40,000**
Sundry Creditors	**80,000**	**1,30,000**	**35,000**
Total Liabilities	**7,00,000**	**7,40,000**	**3,85,000**

Particulars	B Ltd.	V Ltd.	S Ltd.
Average Annual Profits before Debenture Interest	**90,000**	**1,20,000**	**50,000**
Professional Valuation of Tangible Assets on 30th June	**6,20,000**	**4,80,000**	**3,60,000**

1. **The Directors in their negotiations agreed that (i) the recorded Goodwill of V Ltd. is valueless, (ii) the Other Assets of the B Ltd. are worth ₹ 30,000, (iii) the valuation of 30th June in respect of Tangible Fixed Assets should be accepted, (iv) these adjustments are to be made by the individual Company before the completion of the acquisition.**
2. **The acquisition agreement provides for the issue of 12% Unsecured Debentures to the value of the Net Assets of the Companies B Ltd, V Ltd. and S Ltd and for the issuance of ₹ 10 nominal value ordinary shares for the capitalized average Profits of each acquired Company in excess of the Net Assets contributed. The Capitalization Rate is taken at 10%.**

You are required to calculate purchase consideration and show the purchase consideration as discharged. [5]

Answer:

1. Computation of Net Assets and Debentures to be issued

Particulars	B Ltd.	V Ltd.	S Ltd.
Tangible Fixed Assets (as per Valuation)	6,20,000	4,80,000	3,60,000
Other Assets (as per agreement)	30,000	2,80,000	85,000
Total Assets	6,50,000	7,60,000	4,45,000
Less: Sundry Creditors	(80,000)	(1,30,000)	(35,000)
Debentures	(70,000)	---	(40,000)
Net Assets	5,00,000	6,30,000	3,70,000

2. Settlement of Purchase Consideration

Particulars	B Ltd.	V Ltd.	S Ltd.
Average Annual Profits (after Debenture Interest)	90,000 - 7,000=83,000	1,20,000	50,000-4,000 = 46,000
Capitalisation at 10%	8,30,000	12,00,000	4,60,000
Less: Net Assets as calculated above	(5,00,000)	(6,30,000)	(3,70,000)
Excess to be settled by Shares	3,30,000	5,70,000	90,000
Issued by T Ltd			
- Equity Shares (for the excess portion)	3,30,000	5,70,000	90,000
- 12% Debentures (for the Net Assets)	5,00,000	6,30,000	3,70,000
Total Purchase Consideration	8,30,000	12,00,000	4,60,000

(b) The following was the Balance Sheet of V Ltd as on 31st March 2014:

Particulars		Note No.	Amount (₹ in Lakhs)
Equity and Liabilities			
(1) Shareholders' Funds	(a) Share Capital	1	1,150
	(b) Reserves and Surplus	2	(87)
(2) Non-Current Liabilities	Long-Term Borrowings	3	630
(3) Current Liabilities	Trade Payables		170
	Total		1,863
Assets			
(1) Non-Current Assets	Tangible Assets	4	1,152
(2) Current Assets	Inventories		380
	Trade Receivables		256
	Cash and Cash Equivalents	5	75
	Total		1,863

Notes:

	₹
(1) Share Capital	
Authorised:	
Issued, Subscribed and Paid up:	800
80 Lakh Equity Shares of ₹ 10 each, fully paid up	350
35 Lakh 12% Cumulative Preference Shares of ₹ 10 each, fully paid up	
Total	1,150

(2) Reserves and Surplus: Debit Balance of Profit & Loss Account	(87)
Total	(87)

(3) Long-Term Borrowings	
10% Secured Cumulative Debentures of ₹ 100 each, fully paid up	600
Outstanding Debenture Interest	30
Total	630

(4) Tangible Assets	
Land and Buildings	445
Plant and Machinery	593
Furniture, Fixtures and Fittings	114
Total	1,152

(5) Cash and Cash	
Equivalents Balance at Bank	69
Cash in Hand	6
Total	75

On 1st April 2014, P Ltd took over the entire business of V Ltd on the following terms:
V Ltd's Equity Shareholders would receive 4 fully paid Equity Shares of P Ltd of ₹ 10 each issued at a Premium of ₹ 2.50 each for every Five Shares held by them in V Ltd.
Preference Shareholders of V Ltd would get 35 Lakh 13% Cumulative Preference Shares of ₹ 10 each fully paid up in P Ltd, in lieu of their present holding.

All the Debentures of V Ltd would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹ 100 each, fully paid up after the takeover by P Ltd, which would also pay Outstanding Debenture Interest in cash.
Expenses of Amalgamation would be borne by P Ltd. Expenses came to be ₹ 2 Lakh. P Ltd discovered that its Creditors included ₹ 7 Lakh due to V Ltd for goods purchased.
Also P Ltd's Stock included goods of the Invoice Price of ₹ 5 Lakh earlier purchased from V Ltd, which had charged profit at 20% of the Invoice Price.
You are required to:
(i) Prepare Realisation A/c in the books of V Ltd.
(ii) Pass Journal Entries in the books of P Ltd, assuming it to be an amalgamation in the nature of Merger. [10]

Answer:

1. Computation of Purchase Consideration

Particulars	₹ Lakhs
Equity Shares: (issued at Premium ₹ 2.50) 80 Lakh Shares x $\frac{4}{5}$ = 64 Lakh Shares issued at ₹ 12.50 per Share. Therefore, Total Value of Equity Shares (including Premium) (64 Lakh Shares x ₹ 12.50)	800
Preference Shares:13% Cumulative Preference Shares of ₹10 each (35 Lakh Shares x ₹10)	350
Total Purchase Consideration	1,150

2. Realisation Account

Particulars	₹ Lakhs	Particulars	₹ Lakhs
To Land and Buildings A/c	445	By Trade payables A/c	170
To Plant and Machinery A/c	593	By 10% Debentures A/c	600
To Furniture, Fixtures & Fittings A/c	114	By Outstanding Debenture	30
To inventories A/c	380	interest A/c	1,150
To Trade Receivables A/c	256	By P Ltd A/c	
To Cash in Hand A/c	6		
To Cash at Bank A/c	69		
To Equity Shareholders A/c (bal. figure)	87		
Total	1,950	Total	1,950

3. Journal Entries in the books of P Ltd (₹ Lakhs)

S.N.	Particulars		Dr.	Cr.
1	Business Purchase A/c	Dr.	1,150	
	To Liquidator of V Ltd A/c			1,150
	(Being Purchase Consideration Due)			
2	Land and Building A/c	Dr.	445	
	Plant and Machinery A/c	Dr.	593	
	Furniture, Fixtures and Fittings A/c	Dr.	114	
	Inventories A/c	Dr.	380	
	Trade Receivables A/c	Dr.	256	
	Cash in Hand A/c	Dr.	6	
	Cash at Bank A/c	Dr.	69	
	Profit and Loss A/c	Dr.	87	

	To 10.5% Debentures A/c To Outstanding Interest A/c To Trade Payables A/c To Business Purchase A/c (Being Assets and Liabilities taken over from V Ltd under amalgamation)		600 30 170 1,150
3	Liquidator of V Ltd A/c Dr. To Equity Share Capital A/c To 13% Cumulative Preference Shares A/c To Securities premium A/c. (Being discharge of consideration, by allotment of 64 Lakh Equity Shares of ₹ 10 each at a premium of ₹ 2.50 per Share & 35 Lakh 13% Cumulative Pref. Shares of ₹ 10 each at par)	1,150	 640 350 160
4	10% Secured Cumulative Debentures A/c Dr. To 10.5% Secured Cumulative Debentures A/c (Being Secured Cumulative Debentures of V Ltd converted into 10.5% Secured Cumulative Debentures of P Ltd)	600	 600
5	Outstanding Debenture Interest A/c Dr. To Bank A/c (Being Outstanding Debenture Interest Paid by P Ltd)	30	 30
6	Trade Payables A/c Dr. To Trade Receivables A/c (Being settlement of mutual liability)	7	 7
7	Amalgamation Expenses A/c Dr. To Cash A/c (Being Amalgamation Expenses met by P Ltd)	2	 2
8	Profit and Loss A/c Dr. To Inventories A/c (5 x 20%) (Being unrealized profit on Stock eliminated from the Inventories of P Ltd)	1	 1

(c) The following was the Balance Sheet of A Ltd as on 31st December –

			₹
	Equity and Liabilities		
(1)	**Shareholders' Funds:**		
	(a) Share Capital		
	24,000 Shares of ₹ 10 each		**2,40,000**
	Less: Calls Unpaid (₹ 3 per Share on 6,000 Sh)		**(18,000)**
	(b) Reserves & Surplus – P&L A/c		
	As per Last B/Sheet (Loss b/fd)	**44,000**	
	(Less) Profit for the Year	**2,400**	**(41,600)**
(2)	**Current Liabilities:**		
	(a) Trade Payables –Sundry Creditors		**30,850**
	(b)Short Term Provisions –Provision for Taxation		**8,000**
	Total		**2,19,250**
	Assets		
(1)	**Non-Current Assets:**		
	(a)Fixed Assets: (i)Tangible Assets		
	- Land & Buildings		**41,000**
	-Machinery		**1,01,700**
	(ii) Intangible Assets – Goodwill		**20,000**
	(b)Other Non-Current Assets		
	- Preliminary Expenses		**3,000**

(2)	**Current Assets:**	
	(a) Inventories	**20,550**
	(b) Trade Receivables–Book Debts	**30,000**
	(c) Cash & Cash Equivalents	**3,000**
	Total	**2,19,250**

Note: Authorised Capital is ₹ 4,00,000 being 40,000 Equity Shares of ₹ 10 each.

The Directors have had a valuation made for the Machinery and find it overvalues by ₹ 20,000. It is proposed to write down this asset to its true value and to extinguish the deficiency in the Profit and Loss Account and to write off Goodwill and Preliminary Expenses, by adoption of the following course –

(i) Forfeit the Shares on which the Call is outstanding.
(ii) Reduce the Paid-up Capital by ₹ 3 per Share.
(iii) Reissue the Forfeited Shares at ₹ 5 per Share.
(iv) Utilize the Provision for Taxes, if necessary.

The Shares on which the Calls were in Arrears were duly Forfeited and reissued on payment of ₹ 5 per Share. Give the Journal Entries and the Balance Sheet of the Company after carrying out the above scheme. [10]

Answer:

Journal Entries

	Particulars	Debit(₹)	Credit(₹)
1.	Equity Share Capital A/c Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being 6,000 Shares forfeited for non-payment of calls)	60,000	 18,000 42,000
2.	Equity Share Capital (₹ 10) A/c Dr. To Equity Share Capital (₹ 7) To Reconstruction A/c (Being par value and paid up value of Equity Shares brought down to ₹ 7 per share under the reconstruction scheme approved)	1,80,000	 1,26,00 0 54,000
3.	Bank A/c Dr. Share Forfeiture A/c (Balancing figure) Dr. To Equity Share Capital (Forfeited shares reissued at ₹ 5 per share as ₹ 7 paid up. Balance adjusted against Shares Forfeiture Account)	30,000 12,000	 42,000
4.	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance in Share Forfeiture Account transferred to Capital Reserve)	30,000	 30,000
5.	Reconstruction A/c Dr. Capital Reserve A/c Dr. Provision for Taxation A/c (Balancing figure A/c) Dr. To Profit and Loss A/c To Preliminary Expenses A/c To Machinery A/c To Goodwill A/c (Being balance in Reconstruction A/c and Capital Reserve A/c utilized to eliminate overvaluation of assets and write off balances in Preliminary Expenses A/c and Profit and Loss A/c)	54,000 30,000 600	 41,600 3,000 20,000 20,000

Balance Sheet of A Ltd. (and Reduced) as at 31st December

	Particulars as at 31st December	Note	This Year	Prev. Yr.
I	Equity and Liabilities			
(1)	Shareholders' Funds: Share Capital	1	1,68,000	
(2)	Current Liabilities			
	(a)Trade Payables -Creditors		30,850	
	(b)Short Term Provisions -Provision for Taxation (8,000 - 600)		7,400	
	Total		2,06,250	
II	Assets			
(1)	Non-Current Assets -Fixed Assets (Tangible Assets)	2	1,22,700	
(2)	Current Assets			
	(a)Inventories		20,550	
	(b)Trade Receivables -Book Debts		30,000	
	(c)Cash & Cash Equivalents –(3,000 + 30,000)		33,000	
	Total		2,06,250	

Notes to the Balance Sheet:
Note 1: Share Capital

Particulars	This Year	Prev. Yr.
Authorized: 20,000 Equity Shares of ₹ 10 each	4,00,000	
Issued, Subscribed & Paid up: 24,000 Equity Shares of ₹ 7 each	1,68,000	

Note: Reconciliation of Shares (Quantity & Value) will be provided by the Company along with annual Financial Statements.

Note 2: Tangible Assets

Particulars	This Year	Prev. Yr.
(a)Land & Building	41,000	
(b)Machinery	81,700	
Total	1,22,700	

(d)

The Balance Sheet of Sreejith Ltd having an Authorised Capital of ₹ 1,000 Crores as on 31st March is -

	Equity and Liabilities	**₹Crores**
(1)	**Shareholders' Funds:**	
	(a) Share Capital	
	-Equity Shares of ₹ 10 fully paid in cash	**250**
	(b) Reserves & Surplus – (Revenue)	**750**
(2)	**Current Liabilities:**	
	Long Term Borrowings(i)Secured against	
	-Fixed Assets	**300**
	-Working Capital	**100**
	(ii)Unsecured Loans	**600**
(3)	**Current Liabilities**	**2,000**
	Total	**4,000**
	Assets	
(1)	**Non-Current Assets:**	
	(a)Fixed Assets: (i)Tangible Assets	

	Gross Block 800	
	Less: Depreciation 200	600
	(b)Non-Current Investments at Cost	400
	(Market Value ₹ 1,000 Crores)	
(2)	Current Assets:	3,000
	Total	4,000

Note: Capital Commitments: ₹ 700 Crores.

The Company consists of 2 Divisions-

1. **Establishment Division whose Gross Block was ₹ 200 crores and Net Block was ₹ 30 Crores, Current Assets were ₹ 1,500 Crores and Working Capital was ₹ 1,200 Crores, the entire amount being financed by Shareholders' Funds.**
2. **The Project Division to which the remaining Fixed Assets, Current Assets and Current Liabilities related.**

The following scheme of reconstruction was agreed upon:

1. **Two new Companies Sunrise Ltd and Moonrise Ltd are to be formed. The Authorised Capital of Sunrise Ltd is to be R.s 1,000 Crores. The Authroised Capital of Moonrise Ltd is to be ₹ 500 Crores.**
2. **Moonrise Ltd is to take over investments at ₹ 800 crores and Unsecured Loans at Balance Sheet value. It is to allot Equity Shares of ₹ 10 each at par to the members of Sreejith Ltd in satisfaction of the amount due under the arrangement.**
3. **Sunrise Ltd. is to take over the Fixed Assets and Net Working Capital of the new project division along with the Secured Loans and Obligation for Capital Commitments for which Sreejith Ltd. is to continue to stand guarantee at book values. It is to allot one Crore Equity Shares of ₹ 10 each as consideration to Sreejith Ltd. Sunrise Ltd. made an issue of Unsecured Convertible Debentures of ₹ 500 Crores. Carrying interest at 15% per annum and having a right to convert into Equity Shares of ₹ 10 each at per five years hence. This issue was made to the members of Sunrise Ltd as a right who grabbed the opportunity and subscribed in full.**
4. **Sreejith Ltd. is to guarantee all Liabilities transferred to the 2 companies.**
5. **Sreejith Ltd. is to make a Bonus issue of Equity Shares in the ratio of one Equity Share for every Equity Share held by making use of the Revenue Reserves.**

Assume that the above scheme was duly approved by the Honourable High Court and that there are no other transactions, you are asked to (ignore taxation):

- **Pass Journal Entries in the Books of Sreejith Ltd and**
- **Prepare the Balance Sheets of Sreejith Ltd. after the scheme of reconstruction. [10]**

Answer:

1. Calculation of Assets/Liabilities transferred

Particulars	Establishment Division	New Project Division	total
1.Fixed Assets: Gross Block	200	600	800
Less: Depreciation	170	30	200
Net Block	30	570	600
2.Current Assets	1,500	1,500	3,000
Less: Current Liabilities	(balancing figure) 300	1,700	2,000
Net Current Assets	1,200	Balancing figure)(200)	1,000

2. Purchase Consideration:

(a) For Transfer to Moonrise (Net Assets) = Investments 800 Less Unsecured Loan 600 = ₹ 200 Crores

Discharged to members of Sreejith Ltd. by issue of 20 Crore Shares of ₹ 10.

(b) For Transfer to Sunrise Ltd (Payment) = ₹ 10 Crores

Discharged to Sreejith Ltd by issue of 1 Crore Shares of ₹ 10 each.

3. Journal of Sreejith Ltd. (₹ in Crores)

	Particulars	Debit	Credit
1.	Moonrise Ltd A/c Dr. To Investments A/c To Members A/c (Being transfer of Investments at agreed value of ₹ 800 Crores under the scheme of reconstruction approved by the High Court)	800	 400 400
2.	Unsecured Loans A/c Dr. To Moonrise Ltd A/c (Being Unsecured Loans taken over by Moonrise Ltd under the scheme of reconstruction approved by the High Court)	600	 600
3.	Members A/c Dr. To Moonrise Ltd A/c (Being allotment by Moonrise Ltd of ₹ 20 Crore Equity Shares of ₹ 10 each to the members of the Company)	200	 200
4.	Members A/c Dr. To Capital Reserve A/c (Being balance in Members A/c transferred to Capital Reserve)	200	 200
5.	Sunrise Ltd A/c Dr. Provision for Depreciation A/c Dr. Secured Loans against Fixed Assets A/c Dr. Secured Loans against Working Capital A/c Dr. Current Liabilities A/c Dr. To Fixed Assets A/c To Current Assets A/c To Capital Reserve A/c (balancing figure) (Being Assets and Liabilities of New Project Division transferred to Sunrise Ltd along with Secured Loans and Capital Commitments of ₹ 700 Crores, the difference between Consideration and the Book values at which transferred Assets and Liabilities appeared being credited to Capital Reserve)	10 30 300 100 1,700	 600 1,500 40
6.	Equity Share of Sunrise Ltd A/c Dr. To Sunrise Ltd A/c (Being 1 Crore Equity Shares of ₹ 10 received from Sunrise Ltd in full discharge of consideration on transfer of assets and liabilities of New Project Division)	10	 10
7.	Revenue Reserves A/c Dr. To Equity Share Capital A/c (Being allotment of 25 Crores Equity Shares of ₹ 10 each as fully paid Bonus Shares to the members of the Company by using Revenue Reserves in the ratio of one Equity Share for every share for every share held)	250	 250

(Note: Any other alternative entries, with same net effect on Various Accounts may be given)

4. Balance Sheet of Sreejith Ltd after scheme of reconstruction

(₹ Crores)

	Particulars as at 31st March	Note	This Year	Prev. Yr.

I	Equity and Liabilities			
(1)	Shareholders' Funds:			
	(a) Share Capital	1	500	
	(b) Reserves & Surplus	2	740	
(2)	Current Liabilities		300	
	Total		1,540	
II	Assets			
(1)	Non-Current Assets			
	(a) Fixed Assets -(Tangible Assets)	3	30	
	(b) Non-Current Investments	4	10	
(2)	Current Assets		1,500	
	Total		1,540	
	Details of Guarantees given	5	Note below	

Notes to the Balance Sheet (₹ Crores)

Note 1: Share Capital

Particulars	This Year	Prev. Yr.
Authorized: 100 Crore Equity Shares of ₹ 10 each	1,000	
Issued, Subscribed & Paid up: 50 Crore Equity Shares of ₹ 10 each, fully paid up (of the above shares, 25 Crores Fully Paid Equity Shares of ₹ 10 each have been issued as Bonus by Capitalisation of Revenue Reserves)	500	

Note 2: Reserves and Surplus

Particulars		This Year	Prev. Yr.
(a) Capital Reserve on transfer of:			
- Investments to Moonrise Ltd	200		
- Business of New Project Division to Sunrise	40	240	
(b) Revenue Reserves (750 – 250 for Bonus Issue)		500	
Total		740	

Note 3: Tangible Assets

Particulars	This Year	Prev. Yr.
Gross Block	800	
Less: Transfer to Sunrise	(600)	
Less: Provision for Depreciation (200 – Transfer to Sunrise 30)	(170)	
Total	30	

Note 4: Non-Current Investments

Particulars	This Year	Prev. Yr.
In wholly owned Subsidiary Sunrise (1 Crore Equity Shares of ₹ 10 each)	800	

Note 5: Contingent Liabilities, Guarantees and Capital Commitments

Particulars		This Year	Prev. Yr.
Guarantee by Sreejith Ltd against:		700	
(a) (i) Capital Commitments			
(ii) Liabilities transferred to Sunrise Ltd			
Secured Loans against Fixed Assets	300		
Secured Loans against Working Capital	100		
Current Liabilities	1,700	2,100	
(b) Liabilities transferred to Moonrise Ltd.		600	

Question No. 3: Answer to question No. 3(a) is Compulsory. Also answer any one from the remaining sub-questions

(a) (i) The following balances are extracted from the Balance Sheets of Upul Ltd and Vipul Ltd.

Particulars	Upul Ltd	Vipul Ltd
Bills Payable	1,50,000	90,000
Trade Creditors	1,00,000	1,40,000
Bills Receivable	70,000	1,00,000
Trade Debtors	1,60,000	1,40,000
Contingent Liability for Bills discounted	40,000	30,000

Additional Information –

(i) Vipul Ltd is wholly owned Subsidiary of Upul Ltd.
(ii) Creditors of Vipul Ltd include ₹50,000 due to Upul for goods supplied by it for ₹60,000. Debtors of Upul however shows a Debit balance of ₹ 60,000 due from Vipul. Vipul had remitted ₹10,000 by Demand Draft to Upul which was not received by Upul on the Balance Sheet date.
(iii) Bills Payable of Vipul include ₹60,000 drawn in favour of Upul Ltd. Upul had discounted Bills worth ₹ 24,000 with its Bankers.

Determine how the above given balances will be disclosed in the Consolidated Balance Sheet of Upul Ltd. [6]

Answer:

(i)

Particulars	Bills P'ble	Bills R'ble	Creditors	Debtors	Cont. Liab.
Upul Ltd	1,50,000	70,000	1,00,000	1,60,000	40,000
Vipul Ltd	90,000	1,00,000	1,40,000	1,40,000	30,000
Total before adj. Mutual Owings	2,40,000	1,70,000	2,40,000	3,00,000	70,000
Less: Mutual Owings					
For goods supplied	---	---	(50,000)	(60,000)	---
Bills drawn in favour of Upul (Only to the extent not discounted is reduced)(60,000 – 24,000)	(36,000)	(36,000)	---	---	---
Bills Discounted (only Mutual Bills Discounted is reduced)	---	---	---	---	(24,000)
Balance for Consolidated Balance Sheet	2,04,000	1,34,000	1,90,000	2,40,000	46,000

Note: In addition to the above, in the Consolidated Balance Sheet, ₹10,000 will be shown as "Remittance-in-Transit" under Current Assets after Trade Debtors and Bills Receivable.

(ii) Uniformity in Accounting Policies is necessary for consolidation purposes. [5]

Answer:

Uniformity in Accounting Policies:

- Uniform Accounting Policies: Consolidated Financial Statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances.
- Adjustment for Different Accounting Policies: If a member of the group uses accounting policies other than those adopted in the Consolidated Financial Statements for like

transactions and events in similar circumstances, appropriate adjustments are made to its Financial Statements when they are used in preparing the Consolidated Financial Statements.

- Adjustments not possible for different Accounting Policies: If it is not practicable to use uniform accounting policies in preparing the Consolidated Financial Statements, that fact should be disclosed together with the proportions of the items in the Consolidated Financial Statements to which the different accounting policies have been applied.
- Adjustments in case of Consolidation for the first time: Any adjustments to Opening Balances, consequent to applying uniform accounting policies to the entities in the group, could be adjusted in the Opening Balances of Reserves. When a charge to reserves is required, and there are inadequate reserves to support the charge, the amount of shortfall in Reserves could be adjusted by charging the same to the Opening Balance of Accumulated Losses.

(b) Mathi Ltd acquired 8,000 Shares of ₹100 each in Nidhi Ltd on 30.09.2012. The summarized Balance Sheets of the two Companies as on 31.03.2013 were as follows –

(₹'000)

Equity and Liabilities	Mathi	Nidhi
(1)Shareholders' Funds:		
(a)Share Capital (₹ 100)	3,000	1,000
(b)Reserves & Surplus		
-Capital Reserve	---	550
-General Reserve	300	50
-Profit & Loss A/c	382	180
(2)Non-Current Liabilities:		
-Long Term Borrowings		
(Loan from Nidhi Ltd)	21	---
(3)Current Liabilities:		
Trade Payables		
-Sundry Creditors	179	70
-Bills Payable	---	17
(incl. ₹ 5,000 to Mathi Ltd)		
Total	3,882	1,867
Assets		
(1)Non-Current Assets:		
(a)Fixed Assets	1,500	1,447
(b)Non-Current Investments		
-Investments in Nidhi Ltd	1,700	---
(2)Current Assets:		
(a)Inventories	400	200
(b)Trade Receivables		
-Debtors	250	180
-Bills Receivable	12	---
(incl. ₹ 5,000 to Nidhi Ltd)		
(c)Cash & Cash Equivalents	20	20
(d)Short Term Loans & Adv.		
-Loan to Mathi Ltd	---	20
Total	3,882	1,867

Contingent Liability (Mathi Ltd.): Bills discounted of ₹ 6,000.

Additional information:

1. **Nidhi Ltd made a Bonus issue on 31.03.2013 of one share for every two shares held, reducing the Capital Reserve equivalently, but the accounting effect to this has not been given in the above Balance Sheet.**
2. **Interest receivable for the year (₹1,000) in respect of the loan due by Mathi Ltd. to Nidhi Ltd had not been credited in the accounts of Nidhi Ltd.**
3. **The credit balance in Profit & Loss Account of Nidhi Ltd. on 01.04.2012 was ₹21,000.**
4. **The Directors decided on the date of the acquisition that the Fixed Assets of Nidhi Ltd were overvalued and should be written down by ₹50,000. Consequential adjustments on depreciation are to be ignored.**

Prepare the Consolidated Balance Sheet as at 31.03.2013, showing your workings. [15]

Answer:

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = Mathi Ltd	Acquisition: 30.09.2012	Holding Company = 80%
Subsidiary = Nidhi Ltd	Consolidation: 31.03.2013	Minority Interest = 20%

2. Analysis of Reserves and Surplus of Nidhi Ltd.

(a) Capital Reserve

Balance as on date of Consolidation	₹ 5,50,000	Remarks
Less: Bonus Issue (₹10,00,000 x ½)	₹ 5,00,000	The entire balance is considered as **Capital Profit**
Corrected Balance	₹ **50,000**	

(b) Revaluation of Assets: Loss (₹50,000) = Capital Profit

(c) General Reserve

Balance as per B/s ₹50,000

As on 01.04.12 (Date of previous B/s)	01.04.09 to 31.03.13 (upto Consolidation)
₹50,000.	₹ NIL (balancing figure)
Assumed that entire balance is available	Revenue Reserve

(d) Profit and Loss Account

Balance as on date of Consolidation	₹ 1,80,000
Add: Interest on Loan to Mathi (Given)	₹ 1,000
Corrected Balance	₹ **1,81,000**

Balance on 01.04.12
(Date of previous B/s)
₹ 21,000

Profit for 2012 – 13 (Balancing Figure) ₹ 1,60,000

Upto date of acquisition 01.04.12 to 30.09.12	Acquisition to Consolidation 30.09.2012 to 31.03.2013
₹1,60,000 x 6/12	₹1,60,000 x 6/12
Capital Profit ₹ 80,000	Revenue Profit ₹ 80,000

Total Capital Profits: 21,000 + 80,000 = ₹ 1,01,000, Total Revenue Profits: ₹ 80,000.

3. Consolidation of Balances

Particulars	Total	Minority Interest	Pre-Acquisition	Post Acquisition	
Nidhi Ltd (Holding 80%, Minority 20%)				Gen. Res.	P&L A/c
Equity Capital [₹ 10,00,000 + Bonus Shares ₹ 5,00,000]	15,00,000	3,00,000	12,00,000		
General Reserves	50,000	10,000	40,000		
Profit and Loss A/c	1,81,000	36,200	80,800		64,000
Capital Reserve	50,000	10,000	40,000		
Loss on Revaluation of Assets	(50,000)	(10,000)	(40,000)		
Minority Interest		3,46,200			
Total [Cr]			13,20,800		64,000
Cost of Investment [Dr.]			(17,00,000)		
Parent's Balances				3,00,000	3,82,000
For Consolidated Balance Sheet		3,46,200	(3,79,200) (Goodwill)	3,00,000	4,46,000

4. Consolidated Balance Sheet of Mathi Ltd and its Subsidiary Nidhi Ltd as at 31.03.13

	Particulars	Note	This Year	Prev. Yr.
I	EQUITY AND LIABILITIES			
(1)	Shareholders' Funds:			
	(a) Share Capital	1	30,00,000	
	(b) Reserves & Surplus	2	7,46,000	
(2)	Minority Interest		3,46,200	
(3)	Current Liabilities: Trade Payables	3	2,61,000	
	Total		43,53,200	
II	ASSETS			
(1)	Non-current Assets			
	Fixed Assets: (i) Tangible Assets (15,50,000+14,47,000-Revaln 50,000)		28,97,000	
	(ii) Intangible Assets – Goodwill on Consolidation		3,79,200	
(2)	Current Assets			
	(a) Inventories = 4,00,000 + 2,00,000		6,00,000	
	(b) Trade Receivables	4	4,37,000	
	(c) Cash & Cash Equivalents = 20,000 + 20,000		40,000	
	Total		43,53,200	

Contingent Liability for Bills Discounted ₹ 6,000.

Notes to the Balance Sheet

Note 1: Share Capital

Particulars	This Year	Prev. Yr.
Authorized: ……………Equity Shares of ₹ 100 each		
Issued, Subscribed & Paid Up: 30,000 Equity Shares of ₹ 100 each.	30,00,000	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Yr.
(a) Other Reserves - General Reserve	3,00,000	
(b) Surplus (Balance in P&L A/c)	4,46,000	
Total	7,46,000	

Note 3: Trade Payables

Particulars	This Year	Prev. Yr.
(a) Sundry Creditors	2,49,000	
(b) Bills Payable	12,000	
Total	2,61,000	

Note 4: Trade Receivables

Particulars	This Year	Prev. Yr.
(a) Sundry Debtors (2,50,000 + 1,80,000)	4,30,000	
(b) Bills Receivable (12,000 – 5,000 Mutual Owings)	7,000	
Total	4,37,000	

Note: Fixed Assets have been revalued for the purpose of consolidation, and the depreciation on the Revaluation Loss has been ignored as it is specifically stated in the question.

(c) On 31.03.2013, 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 31.03.2013

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 31.03.2014, the Trial Balance of the two Companies were as follows -

Trial Balance as at 31.03.2014

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 31.03.2014 in the ratio of one Equity Share of ₹ 10 each fully paid for every two Equity Shares held on that date.

Calculate as on 31.3.2014 (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: 31.03.2013 Consolidation: 31.03.2014	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 31.3.2014 19,05,000 As on 01.04.13 **NIL** **Capital** | Tfr between 01.04.13 & 31.3.2014 **19,05,000** **Revenue**	As on 31.3.2014 19,05,000 Less: Bonus Issue 7,50,000 (15 Lacs x 1/2) Corrected Bal 11,55,000 01.04.2013 **NIL** **Capital** | Tfr between 1.4.13 & 31.3.14 **11,55,000** **Revenue**

(c) Profit & Loss Account

As on 31.03.2014 ₹ 4,20,000

As on 01.04.2013 60,000 **Capital** | Profits between 01.04.2013 & 31.03.2014 **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	–	10,50,000	4,50,000	7,50,000	15,75,000	6,75,000
(b) **Capital Profits**	**15,00,000**	63,000	27,000	**22,50,000**	63,000	27,000
Pre Incorporation Profits	30,000	13,33,500	5,71,500	30,000	8,08,500	3,46,500
General Reserve	NIL	2,52,000	1,08,000	NIL	2,52,000	1,08,000
Profit and Loss Account	60,000			60,000		
(c) **Revenue Reserve:** Gen. Reserve	**90,000**			**90,000**		
(d) **Revenue Profits:** P & L A/c	**19,05,000**			**11,55,000**		
	3,60,000			**3,60,000**		
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 2014

Ref No.	Particulars		Note No.	As at 31st March, 2014	As at 31st March, 2013
				₹	₹
	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	-

Ref No.	Particulars		Note No.	As at 31st March, 2014	As at 31st March, 2013
				₹	₹
		(d) Short-term provisions		-	-
				7,65,000	-
		TOTAL (1+2+3+4)		**1,63,95,000**	**-**
	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, 2014	**As at 31st March, 2013**
Equity Shares	**45,00,000**	
	45,00,000	

Note 2. Reserve and Surplus :-		
	As at 31st March, 2014	As at 31st March, 2013
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	-

Note 3. Current Liabilities :-		
	As at 31st March, 2014	As at 31st March, 2013
Bills Payable:-		
- R Ltd	5,55,000	-
- S Ltd	2,10,000	-
	7,65,000	-

Note 4. Tangible Assets:-		
	As at 31st March, 2014	As at 31st March, 2013
Fixed Assets		
- R Ltd	79,20,000	-
- S Ltd	23,10,000	-
	1,02,30,000	-

Note 5. Current Assets:-		
	As at 31st March, 2014	As at 31st March, 2013
Current Assets		
- R Ltd	44,10,000	-
- S Ltd	17,55,000	-
	61,65,000	-

Question No. 4: Answer to Question No. 4(a) is Compulsory. Also answer any two from the remaining sub-questions.

(a) 'An effective sustainability reporting cycle should benefit all reporting organizations.' - Discuss. [5]

Answer:

An effective sustainability reporting cycle should benefit all reporting organizations.
Internal benefits for companies and organizations can include:

- Increased understanding of risks and opportunities
- Emphasizing the link between financial and non-financial performance
- Influencing long term management strategy and policy, and business plans
- Streamlining processes, reducing costs and improving efficiency
- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives
- Avoiding being implicated in publicized environmental, social and governance failures
- Comparing performance internally, and between organizations and sectors

External benefits of sustainability reporting can include:

- Mitigating - or reversing - negative environmental, social and governance impacts
- Improving reputation and brand loyalty
- Enabling external stakeholders to understand company's true value, and tangible and intangible assets
- Demonstrating how the organization influences, and is influenced by, expectations about sustainable development.

(b) The capital structure of A Ltd. is as under:

- **80,00,000 Equity shares of ₹10 each**
- **1,00,000 12% Preference shares of ₹250 each**
- **1,00,000 10% Debentures of ₹500 each**
- **Term loan from Bank (at 10%) = ₹450 lakhs.**

The Company's Profit and Loss Account for the year showed a balance PAT of ₹100 lakhs, after appropriating Equity Dividend at 20%. The company is in the 40% tax bracket. Treasury Bonds carry 6.5% interest, beta factor for the company may be taken at 1.5. The long run market rate of return may be taken at 16.5%. Calculate EVA. [10]

Answer:

1. Profit and Loss Statement

Particulars	Commutation	₹ lakhs
Profit before Interest and Taxes	Balancing Figure	578.33
Less: Interest on Debentures	10% x ₹500 lakhs	50.00
Interest on Bank Term Loan	10% x ₹450 lakhs	45.00
Profit before tax		483.33
Less: Tax at 40%	(₹290.00 /60%) x 40%	193.33
Profit after tax	Reverse Working	290.00
Less: Preference Dividend	12% x ₹250 lakhs	30.00
Residual Earnings for Equity Shareholders	Reverse Working	260.00
Less: Equity Dividend	20% x ₹800	160.00
Net Balance in P&L Account	Given	100.00

2. Computation of Cost of Equity (Ke) = Risk free rate + beta x (market rate – risk free rate)
= 6.5% +1.5 (16.5% - 6.5%) =21.5%

3. Computation of WACC

Component	Amount	Ratio	Individual Cost	WACC
Equity	₹800 lakhs	800/2000=40%	Ke =21.5%	8.60%
Preference	₹250 lakhs	250/2000=12.5%	K_p = 12%	1.50%
Debt	₹950 lakhs	950/2000=47.5%	K_d = Interest x (100 – tax rate) = 10% x (100% - 40%) = 6%	2.85%
Total	₹2000 lakhs		K_o	12.95%

4. Computation of EVA

Particulars	₹ lakhs
Profit before Interest and Taxes	578.33
Less: Taxes	193.33
Net Operating Profit After Taxes i.e. Return to providers of Capital	385.00
Less: Capital charge (Fair return to providers of capital) = WACC x Capital Employed	2,000 x 12.95% = 259
Economic Value Added	126

(c) ADS Ltd. grants 1,000 employees stock options on 01.04.2010 at ₹40 (F.V. ₹10), when the market price was ₹160.The vesting period is 2 ½ years and the maximum exercise period is one year. 300 unvested options lapse on 01.05.2012. 600 options are exercised on 30.06.2013. 100 vested options lapse at the end of the exercise period. Pass Journal Entries giving suitable narrations. [10]

Answer:

Journal Entries in the books of ADS Ltd.

Date	Particulars	Dr. (₹)	Cr.(₹)
31.03.11	Employees compensation expenses account Dr.	48,000	
	To Employees stock option outstanding account		48,000
	(Being compensation expenses recognized in respect of the employees stock option i.e. 1,000 options granted to employees at a discount of ₹120 each amortised on straight line basis over 2 ½ years)		
	Profit and loss account Dr.	48,000	
	To Employees compensation expenses account		48,000
	(Being the transferred to profit and loss account at the end of the year.)		
31.03.12	Employees compensation expenses account Dr.	48,000	
	To Employees stock option outstanding account		48,000
	(Being compensation expenses recognized in respect of the employees stock option i.e. 1,000 options granted to employees at a discount of `120 each amortised on straight line basis over 2 ½ years)		
	Profit and loss account Dr.	48,000	
	To Employees compensation expenses account		48,000
	(Being the transferred to profit and loss account at the end of the year.)		
31.03.13	Employees stock option outstanding account Dr.	12,000	
	To General Reserve Account (W.N.1)		12,000
	(Being excess of employees compensation expenses transferred to general reserve account)		
30.06.13	Bank account (600 x ₹40) Dr.	24,000	
	Employees stock option outstanding account Dr. (600 X ₹120)	72,000	
	To Equity Share capital account (600 x ₹10)		6,000
	To Securities premium account (600 x ₹150)		90,000
	(Being 600 employees stock option exercised at an exercise price of ₹40 each)		
01.10.13	Employees stock option outstanding account Dr.	12,000	
	To General Reserve Account		12,000
	(Being Employees stock option outstanding account transferred to General reserve account, on lapse of 100 options at the end of exercise of option period.)		

Working Notes (1):

On 31.03.2013, ADS Ltd. will examine its actual forfeitures and make necessary adjustments, if any to reflect expenses for the number of options that have actually vested. 700 employees stock options have completed 2½ years vesting period, the expense to be recognized during the year is in negative

	₹
No. of options actually vested (700 x ₹120)	84,000
Less: Expenses recognized₹(48,000+48,000)	96,000
Excess expenses transferred to general reserve	12,000

(d) (i) Discuss about the growing scope of Human Capital reporting. [5]
(ii) State the aspects covered in Corporate Environmental Accounting System. [5]

Answer:

(i) Growing scope of Human Capital Reporting:
- Recent Reporting Trends: In the recent years, there is a growing trend of shift from the traditional focus on financial reporting of quantifiable resources (i.e. which can be measured in monetary terms) to a more comprehensive approach of reporting under which Human Resources are also considered as Measurable Assets of a Going Concern.
- Relevance: An organization is a dynamic entity and operates through the effort of its human resources. The ratio of human to non-human capital indicates the degree of labour intensity of an organisation. Comparison of the specific values of human capital based on the organisation's scales of wages and salaries with the general industry standards can provide inputs on the Firm's HR policies.
- Purpose: Human Capital Reporting provides scope for planning and decision-making in relation to proper manpower planning. Such reporting can also bring out the effect of various rules, procedure and incentives relating to work force. This can even act as an eye opener for modifications of existing statutes, laws etc.
- Accounting: Business entities account for Fixed Assets on Historical Cost basis. Similarly, employee related costs like cost of recruitment, training and orientation of employees, etc. can be considered for the purpose of capitalization. An appropriate portion of such capitalized costs can be amortised each year over the estimated years of effect of such costs.
- Standards: Currently, there is no standard format for Human Capital Reporting. Generally, the Human Capital Report contains data pertaining to number of employees, employment and training policies, collective bargaining arrangements, industrial disputes, pension and pay arrangement and number of disabled employees.

(ii) Environmental Accounting System should include aspects such as –
- Concept of National Income arising out of the use of Natural Resources;
- Concept of Costs incurred to make use of such Resources;
- Depreciation of Natural Resources;
- Valuation of Natural Resources;
- Disclosing the value of Natural Resources in the Balance Sheet;
- Contribution of Natural Resources to Industrial Development;
- Contribution of Industries to the Environment; and
- Extent to which changes in the environment due to business activities has affected social well being.

Question No. 5 (Answer any three):

(a) Describe the working procedure of Public Accounts Committee. [5]
(b) Write a note on Indian Government Accounting Standards (IGAS) and list the IGAS Notified by Government of India. [5]
(c) Discuss the objective and scope of IGAS 7 relating to Foreign Currency transactions and loss or Gain by Exchange rate variation. [5]
(d) State the responsibilities of the Comptroller and Auditor General of India. [5]

Answer:

(a) The representatives of the Ministries appear before the Committee when examining the Accounts and Audit Reports relating to their Ministries. The Committee proceeds by way of interrogation of witnesses.

The Comptroller and Auditor General is the "friend, philosopher and guide" of the Committee. He attends the sittings of the Committee and assists it in its deliberations.

The Committee may appoint one or more Sub-Committees/ Sub Groups to examine any particular matter. At the beginning of its term, the Committee appoints a few Working Groups/Sub Committees to facilitate the examination of the various Accounts and Audit Reports and Sub-Committee to consider the action taken by the Government on the recommendations made by the Committee in its earlier Reports. If it appears to the Committee that it is necessary for the purpose of its examination that an on the- spot study should be made, the Committee may, either in its entirety or by dividing itself into Study Groups decide to undertake tours to make an on-the-spot study of any project or establishment. All discussions held during tour by the Committee/Study Groups, with the representatives of the establishment, Ministries/Departments, non-official organisations, Labour Unions etc. are treated as confidential and no one having access to the discussion, directly or indirectly is to communicate to the Press or any unauthorized person, any information about matters taken up during the discussions.

(b) GASAB is developing two types of Accounting Standards for the Government to address the issues related with the existing cash system of accounting and its migration to the accrual system of accounting in future. The standards being developed to make existing cash system of accounting more transparent are called Indian Government Accounting Standards (IGAS). The standards being developed for accrual system of accounting in the Government are called Indian Government Financial Reporting Standards (IGFRS).

IGAS Notified by Government of India

- Guarantees given by Governments: Disclosure Requirements (IGAS1)

  [Notified by the Govt. of India]
- Accounting and Classification of Grants-in-aid (IGAS2)

  [Notified by the Govt. of India]
- Loans and Advances made by Governments (IGAS 3)

  [Notified by the Govt. of India]

(c) Objective - Government may have foreign currency transactions and loss or gain arising due to exchange rate variations. The objective of this standard is to provide accounting and disclosure requirements of foreign currency transactions and financial effects of exchange rate variations in terms of loss or gain in the financial statements. It also deals with the requirements of disclosure of foreign currency external debts and the rate applied for disclosure.

The principal issues in accounting and reporting for foreign currency transactions are to decide which exchange rate to apply and how to recognise in the financial statements the financial effects of exchange rate variations in terms of loss or gain.

Scope - The Accounting Authority which prepares and presents the financial statements of the Government under the cash basis of accounting, as defined in the Government Accounting Rule 21 of GAR 1990 and Government Financial Rule 68 of GFR 2005 should apply this Standard:

(a) in accounting and disclosure for transactions in foreign currencies;

(b) in accounting and disclosure for financial effects of exchange variations in terms of loss or gain by exchange rate variation, and

(c) in disclosure of foreign currency external debts and the rate(s) applied for disclosure.

(d) Under section 10 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (56 of 1971), the Comptroller and Auditor General shall be responsible-

(a) for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and

(b) for keeping such accounts in relation to any of the matters specified in clause (a) as may be necessary;

Provided that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-

(i) the said accounts of the Union (either at once or gradually by the issue of several orders); or

(ii) the accounts of any particular services or departments of the Union;

Provided further that the Governor of a State with the previous approval of the President and after consultation with Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-

(i) the said accounts of the State (either at once or gradually by the issue of several orders); or

(ii) the accounts of any particular services or departments of the State;

Provided also that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for keeping the accounts of any particular class or character.

(2) Where, under any arrangement, a person other than the Comptroller and Auditor General has, before the commencement of this Act, been responsible-

(i) for compiling the accounts of any particular service or department of the Union or of a State, or

(ii) for keeping the accounts of any particular class or character, such arrangement shall, notwithstanding anything contained in subsection (1), continue to be in force unless, after consultation with the Comptroller and Auditor General, it is revoked in the case referred to in clause (i), by an order of the President or the Governor of the State, as the case may be, and in the case referred to in clause (ii) by an order of the President.