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) 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	₹224 lakhs
Useful life period	10 years
Salvage value	Nil
Current carrying value	₹109.20 lakhs
Useful life remaining	3 years
Recoverable amount	₹48 lakhs
Upward revaluation done in last year	₹56 lakhs

[6]

(b) Write a note on IFRS. [4]

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

(a) P Ltd is considering the acquisition of R Ltd. The financial data at the time of acquisition being-

Particulars	P Ltd	R Ltd
Net Profit after Taxes	₹ 60 Lakhs	₹ 12 Lakhs
Number of Shares	12 Lakhs	5 Lakhs
Earnings Per Share	₹ 5 per Share	₹ 2.40 per Share
Market Price per Share Price	₹ 150 per Share	₹ 48 per Share
Earning Ratio	30	20

It is expected that the Net Profit after Tax of the two Companies would continue to be ₹ 72 Lakhs, even after the amalgamation. Explain the effect on EPS of the merged Company under each of the following situations -

- P Ltd offers to pay ₹ 60 per Share to the Shareholders of R Ltd.
- P Ltd offers to pay ₹ 78 per Share to the Shareholders of R Ltd.

The amount in both cases is to be paid in the form of Shares of P Ltd. [5]

(b) J Ltd., and K Ltd., had the following balances as at 31st March, 2014.

I. Equity &Liabilities	J Ltd. ₹	K Ltd. ₹
Share Capital Equity shares of ₹100 each fully paid	48,00,000	36,00,000
Reserves and Surplus –		
General Reserve	18,00,000	12,00,000
Investment Allowance Reserve	-	18,00,000
Other Current Liabilities	24,00,000	9,00,000
Total	90,00,000	75,00,000
II. Assets		
Non-current assets		
Fixed Assets		
– Tangible assets	24,00,000	42,00,000
- Intangible assets	30,00,000	6,00,000
Non-current Investments – at cost	18,00,000	12,00,000
Current assets	18,00,000	15,00,000
Total	90,00,000	75,00,000

It was decided that J Ltd. will take over the business of K Ltd., on that date, on the basis of the respective share values adjusting, wherever necessary, the book values of assets and liabilities on the strength of information given below:

- Investment of K Ltd., included 6,000 shares in J Ltd., acquired at a cost of ₹ 150 per share. The other investments of K Ltd., have a market value of ₹ 1,50,000;
- Investment Allowance Reserve was in respect of additions made to Fixed assets by K Ltd., in the years 2009-2014 on which Income Tax relief has been obtained. In terms of the Income Tax Act, the company has to carry forward till 2016, reserve of ₹ 9,00,000 for utilisation;
- Goodwill of J Ltd., and K Ltd., are to be taken at ₹ 24,00,000 and ₹ 12,00,000 respectively;
- The market value of investments of J Ltd., was ₹ 12,00,000;
- Current assets of J Ltd., included ₹ 4,80,000 of stock in trade obtained from K Ltd. which company sold at a profit of 25% over cost ;
- Fixed assets of J Ltd., and K Ltd., are valued at ₹ 30,00,000 and ₹ 45,00,000 respectively.

Suggest the scheme of absorption and show the journal entries necessary in the books of J Lt.

[10]

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

Particulars	Debit (₹)	Credit (₹)
12,000 7% Preference Shares of ₹50 each		6,00,000
7,500 Equity Shares of ₹100 each		7,50,000
Loan		5,73,000
Sundry Creditors		2,07,000
Other Liabilities		35,000
Building (at Cost less Depreciation)	4,00,000	
Plant (at Cost less Depreciation)	2,68,000	
Trade Marks and Goodwill at Cost	3,18,000	
Stock (Opening)	4,00,000	

Sundry Debtors	3,28,000	
Preliminary Expenses	11,000	
Profit & Loss A/c	4,40,000	
	21,65,000	21,65,000

Note:

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

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

a. **Closing Stock of X Ltd. is also ₹4,00,000.**
b. **The Equity Shareholders have agreed that their ₹100 shares should be reduced to ₹5 by cancellation of ₹95 per share. They have also agreed to subscribe in each for the six new Equity Shares of ₹5 each for two Equity Share held.**
c. **The Preference Shareholders have agreed to cancel the arrears of dividends and to accept for each ₹50 share, 4 new 5% Preference Shares of ₹10 each, plus 3 new Equity Shares of ₹5 each, all credited as fully paid.**
d. **Lenders to the Company of ₹1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹10 each and 6,000 new equity share of ₹5 each.**
e. **The Directors have agreed to subscribe in cash for 20,000, new Equity Shares of ₹5 each in addition to any shares to be subscribed by them under (b) above.**
f. **Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the Company.**
g. **The equity Share capital cancelled is to be applied:**

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

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

Show by journal entries how the financial books are affected by the scheme of reconstruction The nominal capital as reduced is to be increased to the old figures of ₹6,00,000 for Preference capital and ₹7,50,000 for Equity capital. **[10]**

(d) D Ltd. and S Ltd. propose to amalgamate. Their balance sheets as at 31st March, 2014 were as follows:

Equity and Liabilities	Note	D Ltd. (₹)	S Ltd. (₹)
Shareholders' funds			
Share Capital			
Equity share capital (in shares of ₹10 each)		7,50,000	3,00,000
Reserves and Surplus	1	4,50,000	75,000
Current Liabilities:			
Trade Payables - Creditors		1,50,000	75,000
Total		13,50,000	4,50,000
Assets			
Non-current Assets:			

Fixed Assets (less depreciation)		6,00,000	1,50,000
Investments (Face value of ₹1.5 lakhs, 6% Tax free G.P notes)		1,50,000	
Current Assets:			
Inventories		3,00,000	1,95,000
Trade receivables - Debtors		2,55,000	90,000
Cash and cash equivalents		45,000	15,000
Total		13,50,000	4,50,000

Note 1: Reserves and Surplus	D Ltd. (₹)	S Ltd. (₹)
General Reserves	3,00,000	30,000
Profit and Loss Account	1,50,000	45,000

Their Net Profit (after taxation) were as follows:

Year	D Ltd.	S Ltd.
2011-12	(₹)1,95,000	(₹)67,500
2012-13	(₹)1,87,500	(₹)60,000
2013-14	(₹)2,25,000	(₹)84,000

Normal trading profit may be considered as 15% on closing capital invested. Goodwill may be taken as 4 year's purchase of average super profit. The stock of Red Ltd. and Blue Ltd. are to be taken at ₹ 3,06,000 and ₹ 2,13,000 respectively for the purpose of amalgamation. A Ltd. is formed for the purpose of amalgamation of two companies. Assume Tax Rate 40%.

(i) Ascertain the number of shares to be issued by A Ltd. in the form of equity shares of ₹10 each.

(ii) Draft the opening balance sheet of A Ltd. after amalgamation [10]

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

(a) A Ltd acquired 70% of the Shares of V Ltd on 1st January Year 1 when V Net Worth was ₹21,60,000, represented by ₹20,00,000 in Equity Capital and ₹1,60,000 in Reserves. Cost of Investment to A was ₹12,00,000. The subsidiary reported the following Losses/Profits (after acquisition) -

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Loss ₹ 5,00,000	Loss ₹ 8,00,000	Loss ₹10,00,000	Loss ₹ 2,40,000	Profit ₹ 1,00,000	Profit ₹ 2,00,000	Profit ₹ 3,00,000

Calculate the amount to be shown as Minority Interest and Goodwill / Capital Reserve at the end of every year. [10]

(b) Sun Ltd owns 80% of Issued Capital of Moon Ltd and 90% of Issued Capital of Star Ltd. The following are the balances of all the Companies as on 31st December –

Equity and Liabilities	Sun(₹)	Moon(₹)	Star(₹)
(1) Shareholders' Funds:			
(a) Share Capital	3,20,000	20,000	25,000
(b) Reserves & Surplus			
- Revenue Reserves	68,000	6,000	15,000
(2) Current Liabilities:			

(a) Short Term Borrowings			
-Current Account - Star	-	-	18,000
(b) Other Current Liabilities			
(i) Proposed Dividend	20,000	-	-
(ii) Current Liabilities	40,000	28,000	10,000
Total	4,48,000	54,000	68,000
Assets			
(1)Non-Current Assets:			
(a)Tangible Fixed Assets	1,70,000	10,000	27,000
Less: Depreciation	70,000	6,000	9,000
Net Fixed Assets	1,00,000	4,000	18,000
(b)Non-Current Invt			
- Shares in Moon Ltd	15,000	-	-
- Shares in Star Ltd	25,000	-	-
(2) Current Assets:			
(a) Short Term L& A			
-Current Account- Star	20,000	-	-
(b)Other Current Assets	2,88,000	50,000	50,000
Total	4,48,000	54,000	68,000

Prepare the Consolidated Balance Sheet from the following additional information -

1. At time of acquiring of Shares, the Subsidiary had the following Revenue Reserves: Moon Ltd ₹ 6,000, Star Ltd ₹ 3,000.
2. Neither of the Subsidiaries has paid any Dividend since acquisition of Shares.
3. A remittance of ₹ 2,000 by Star Ltd has not yet been adjusted in the books of Sun Ltd.
4. Stock of Moon Ltd includes ₹ 3,000 purchased from Sun Ltd which made 45% Profit on Cost.

[15]

(c) A Limited is a holding company and B Limited and C Limited are subsidiaries of A Limited. Their Trial Balance (Extract) as on 31.12.2013 are given below:

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

The following particulars are given:

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

(ii) A Ltd. held 24,000 shares of B Ltd. and 3,000 shares of C Ltd.
(iii) B Ltd. held 12,000 shares of C Ltd.
(iv) All these investments were made on 30.6.2013.
(v) On 31.12.2012, the position was as shown below:

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

(vi) 10% dividend is proposed by each company.
(vii) The whole of stock in trade of B Ltd. as on 30.6.2013 (₹ 12,000) was later sold to A Ltd. for ₹13,200 and remained unsold by A Ltd. as on 31.12.2013.
(viii) Cash-in-transit from B Ltd. to A Ltd. was ₹ 3,000 as at the close of business.
(ix) Closing Stock of A Ltd. is also ₹36,000.

You are required to Prepare the Consolidated Balance Sheet of the group as on 31st December,2013. [15]

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

(a) Explain the term Extensible Business Reporting Language (XBRL). [5]

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

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

[10]

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

Particulars	₹
Sales	12,40,000
Purchase of raw materials	5,00,000
Agent's commission	10,000
Consumable stores	12,500
Packing material	5,000
Stationery	5,000
Audit fees	2,000
Staff welfare expenses	79,000
Insurance	13,000
Rent rate & taxes	8,000

Managing director's remuneration	**42,000**
Traveling expenses	**10,500**
Fuel and oil	**4,500**
Electricity	**2,500**
Material used in repairs:	
1. **Materials to plant and machinery**	**12,000**
2. **Materials to buildings**	**5,000**
Advertisement	**12,500**
Salaries and wages	**3,15,000**
Postage and telegraphs	**7,000**
Contribution to provident fund, etc.	**30,000**
Directors' sitting fees & traveling expenses	**20,000**
Subscription paid	**1,000**
Carriage	**11,000**
Interest on loans taken	**9,000**
Dividend to shareholders	**15,000**
Depreciation provided	**27,500**
Income-tax provided	**50,000**
Retained earnings	**62,500**
Opening stock : raw Material	**42,500**
Finished goods	**1,00,000**
Closing Stock: raw Material	**54,000**
Finished goods	**1,20,000**

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

(d) Discuss the process of Triple Bottom Line Reporting. [10]

Question No. 5 (Answer any three):

(a) Discuss the structure of Indian Government Accounting Standards Advisory Board. [5]
(b) State the scope of Indian Government Accounting Standard 3 (Cash Flow Statement) [5]
(c) Write a note on Methods of Government Accounting. [5]
(d) Discuss the "Standard – setting procedure" of Government Accounting Standards Advisory Board. [5]