PAPER – 18 - CORPORATE FINANCIAL REPORTING

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL C	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identity	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
		Decide	To solve or conclude
	EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify
		Evaluate	Appraise or asses the value of
		Recommend	Propose a course of action

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) SDA Ltd. is having a plant (an asset) whose carrying amount as on 01.10.2012 is ₹76,000 lakhs and the plant was having a useful life till 31.03.2020. The estimated residual value is ₹1800 lakhs. The selling price on 31.03.2015 is expected to be ₹40,000 lakhs and the cost of disposal is expected to be ₹200 lakhs.

The expected cash flows from the plant are as under-

Financial Year	**2015-2016**	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**
Cash Flow ₹ lakhs	**8,200**	**11,800**	**12,000**	**15,600**	**9,000**

The Company expects the discount rate of 10%. Discount factor at 10% for 1,2,3,4 and 5 years are 0.909, 0.826, 0.751, 0.683 and 0.621 respectively. The company provides depreciation on SLM basis.

You are required to determine as at 31st March 2015

(i) Value in use of the plant

(ii) Impairment loss, if any to be recognized for the year. [5]

(b) Discuss about the identification of segments as per IFRS 8 (Operating Segment). [5]

Answer:

(a)

(i) Computation of Value in Use

Financial Year	Cash Flow	Discount Rate at 10%	Discounted Cash Flow
2015-2016	₹8,200	0.909	₹7453.80 lakhs
2016-2017	₹11,800	0.826	₹9746.80 lakhs
2017-2018	₹12,000	0.751	₹9012.00 lakhs
2018-2019	₹15,600	0.683	₹10654.80 lakhs
2019-2020	₹9,000 + ₹1800	0.621	₹6706.80 lakhs
		Value in Use	₹43,574.20 lakhs

(ii) Computation of other particulars

Particulars	₹ lakhs
1. Original Cost	76,000
2. Depreciation for Fin. Years 2012-2013,2013-2014 and 2014-2015 (See note below)	(24,733.32)
3. Carrying amount on 31.03.2015(before impairment)	51,266.68
4. Recoverable amount (Net selling price 38,200 or value in use 43,574.20, whichever is higher)	43,574.20
5. Impairment loss carrying amount less recoverable amount	7,692.48

Depreciation as per Initial Cost, etc. = Depreciation Value (76,000 – 1,800) = ₹74,200 lakhs divided by 7.5 years (i.e. from 01.10.2012 to 31.03.2020) = ₹9893.33 lakhs for each of the full financial years (2013-2014 onwards), and ½ × ₹9893.33 lakhs = 4946.66 lakhs for the period 01.10.2012 to 31.03.2013 (6 months).
Total Depreciation upto 31.03.2015 = 4946.66 + 9893.33 + 9893.33 = 24,733.32 lakhs.

(b) The requirements of the IFRS are based on the information about the components of the entity that management uses to make decisions about operating matters.
The IFRS requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. IAS 14 required identification of two sets of segments- one based on related products and services and the other on geographical areas. IAS 14 regarded one set as primary segments and the other as secondary segments.
A component of an entity that sells primarily or exclusively to other operating segments of the entity is included in the IFRS's definition of an operating segment if the entity is managed that way. IAS 14 limited reportable segments to those that earn a majority of their revenue from sales to external customers and therefore did not require the different stages of vertically integrated operations to be identified as separate segments.

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

(a) The Balance Sheet (Extract) of Partha Ltd as on 31st March is given below -

Equity and Liabilities	₹	Assets	₹
(1) Shareholders' Funds:		**(1) Non-Current Assets:**	
Share Capital		**Fixed Assets**	**50,00,000**
(i) Equity Shares of ₹ 10 each	**50,50,000**	**(2) Current Assets:**	
(ii) 8% Preference Shares	**9,50,000**	**(a) Inventories**	**20,00,000**
(2) Non-Current Liabilities:		**(b) Trade Receivables**	
Long Term Borrowings -12%	**15,00,000**	**- Debtors**	**10,00,000**
Debentures		**(b) Cash & Cash Equivalents**	**5,00,000**
(3) Current Liabilities:			
Sundry Creditors and Other			
Current Liabilities	**10,00,000**		
Total	**85,00,000**	**Total**	**85,00,000**

Sarathi Ltd agrees to take over Partha Ltd by issuing requisite number of Preference Shares of ₹ 10 each at 5% Discount to the Preference Shareholders of Partha Ltd and requisite number of Equity Shares of ₹10 each at par to the Equity Shareholders of Partha Ltd. Purchase Consideration is settled as per Book Value of the Assets and the Debentures will be taken over by Sarathi Ltd on the agreement that these will be paid off at 10% premium after one year. Debenture holders of Partha Ltd will accept 12% Debentures of Sarathi Ltd. Calculate Purchase Consideration. [5]

Answer:

Purchase Consideration by Net Assets Method

	Particulars	₹
	Book Value of Assets taken over (i.e. Total of Assets Side)	85,00,000
Less:	Liabilities taken over: Debentures @ 10% Premium (15 Lakhs + 10%)	(16,50,000)
	Sundry Creditors & Other Liabilities	(10,00,000)
	Net Purchase Consideration	**58,50,000**

This purchase consideration shall be discharged by 8% Preference Shares and Equity Shares of Sarathi Ltd (Issue of Debentures to the Debenture holders of Partha Ltd shall not be included in Purchase Consideration).

Number of Shares to be issued is computed as under -

1. Preference Shares to be issued $= \frac{₹9,50,000}{₹9.50} = 1,00,000$ Shares

   Balance of Purchase Consideration = ₹ 58,50,000 – ₹ 9,50,000 = ₹ 49,00,000

2. Equity Shares to be issued $= \frac{₹49,00,000}{₹10} = 4,90,000$ Shares

(b) Given below are the Balance Sheet (Extract) of Maha Ltd and Neha Ltd as on 31st March (in ₹000's) –

Equity and Liabilities	Maha	Neha	Assets	Maha	Neha
(1) Shareholders' Funds:			**(1) Non-Current Assets:**		
(a) Share Capital	**10,000**	**12,000**	**(a) Fixed Assets**	**16,500**	**18,000**
(b) Reserves & Surplus			**(b) Non-Current Investments**	**5,000**	**-**
(i) General Reserve	**5,000**	**4,000**	**(2) Current Assets:**		
(ii) Export Profit Reserve (Note)	**2,000**	**3,000**	**(a) Inventories**	**5,000**	**5,000**
(2) Non-Current Liabilities:			**(b) Trade Receivables (Drs)**	**1,500**	**6,500**
Long Term Borrowings			**(c) Cash & Cash Equivalents**	**500**	**500**
-14% Debentures	**5,000**	**5,000**			
(3) Current Liabilities:					
(a) Trade Payables - Sundry Crs	**2,000**	**1,000**			
(b) Short Term Provisions	**4,500**	**5,000**			
Total	**28,500**	**30,000**	**Total**	**28,500**	**30,000**

Note: This is a Statutory Reserve as per Income Tax Law.

Share of Maha Ltd and Neha Ltd are ₹10 each. MN Ltd has been formed for the purpose of Amalgamation which took over Maha Ltd and Neha Ltd and in exchange, Shares of MN Ltd were issued. Expenses for Amalgamation were ₹100 (000s). 14% New Debentures are to be issued to the Debentureholders of Maha Ltd and Neha Ltd.

Draft the Journal Entries MN Ltd. Show the Purchase Consideration and Exchange Ratio. Calculate the number of Shares to be issued (at par) to the Shareholders of the Amalgamated Company without increasing the Issued Capital. (Use Pooling of Interests method). [10]

Answer:

1. Basic Information

Selling Co: Maha Ltd, Neha Ltd.	**Date of Balance Sheet:** 31st March	**Nature of Amalgamation:** Merger (all conditions are satisfied)
Buying Co: MN Ltd	**Date of Amalgamation:** 31st March	

2. Calculation of Purchase Consideration based on Net Assets of Transferor Companies

Particulars	Maha Ltd	Neha Ltd
Sundry Assets **Less:** Creditors, Provision & Debentures	28,500 (11,500)	30,000 (11,000)
Net Assets **Less:** General Reserve + Export Profit Reserve	17,000 7,000	19,000 7,000
Gross Purchase Consideration payable	10,000	12,000
Purchase Consideration apportioned (₹10,000 + ₹12,000 = Total ₹ 22,000) [apportioned based on Net Assets Ratio]	$22{,}000 \times \frac{17{,}000}{36{,}000} = 10{,}390$	$22{,}000 \times \frac{19{,}000}{36{,}000} = 11{,}610$
Paid-up Capital of the Transferor Companies	10,000	12,000
Difference between Purchase Consideration and Paid-up Capital of Transferor Companies	**390**	**(390)**
Nature of Difference	Excess	Lower
Treatment / Adjustment (as per EAC Opinion)	General Reserve	Capital Reserve

Note: Since the Scheme of takeover requires that Issued Capital should not be increased, the Purchase Consideration is restricted to ₹ 22,000, even though Net Assets Value is more at ₹ 36,000.

3. Journal Entries in the Books of MN Ltd i.e. the amalgamated Company (in ₹ 000s)

Particulars		Debit	Credit
1. Business Purchase	Dr.	22,000	
To Liquidator of Maha Ltd			10,390
To Liquidator of Neha Ltd			11,610
(Being Business of Maha Ltd and Neha Ltd purchased)			
2. Fixed Assets A/c	Dr.	16,500	
Investments A/c	Dr.	5,000	
Stock A/c	Dr.	5,000	
Sundry Debtors A/c	Dr.	1,500	
Cash and Bank A/c	Dr.	500	
To Debentureholders			5,000
To Creditors			2,000
To Provisions			4,500
To General Reserves (balancing figure)			4,610
To Export Profit Reserves			2,000
To Business Purchase			10,390
(Being Assets & Liabilities of Maha Ltd taken over, excess of Purchase Consideration over Capital i.e. 10,390 - 10,000 = ₹ 390 adjusted in			

General Reserve, Balance in General Reserve = ₹ 5,000 - ₹ 390 = ₹ 4,610, Export Profit Reserve is retained at the value of ₹ 2,000)		
3. Liquidator of Maha Ltd Dr.	10,390	
Liquidator of Neha Ltd Dr.	11,610	
To Equity Share Capital		22,000
(Being issue of shares towards discharge of purchase consideration for Maha Ltd & Neha Ltd)		
4. Fixed Assets A/c Dr.	18,000	
Stock A/c Dr.	5,000	
Sundry Debtors A/c Dr.	6,500	
Cash and Bank A/c Dr.	500	
To Debentureholders		5,000
To Creditors		1,000
To Provisions		5,000
To General Reserve		4,000
To Export Profit Reserve		3,000
To Capital Reserve		390
To Business Purchase		11,610
(Being Assets & Liabilities of Neha Ltd taken over, excess of Capital over Purchase Consideration i.e. 11,610 - 12,000 = ₹390 transferred to Capital Reserve, General Reserve and Export Profit Reserve is retained at book values)		
5. Debentureholders A/c Dr.	10,000	
To 14% Debentures		10,000
(Being fresh issue of 14% Debentures consequent to amalgamation)		
6. Capital Reserves A/c Dr.	100	
To Bank		100
(Being Expenses on amalgamation met)		

Note: Capital Reserve is not available for distribution as dividend. Hence, it is used for meeting expenses of amalgamation.

(c) The following are the Balance Sheet (Extract) of A Ltd and B Ltd as at 31st March—

Equity and Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
(1) Shareholders' Funds:			**(1) Non-Current Assets:**		
(a) Share Capital			**(a) Fixed Assets**	**50,00,000**	**30,00,000**
(i) Equity Shares of ₹ 10 each	**36,00,000**	**18,00,000**	**(b) Non-Current Investments**	**5,00,000**	**5,00,000**
(ii) 10% Pref. Shares of ₹ 100 each	**12,00,000**	**-**	**(2) Current Assets:**		
(ii) 12% Pref. Shares of ₹ 100 each	**-**	**6,00,000**	**(a) Inventories**	**18,00,000**	**12,00,000**
(b) Reserves & Surplus			**(b) Trade Receivables**		
(i) Statutory Reserve	**1,00,000**	**1,00,000**	**(i) Debtors**	**15,00,000**	**12,00,000**
(ii) General Reserve	**25,00,000**	**17,00,000**	**(ii) Bills Receivable**	**50,000**	**10,000**
(2) Non-Current Liabilities:			**(c) Cash & Cash Equivalents**	**1,50,000**	**90,000**
Long Term Borrowings					
(i) 15% Debentures	**5,00,000**	**-**			
(ii) 12% Debentures	**-**	**5,00,000**			
(3) Current Liabilities:					
Trade Payables (i) Sundry Crs	**10,80,000**	**12,80,000**			
(ii) Bills Payable	**20,000**	**20,000**			

Total	90,00,000	60,00,000	Total	90,00,000	60,00,000

Contingent Liabilities for Bills Receivable Discounted ₹20,000.

(A) The following additional information is provided to you–

Particulars	A Ltd (₹)	B Ltd (₹)
Profit before Interest and Tax	14,75,000	7,80,000
Rate of Income Tax	40%	40%
Preference Dividend	1,20,000	72,000
Equity Dividend	3,60,000	2,70,000

(B) The Equity Shares of both the Companies are quoted on the Mumbai Stock Exchange. Both the Companies are carrying on similar manufacturing operations.

(C) A Ltd proposes to absorb B Ltd at the end of business on 31st March. The agreed terms for absorption are-

1. **12% Preference Shareholders of B Ltd will receive 10% Preference Shares of A Ltd sufficient to increase their present income by 20%.**
2. **The Equity Shareholders of B Ltd will receive Equity Shares of A Ltd on the following terms:**
   - **(a) The Equity Shares of B Ltd will be valued by applying to the Earnings Per Share of B Ltd, 60% of Price Earnings Ratio of A Ltd based on the results of immediately preceding year of both the Companies.**
   - **(b) The Market Price of Equity Shares of A Ltd is ₹ 40 per share.**
   - **(c) The number of Shares to be issued to Equity Shareholders of B Ltd will be based on the 80% of Market Price.**
   - **(d) In addition to Equity Shares, 10% Preference Shares of A Ltd will be issued to the Equity Shareholders of B Ltd to make up for the loss in Income arising from the exchange of Shares based on the dividends for the year ending on the Balance Sheet date given above.**
3. **12% Debenture Holders of B Ltd are to be paid at 8% Premium by 15% Debentures of A Ltd issued at a discount of 10%.**
4. **₹16,000 is to be paid by A Ltd to B Ltd for Liquidation Expenses. Sundry Creditors of B Ltd include ₹20,000 due to A Ltd. Bills Receivable discounted by A Ltd were all accepted by B Ltd.**
5. **Fixed Assets of both the Companies are to be revalued at 20% above Book Value. Stock-in-trade is taken over at 10% less than their Book Value.**
6. **Statutory Reserve has to be maintained for two more years.**
7. **For the next two years, no increase in the rate of Equity Dividend is anticipated.**
8. **Liquidation Expense is to be considered as part of Purchase Consideration.**

You are required to: 1. Find out the Purchase Consideration.

2. Give Journal Entries in the books of A Ltd. [10]

Answer:

1. Basic Information

Selling Co : B Ltd	**Date of B/S :** 31st March	**Nature of Amalgamation:**
Buying Co : A Ltd	**Date of Amg :** 31st March	Purchase (Since all Assets are not taken over at Book Value)

2. Calculation of Purchase Consideration

(a) Preference Share Holders - Consideration

Particulars	₹
Present Income of 12% Preference Share Capital = 12% on ₹ 6,00,000	72,000
Income required in future = Present Income + 20% = 72,000 + 20% thereon	86,400
Amount of 10% Preference Shares to maintain the above income = $\frac{86,400}{10}\times 100$	**8,64,000**

(b) Price Earning Ratio

	Particulars	A Ltd	BLtd
	Profit Before Interest & Tax	14,75,000	7,80,000
Less:	Interest	(5 Lakhs × 15%) 75,000	(5 Lakhs × 12%) 60,000
	Profit Before Tax	**14,00,000**	**7,20,000**
Less:	Tax @ 40%	5,60,000	2,88,000
	Profit After Tax	**8,40,000**	**4,32,000**
Less:	Preference Dividend	1,20,000	72,000
	Profit Available to Equity Shareholders	**7,20,000**	**3,60,000**
	No. of Shares	3,60,000	1,80,000
	EPS	2.00	2.00
	DPS	$\frac{3,60,000}{3,60,000}$ =1.00	$\frac{2,70,000}{1,80,000}$ =1.50
	MPS	40	24
	Hence, PE Ratio = MPS ÷ EPS	$\frac{40}{2}$ = 20 Times	-

Particulars	
(a) Value per Share of B Ltd	2.00 x (20 x 60%) = 2.00 x 12 = ₹ 24.00
(b) Purchase Consideration based on Value per Share as in (a) above	₹ 24.00 x 1,80,000 Shares = ₹ 43,20,000
(c) Issue Price per Share of A Ltd	₹ 32 [80% of Market Price of A Ltd ₹ 40] (₹ 10 Face Value + ₹ 22 Securities Premium)
(d) No. of Shares to be issued	$\frac{₹ 43,20,000}{₹ 32}$ = 1,35,000 Shares
(e) Present Equity Dividend of B Ltd[l,80,000 Shares x ₹ 1.50 per Share]	₹ 2,70,000

(f) Less: Equity Dividend for Shareholders of B Ltd after Absorption at ₹ 1 per Share x 135000 Shares	₹ 1,35,000
(g) Loss in Dividend	₹ 1,35,000
(h) 10% Preference Shares to compensate the above dividend loss	$\frac{₹1,35,000}{10\%}$ = ₹ 13,50,000

(c) Summary of Total Purchase Consideration

Particulars	₹
(a) 10% Preference Share Capital (13,50,000 + 8,64,000)	22,14,000
(b) Equity Share Capital [1,35,000 Shares of ₹ 10 each issued at a Premium of ₹ 22]	43,20,000
(c) Liquidation Expenses	16,000
Total	**65,50,000**

3. Amount of Debentures to be issued

(a) Amount due to 12% Debentureholders 5,00,000 + Premium Payable @ 8% on 5,00,000	₹ 5,40,000
(b) 15% Debentures to be issued by A Ltd to Debenture Holders of B @ 10% Discount = $\frac{5,40,000}{90\%}$	₹ 6,00,000

4. Journal Entries in the books of A Ltd.

	Particulars		Debit	Credit
1	Business Purchase A/c	Dr.	65,50,000	
	To Liquidator of B Ltd. A/c			65,50,000
	(Being Purchase Consideration due)			
2	Fixed Assets A/c	Dr.	36,00,000	
	Investment A/c	Dr.	5,00,000	
	Stock A/c	Dr.	10,80,000	
	Debtors A/c	Dr.	12,00,000	
	Bills Receivable A/c	Dr.	10,000	
	Cash at Bank A/c	Dr.	90,000	
	Goodwill A/c (Balancing Figure)	Dr.	**19,70,000**	
	To Sundry Creditors A/c			12,80,000
	To Bills Payable A/c			20,000
	To Debenture Holders A/c (Agreed Value)			6,00,000
	To Business Purchase A/c			65,50,000
	(Being incorporation of Assets and Liabilities taken over)			
3	Debenture Holders A/c	Dr.	6,00,000	
	To 15% Debenture A/c			6,00,000
	(Being 6,000 Debentures of ₹ 100 each issued at a discount of ₹ 10)			
4	Fixed Assets A/c	Dr.	10,00,000	
	To Revaluation Reserve A/c			10,00,000

	(Being Revaluation of Fixed Assets upon Amalgamation)		
5	Liquidator of B Ltd A/c Dr. To Equity Share Capital A/c [1,35,000 Shares x ₹ 10] To Equity Share Premium A/c [1,35,000 Shares x ₹ 22] To Preference Share Capital A/c To Bank A/c (Being settlement of Purchase Consideration)	65,50,000	 13,50,000 29,70,000 22,14,000 16,000
6	Amalgamation Adjustment A/c Dr. To Statutory Reserve A/c (Being incorporation of Statutory Liability upon Amalgamation)	1,00,000	 1,00,000
7	Sundry Creditors A/c Dr. To Sundry Debtors A/c (Being adjustment for Inter Company Owings)	20,000	 20,000
8	Bills Payable A/c Dr. To Bank A/c (Being Repayment of Bill Discounted by A Ltd, since B Ltd ceases to exists)	20,000	 20,000

(d) The Summarised Balance Sheet of 'S' Limited and 'H' Limited as on 31st March 2015 were as follows:

(₹ Crores)

Particulars	S Limited		H Limited	
Equity and Liabilities				
Equity Share Capital		**80**		**25**
Reserves and Surplus		**400**		**75**
10%, 25,00,000 Debentures of ₹ 100 each		**–**		**25**
Non-current Liabilities: Other Liabilities		**120**		**–**
Current Liabilities		**356**		**200**
Total Liabilities		**956**		**325**
Assets				
Fixed Assets (at cost)	**200**		**75**	
Less: Depreciation	**100**	**100**	**50**	**25**
Investment in 'H' Limited				
2 Crores Equity Shares of ₹ 10 each at cost	**32**			
10% 25,00,000 Debentures of ₹ 100 each at cost	**24**	**56**	**–**	**–**
Current Assets		**800**		**300**
Total Assets		**956**		**325**

In a duly approve scheme of absorption, 'S' Limited took over the assets of 'H' Limited at an agreed value of ₹ 330 Crores and the Liabilities were taken over at Book Value. Other Shareholders of 'H' Limited were allotted Equity Shares in 'S' Limited at a premium of ₹ 90 per share in satisfaction of their claim. 'S' Limited valued the Fixed Assets taken over at ₹ 40 Crores and all other Assets and Liabilities were recorded at Book Value. The scheme of absorption was completed on 1st April 2015.

You are required to:

(i) Pass necessary Journal entries in the books of 'S' Limited to record the transactions.

(ii) Prepare the Balance Sheet of 'S' Limited after absorption in the Schedule III format along with Notes to accounts. [10]

Answer:

1. Basic Information

Selling Co : H Ltd	**Date of B/S :** 1st April	**Nature of Amalgamation:**
Buying Co : S Ltd	**Date of Amg :** 1st April	Purchase (Since Assets are revalued for takeover)

2. Net Assets Taken over

Particulars	₹ Crores
Assets taken over	330.00
Less: Liabilities taken over – Debentures	(25.00)
– Current Liabilities	(200.00)
Net Assets Taken over	**105.00**
Since Purchasing Company S Ltd. Holds (₹ 20 Crores out of ₹ 25 Crores) = 80% of H Ltd. Shares, Outsiders Share of Interest (Minority Interest = 20% = ₹ 21 Crores)	21.00
Purchase Consideration is paid in the form of Equity Shares of ₹ 10 each at ₹ 90 Premium. Value per Share = ₹ 100. Hence 21 Lakhs Shares × ₹ 100 = ₹ 21 Crores.	

3. Journal Entries in the Books of S Ltd (₹ Crores)

	Particulars		Debit	Credit
1	Business Purchase A/c	Dr.	21.00	
	To Liquidator of H Ltd. A/c			21.00
	(Being Purchase Consideration Due on a scheme of amalgamation)			
2	Liquidator of H Ltd A/c	Dr.	21.00	
	To Equity Share Capital A/c			2.10
	To Securities Premium A/c			18.90
	(Being Discharge of Purchase Consideration by issue of 21 Lakhs Equity Shares of ₹ 10 each at a premium of ₹ 90)			
3	Fixed Assets A/c (at given value)	Dr.	40.00	
	Current Assets A/c	Dr.	300.00	
	To 10% Debenture A/c			25.00
	To Current Liabilities A/c			200.00
	To Investments A/c (Cancellation of Investment in Equity Shares of H Ltd.)			32.00
	To Business Purchase A/c			21.00
	To Capital Reserve A/c **(Bal. Fig)**			**62.00**
	(Being Assets and Liabilities taken over)			
4	10% Debentures A/c	Dr.	25.00	
	To Investment in H Ltd (in Debentures) A/c			24.00
	To Capital Reserve			1.00
	(Being Cancellation of Debentures on takeover)			

4. Balance Sheet of S Ltd as on 1st April (₹ crores)

	Particulars	Note	This Year	Prev. Year
I	**Equity and Liabilities**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	1	82.10	
	(b) Reserves & Surplus	2	481.90	
(2)	**Non-current Liabilities:** Other Liabilities		120.00	
(3)	**Current Liabilities:** (₹356 + ₹200)		556.00	
	Total		**1240.00**	
II	**Assets**			
(1)	**Non-Current Assets:** Fixed Assets (100 +40)		140.00	
(2)	**Current Assets** (₹800 +₹300)		1100.00	
	Total		**1240.00**	

Notes to the Balance Sheet:

Note 1: Share Capital (₹ crores)

Particulars	This Year	Prev. Year
Authorised..... Equity Shares of ₹ ..... each		
Issued, Subscribed & Paid up: 8.21 crores equity shares of `10 each (of the above shares, 21 lakh shares are allotted for consideration other than cash)	82.10	
Total	**82.10**	

Note 2: Reserves and Surplus (₹ crores)

Particulars	Free Reserves	Securities Premium	Capital Reserve
Opening Balance	400.00	nil	nil
Add: Arising on amalgamation	nil	18.9	62.00 +1.00
Closing Balance	400.00	18.9	63.00
Total	**481.90**		

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's 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]

Answer:

1. Cost of Control

	Particulars		₹
	Cost of Investment		12,00,000
Less:	Nominal Value of Equity Capital	(70% x ₹ 20,00,000)	(14,00,000)
Less:	Share of Capital Profit (on acquisition date)	(70% x ₹ 1,60,000)	(1,12,000)
	Capital Reserve on Consolidation		3,12,000

Note: Capital Reserve on Consolidation will be reflected on the Liabilities side of the Consolidated Balance Sheet from Year 1 to Year 7 at the same amount, i.e. ₹ 3,12,000.

2. Closing Balance in P&L of Subsidiary, without considering Opening Balance of ₹ 1,60,000 (₹ 000's)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Opening Balance	NIL	(5,00)	(13,00)	(23,00)	(25,40)	(24,40)	(22,40)
Add: Profits for the year	(5,00)	(8,00)	(10,00)	(2,40)	1,00	2,00	3,00
Closing Balance	(5,00)	(13,00)	(23,00)	(25,40)	(24,40)	(22,40)	(19,40)
Minority Share at 30%	(1,50)	(3,90)	(6,90)	(7,62)	(7,32)	(6,72)	(5,82)

Note: In Minority Interest calculation, the balance in P&L A/c as on the date of acquisition is treated as Capital Profit and considered separately.

3. Minority Interest (₹ 000's)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
(a) Opening Balance	6,48	4,98	2,58	NIL	NIL	NIL	NIL
(b) Share in Revenue Profits	(1,50)	(2,40)	(3,00)	(72)	30	60	90
(c) Balance MI taken to CBS(a) - (b)	4,98	2,58	NIL	NIL	NIL	NIL	66
(d) Loss Adjusted in A's Share	-	-	42	72	-	-	-
(e) Gain trfd. to A for losses absorbed	-	-	-	-	(30)	(60)	(24)
(f) Cumulative Adj. against A	-	-	42	1,14	84	24	Nil

Note:

- **Opening Balance ₹ 6,48,000** = (Equity Capital ₹ 20,00,000 + Reserves ₹ 1,60,000) x 30%
- **Year 7:** Profit for the year is ₹ 90,000. Balance of Minority Loss adjusted against A's Share is ₹24,000. Therefore, Minority's Share for Year 7 = Profit for the year ₹ 90,000 Less Profit transferred to A to the extent not recovered ₹ 24,000 = ₹ 66,000.

(b) The following are the Balance Sheets of Amar Ltd and Balu Ltd as on 31.03.2015 (₹ in Lakhs) -

Equity and Liabilities	Amar Ltd	Balu Ltd	Assets	Amar Ltd	Balu Ltd
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital (₹ 10)	10	7	(a) Fixed Assets	10	12
(b) Reserves & Surplus			(b) Non-Current Invt - in Balu Ltd	5	–
(i) General Reserve	3	4	(2) Current Assets:	5	8
(ii) Profit & Loss Account	2	2			
(2) Current Liabilities:	5	7			
Total	20	20	Total	20	20

Additional Information -

1. **Amar acquired 30,000 Shares in Balu on 01.04.2014 when the position of Balu was - General Reserve ₹ 6,00,000 and P&L A/c ₹ 2,00,000.**
2. **On 01.09.2014, Balu issued 2 Shares for every 5 Shares held as Bonus Shares at Face Value. No entry has been made in the books of Amar to record this Bonus receipt.**
3. **On 30.06.2014, Balu declared a dividend at 20% of its then Capital, in respect of the Financial Year 2013-2014.**
4. **Balu owed Amar ₹ 3,00,000 for the purchase of Stock. The entire Stock is held by Balu on 31.3.2015. Amar had made a Profit of 20% on Cost.**
5. **Amar transferred a Plant to Balu for ₹ 2,00,000. The Book Value of the Plant to Amar was ₹1,50,000.**

Prepare Consolidated Balance Sheet as at 31.03.2015. [15]

Answer:

1. Basic Information

Company Status		Dates		Holding Status	
Holding Company	= Amar Ltd	Acquisition:	01.04.2014	Holding Company	= 60%
Subsidiary	= Balu Ltd	Consolidation:	31.03.2015	Minority Interest	= 40%

Shareholding: Shares held on 31.03.2015 = 30,000 + 2/5 x 30,000 (Bonus) = 42,000 out of 70,000 = 60%.

2. Analysis of Reserves & Surplus of Balu Ltd

(a) General Reserve

Balance on 31.03.2015 ₹ 4,00,000

	Balance on 01.04.2014	₹ 6,00,000	Transfer during 2014-2015 ₹ **NIL**
Less:	Bonus Issue (2/5 × ₹ 5 Lakhs)	2,00,000	**Revenue Profit**
	Balance **Capital Profit**	**4,00,000**	

Group Interest-Pre
= 4,00,000 × 60% = 2,40,000

Minority Interest
= 4,00,000 × 40% = 1,60,000

(b) Profit & Loss Account

Balance on 31.03.2015 ₹ 2,00,000

	Balance on 01.04.2014	2,00,000	Profit for 2014-2015 **1,00,000**
Less:	Dividend for FY 2013-14: 20% x ₹ 5 Lakhs	(1,00,000)	**Revenue Profit**
	Balance **Capital Profit**	**1,00,000**	

Group Interest-Pre
= 1,00,000 x 60% = 60,000

Minority Interest
=1,00,000x40% = 40,000

Group Interest-Post
= 1,00,000 x 60%
= 60,000

Minority Interest
= 1,00,000 x 40%
= 40,000

3. Consolidation of Balances

Particulars	Total	Minority Interest	Pre-Acqn.	Post-Acquisition	
Balu Ltd (Holding 60%, Minority 40%)				**Gen. Res.**	**P&L A/c**
Equity Capital	7,00,000	2,80,000	4,20,000		
General Reserves	4,00,000	1,60,000	2,40,000		
Profit and Loss A/c	2,00,000	80,000	60,000		60,000
Minority Interest		**5,20,000**			
Total [Cr]			**7,20,000**		**60,000**
Cost of Investment [Dr.] (Note 1)			(4,40,000)		
Parent's Balances (Note 1)				3,00,000	1,40,000
Unrealised Profits on –					
Closing Stock = $\frac{₹3,00,000 \times 20}{120}$ (Note 2(a))					(50,000)
Machinery Trfd (₹ 2,00,000 - ₹1,50,000) (Note 2(b))					(50,000)
For Consolidated Balance Sheet		**5,20,000**	**2,80,000**	**3,00,000**	**1,00,000**
		Minority Int	**Cap. Res.**	**Gen. Res.**	**P&L A/c**

Note:

1. Parent's P&L A/c balance and Cost of Investment

Particulars	Invsmt.	P&L A/c
Balance as per Balance Sheet	5,00,000	2,00,000
Less: Dividend out of Pre-acquisition profits (₹ 3,00,000 x 20%)	(60,000)	(60,000)
For Consolidation of Balances	4,40,000	1,40,000

2. Unrealised Profits:

(a) Stock Reserve, i.e. Unrealized Profits on Closing Stock has been eliminated in full from Group Reserves as it relates to Downstream Transaction.

(b) Unrealised Profits on transfer of Machinery has been eliminated completely. It has been presumed that the machinery was transferred during the year end, and therefore, depreciation adjustment has not been made.

4. Consolidated Balance Sheet of Amar Ltd and its Subsidiary Balu Ltd as at 31.03.2015

	Particulars as at 31st March	Note	This Year	Prev. Yr
I	EQUITY AND LIABILITIES			
(1)	Shareholders' Funds:			
(2)	(a) Share Capital	1	10,00,000	
(3)	(b) Reserves & Surplus	2	6,80,000	
	Minority Interest		5,20,000	
	Current Liabilities = 5,00,000 + 7,00,000 - 3,00,000 Mutual		9,00,000	
	Total		**31,00,000**	
II	ASSETS			
(1)	Non-Current Assets			
	Fixed Assets: = 10,00,000 + 12,00,000 - 50,000 Unrealised Profit		21,50,000	
(2)	Current Assets = 5,00,000 + 8,00,000 - 50,000 Stock Reserve - 3,00,000 Mutual		9,50,000	
	Total		**31,00,000**	

Notes to the Balance Sheet:

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: .... Equity Shares of ₹ 10 each		
Issued, Subscribed & Paid up: 1,00,000 Equity Shares of ₹ 10 each	10,00,000	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Capital Reserve on Consolidation	2,80,000	
(b) Other Reserves - General Reserve	3,00,000	

(c) Surplus (Balance in P & L A/c)	1,00,000	
Total	**6,80,000**	

(c) Prepare the Consolidated Trading and Profit and Loss Accounts from Individual Income and Expenditure Accounts of J Ltd and M Ltd given below for the year ending 31st March -

Particulars	J Ltd.	M Ltd.	Particulars	J Ltd.	M Ltd.
To Opening Stock	1,00,000	80,000	By Sales	6,50,000	3,20,000
To Purchases	5,50,000	2,50,000	By Closing Stock	1,50,000	1,00,000
To Direct Expenses	50,000	30,000			
To Gross Profit c/d	1,00,000	60,000			
Total	**8,00,000**	**4,20,000**	**Total**	**8,00,000**	**4,20,000**
To Depreciation	20,000	6,000	By Gross Profit b/d	1,00,000	60,000
To Expenses	16,000	8,000	By Dividends from Mayan		
To Tax Expense	42,000	18,000	- Preference	9,000	
To Net Profit	46,000	28,000	- Equity	15,000	
Total	**1,24,000**	**60,000**	**Total**	**1,24,000**	**60,000**
To Pref. Dividends for the year	-	10,000	By Balance at year beginning	54,000	42,000
To Equity Dividend for the year	50,000	25,000	By Net Profit b/d	46,000	28,000
To Profit carried to Balance Sheet	50,000	35,000			
Total	**1,00,000**	**70,000**	**Total**	**1,00,000**	**70,000**

Additional Information -

1. **J Ltd. held 60% of the Equity Shares and 90% of the Preference Shares of M Ltd. Ltd since the financial year beginning.**
2. **M Ltd sold goods costing ₹ 40,000 at a Price of ₹ 50,000 to J Ltd.**

Presentation as per Schedule III is not required. **[15]**

Answer:

1. Basic Information

Company Status	Dates	**Holding Status**
Holding Company = J Ltd. Subsidiary = M Ltd.	Acquisition: 1st April Consolidation: 31st March	Holding Company = 60% Minority Interest = 40%

2. Consolidation of Profit & Loss Account

Expenditure	J Ltd.	M Ltd.	Adj	Total	Income	J Ltd.	M Ltd.	Adj	Total
Opening Stock	1,00,000	80,000	-	1,80,000	Sales	6,50,000	3,20,000	(50,000)	9,20,000
Purchases Direct	5,50,000	2,50,000	(50,000)	7,50,000	Closing Stock	1,50,000	1,00,000	-	2,50,000
Expenses Gross	50,000	30,000	-	80,000					
Profit b/d	1,00,000	60,000		1,60,000					
Total	**8,00,000**	**4,20,000**	**(50,000)**	**11,70,000**	**Total**	**8,00,000**	**4,20,000**	**(50,000)**	**11,70,000**
Depreciation	20,000	6,000	-	26,000	Gross Profit b/d	1,00,000	60,000	-	1,60,000
Expenses	16,000	8,000	-	24,000					
Tax Expense	42,000	18,000	-	60,000	Pref. Dividend	9,000	-	(9,000)	-
Net Profit c/d	46,000	28,000	(24,000)	50,000	Equity Dividend	15,000	-	(15,000)	-
Total	**1,24,000**	**60,000**	**(24,000)**	**1,60,000**	**Total**	**1,24,000**	**60,000**	**(24,000)**	**1,60,000**
Pref. Dividend	-	10,000	(9,000)	1,000	Balance b/d	54,000	42,000	-	96,000

Equity Dividend	50,000	25,000	(15,000)	60,000	Net Profit b/d	46,000	28,000	(24,000)	50,000
Minority Int (WN 1)	-								
(35,000 x 40%)		14,000	-	14,000					
Investment (WN 2)	-								
(35,000 x 60%)		21,000	-	21,000					
Balance for B/Sheet	50,000	-	-	50,000					
Total	**1,00,000**	**70,000**	**(24,000)**	**1,46,000**	**Total**	**1,00,000**	**70,000**	**(24,000)**	**1,46,000**

Working Notes:

1. Minority Interest: Balance in Profit & Loss A/c = Opening ₹ 42,000 + Net Profit ₹ 28,000 Less Dividends ₹ 35,000 = ₹ 35,000. Therefore, Minority Interest = P&L Account Balance x 40% = ₹35,000 x 40% = ₹ 14,000.

2. Capital Profit (Transferred to Investment Account)

   Balance on Acquisition Date ₹ 42,000 Less Dividend for the year from Opening Balance ₹ 7,000 (Dividend paid ₹ 35,000 Less Profit for the year ₹28,000) = ₹ 35,000

Closing Balance ₹ 35,000

Date of Acquisition		₹ 42,000		Acquisition to Consolidation	28,000
Less:	Dividend (35,000 - 28,000)	₹ 7,000	**Less:**	Dividend 35,000 upto Pfts. Available	28,000
Balance **Capital Profit**		**₹ 35,000**		**Revenue Profit**	**₹ NIL**

Share of J Ltd.	**Minority Interest**
35,000 x 60% = ₹ **21,000**	35,000 x 40% = ₹ **14,000**

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

(a) List the questions to be considered while assessing measurement indicators for inclusion in Triple Bottom Line Reports. [5]

Answer:

Questions to consider when assessing measurement indicators for inclusion in Triple Bottom Line reports:

- Does the indicator address the requirements and concerns of key stakeholders?
- Is the indicator aligned to company objectives and policy?
- Will the indicator provide management with information to guide decision-making?
- Does the indicator adequately convey information about performance that is specific to the industry sector?
- Does the indicator facilitate comparison with competitors?

- Can internal systems generate accurate, reproducible data?
- What is the risk in publishing a specific measure of performance?
- Is it a significant management issue for the reporting entity?

(b) K Ltd announced a Share Based Payment Plan for its employees who have completed 3 years of continuous service, on 1st April 2012. The plan is subject to a 3 year vesting period. The following information is supplied to you in this regard.

(i) The eligible employees can either have the option to claim the difference between the Exercise Price of ₹144 per share and the Market Price in respect of the share on vesting date in respect of 5,000 shares, or such employees are entitled to subscribe to 6,000 shares at the Exercise Price.

(ii) Any shares subscribed to by the employees shall carry a 3 year lock in restriction. All shares carry face value of ₹10.

(iii) The Current Fair Value of the shares at (ii) above is ₹60 and that in respect of freely tradeable shares is higher by 20%.

(iv) The fair value of the shares not subjected to lock in restriction at the end of each year increases by a given % from its preceding value as under:

	Year 2012-2013	Year 2013-2014	Year 2014-2015
% of increase	**6**	**10**	**15**

Prepare the following accounts under both options – (a) Employee Compensation Expense A/c (b) Provision for Liability Component A/c and (c) ESOP Outstanding Account. [10]

Answer:

1. Computation of Equity Component and Debt Component in Option

	Particulars	₹
	Fair Value under Equity Settlement = 6,000 Shares x Fair Value ₹ 60	3,60,000
Less:	Fair Value under Cash Settlement, i.e. Liability Component = 5,000 Shares × Fair Value ₹ 72 (60+20%)	(3,60,000)
	Equity Component to be recognized as Expense Over the vesting period of 3 years	NIL
	Expenses to be recognized each year	**NIL**

2. Computation of Expense to be recognized for Liability Component

Details	FY 2012-2013	FY 2013-2014	FY 2014-2015
(a) No. of Options Expected to Vest	5,000	5,000	5,000
(b) Fair Value estimates per Share at year end	76.32 (72 + 6%)	83.952 (76.32 + 10%)	96.5448 (83.952 + 15%)
(c) Total Fair Value of Liab.Component (axb)	₹ 3,81,600	₹ 4,19,760	₹ 4,82,724
(d) Total Cumulative Cost of Options	[(c)xl/3]= ₹1,27,200	[(c) x 2/3]= ₹	[(c) < 3/3] =?

		2,79,840	4,82,724
(e) **Less:** Already recognized in Previous Years	0	(₹ 1,27,200)	(₹ 2,79,840)
(f) Amount to be Expensed this Year	**₹ 1,27,200**	**₹ 1,52,640**	**₹ 2,02,884**

3. Ledger Accounts (a) Employees' Compensation Expense A/c

Year	Particulars	₹	Particulars	₹
2012-2013	To Provision for Liability A/c	1,27,200	By Profit & Loss A/c	1,27,200
		1,27,200		**1,27,200**
2013-2014	To Provision for Liability A/c	1,52,640	By Profit & Loss A/c	1,52,640
		1,52,640		**1,52,640**
2014-2015	To Provision for Liability A/c	2,02,884	By Profit & Loss A/c	2,02,884
		2,02,884		**2,02,884**

(b) Provision for Liability Component A/c

Year	Particulars	₹	Particulars	₹
2012-2013	To Balance c/d	1,27,200	By Employees' Compensation A/c	1,27,200
		1,27,200		**1,27,200**
2013-2014	To Balance c/d	2,79,840	By Balance b/d By Employees' Compensation A/c	1,27,200 1,52,640
		2,79,840		**2,79,840**
2014-2015	To Balance c/d	4,82,724	By Balance b/d By Employees' Compensation A/c	2,79,840 2,02,884
		4,82,724		**4,82,724**
CASH SETTLEMENT				
2014-2015	To Bank (Cash Settlement)	4,82,724	By Balance b/d	4,82,724
		4,82,724		**4,82,724**
EQUITY SETTLEMENT				
2014-2015	To ESOP Outstanding A/c	4,82,724	By Balance b/d	4,82,724
		4,82,724		**4,82,724**

(c) ESOP Outstanding Account (Under Equity Settlement)

Year	Particulars	₹	Particulars	₹
2014-2015	To Share Capital (6,000 x ₹ 10) To Securities Premium A/c	60,000 12,86,724	By Provision for Liability Component A/c By Bank (6,000 x ₹144)	4,82,724 8,64,000
		13,46,724		**13,46,724**

(c) The following is the Profit & Loss A/c (Extract) and related information of A Ltd for the year ended 31st March. Prepare a GVA Statement and show also the reconciliation between Gross Value Added and Profit before Taxation.

Profit and Loss Account (Extract) for the year ended 31st March

Particulars		₹ Lakhs	₹ Lakhs
Income:	Sales	890	
	Other Income	55	945
Expenditure:	Production and Operational Expenses	641	
	Administration Expenses (Factory)	33	
	Interest	29	
	Depreciation	17	720
	Profit Before Taxes		225
Less:	Provision for Taxes		30
	Profit After Tax		195
Add:	Balance as per Balance Sheet		10
			205
Less:	Transferred to General Reserve	45	
	Dividend Paid	95	140
	Surplus carried to Balance Sheet		65

1. **Production and Operational Expenses consists of**

Consumption of Raw Materials	293
Computation of Stores	59
Salaries, Wages, Gratuities, etc. (Admn.)	82
Cess and Local Taxes	98
Other Manufacturing Expenses	109

2. **Interest Charges Consists of**

Int. on loan from ICICI Bank for Working Capital	9
Interest on loan from ICICI Bank for Fixed Loan	10
Interest on loan from IFCI for Fixed Loan	8
Interest on Debentures	2

3. **Administration Expenses include Salaries to Directors ₹ 9 Lakhs, Reserve for Doubtful Debts ₹6.30 Lakhs.**

4. **The charges for Taxation include a transfer of ₹ 3 Lakhs to the credit of Deferred Tax Account.**

5. **Cess and Local Taxes include Excise Duty, which is equal to 10% of Cost of Bought-In Materials & Services.** **[10]**

Answer:

Value Added Statement of A Ltd for year ending 31st March

Particulars			₹ Lakhs	%
Sales			890.00	
Less: Cost of Bought in Materials & Services	(Note 1)		461.00	
Administrative Expenses	(Note 2)		17.70	
Interest on Working Capital Loan from ICICI (Operating Cost)			9.00	
Excise Duty	(461x10%)		46.10	
Value Added from Manufacturing and Trading Activities			356.20	
Add: Other Income			55.00	
Total Value Added (GVA)			**411.20**	**100.00%**
Application of Value Added				
1. To Employees:	Wages, Salaries, Gratuities, etc.		82.00	19.94%
2. To Management:	Salaries to Directors		9.00	2.19%
3. To Government:	(a) Local Tax: (Given 98 less Excise Duty 46.10)	51.90		
	(b) Income Tax (Total 30 less Deferred Tax 3)	27.00	78.90	19.19%
4. To Providers of Finance:	Interest on Fixed Loans & Debentures (10+8+2)		20.00	4.86%
5. To Shareholders:	Dividend		95.00	23.10%
6. To Retained Earnings:	(a) Depreciation	17.00		
	(b) Retained Profit (out of Current Yr Profit)(65-10)	55.00		
	(c) Transfer to General Reserve	45.00		
	(d) Reserve for Doubtful Debts (Note 3)	6.30		
	(e) Deferred Tax Account	3.00	126.30	30.72%
Total Application			**411.20**	**100.00%**

Working Notes:

1. **Cost of bought in Materials and Services** includes Raw Materials, Stores and Other Manufacturing Expenses, i.e. 293 + 59 + 109 = ₹ 461 Lakhs.
2. **Admin.Exps** excluding Commission to Directors and Provision for Debts i.e. [₹ 33 - (₹ 9 + ₹ 6.3)] = ₹ 17.70 Lakhs.
3. It is assumed that Reserve for Doubtful Debts is against anticipated uncollectible Debts, and hence considered as an appropriation towards possible future losses, similar to Depreciation.

(d) (i) State the disclosure of environment related accounting policies.
(ii) Write a note on XML Applications. [6+4=10]

Answer:

(d) (i) Major Accounting Issues in Environmental Accounting are –

(I) Environmental Expenditure vs. Normal Business Expenditure: Many machines may have state-of-the-art environmental technology. Hence, a portion of such capital costs and also the running and maintenance expenditure may be treated as environment related expenditure. There should be proper guidelines for allocating the capital and revenue expenditures between Environmental Expenditure and Normal Business Expenditure.

(II) Capitalisation vs. Charging Off of Environmental Expenditure: Environmental protection costs relating to prior periods and current period are generally very high. If these are expensed off in one year, EPS may be adversely affected. Some Companies may capitalise such expenditure and amortise the same over say 10 years. Uniformity is required for comparative analysis of Financial Statements.

(III) Recognition of Environment related Contingent Liabilities: Environmental Contingent Liabilities are a matter of increasing concern. Recognizing a liability for hazardous waste remediation frequently depends on the ability to estimate remediation costs reasonably. Developing a reliable estimate requires evaluation of technological, regulatory and legal factors, each of which calls for exercise of management judgement to reach supportable accounting conclusions.

(ii) XML Applications are languages which define constraints for a class of XML data for some special application area, often by means of a DTD. Examples of XML applications are MathML defined for mathematical data or XML-Signature intended for digital signatures. XML accessories and XML transducers are often XML-based languages and thus also XML applications. In this report a language is however classified as an XML application only if it has not been included in the accessories or transducers.

The languages in the XML applications category can be further divided into four subcategories according to the application.

- Non-textual forms of data like mathematical data or voice.
- Web publishing, to replace HTML by XML-based representation format.
- Semantic web.
- Web communication and services.

Question No. 5 (Answer any three):

(a) Write a note on Government Accounting in India. [5]
(b) Describe the constitution of the Public Accounts Committee. [5]
(c) State the objectives of General Purpose Financial Statements of Government (IGAS4). [5]
(d) List the main features of Government of India Accounts. [5]

Answer:

(a) The accounting of Government activities is specialised in nature. Government of India means the Central (union) government or state government or union territory government or all the three as the context may imply. The immediate objective of Government accounting is not to ascertain the gain or loss on the transactions of the Government as a whole in carrying out its activities. The activities of the Government are determined by the needs of the country. The main branches of its activities being known, it is a matter for decision what expenditure will be necessary during any year in carrying out these activities. After a decision has been reached on this point, it becomes necessary to determine how to raise sufficient money to meet that expenditure.

(b) The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajya Sabha elected by that House in like manner are associated with the Committee. The Chairman is appointed by the Speaker from amongst its members of Lok Sabha. The Speaker, for the first time, appointed a member of the Opposition as the Chairman of the Committee for 1967-68. This practice has been continued since then. A Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment. The Public Accounts Committee consists of fifteen Members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote. Seven members of Rajya Sabha elected by that House in like manner are associated with the Committee. This system of election ensures that each Party/Group is represented on the Committee in proportion to its respective strength in the two Houses.

(c)

- The purpose of this Standard is to lay down the principles to be followed in presentation of general purpose financial reports of Governments and to prescribe the minimum requirements relating to structure and contents of financial statements of government prepared under cash basis of accounting.
- The statement of receipts and disbursements during the year and information about cash flows of an Entity enable stakeholders to evaluate the likely sources and uses of cash and the ability of an Entity to generate adequate cash in the future. This information also indicates the expenditure priorities of the Entity in the delivery of goods and services as well as the impact of the taxation policies of the Entity. Stakeholders can then assess the sustainability of the Entity's activities (whether future budgetary resources will be sufficient to sustain public services and to meet obligations as they become due) and appraise financial accountability.
- All Financial Statements need to be standardized to obtain optimal information, to ensure comparability with the Entity's own financial Statements of previous periods and with those of other entities. The basis and policies of accounting need to be uniform to permit meaningful consolidation to develop Whole of Government Accounts. Desirable attributes need to defined to obtain a basic standard for financial reporting.
- To achieve these objectives, this Standard sets out the financial elements for the presentation of financial reports prepared under the cash basis of accounting. It also requires that the selection of accounting policy should ensure certain qualitative characteristics in the information being presented. Desirable attributes of financial reporting are required to heighten their value to the users.
- General Purpose Financial Statements (GPFS) essentially consists of Finance Accounts and Appropriation Accounts. The Financial Statements referred to in this standard are the General Purpose Financial Reports (GPFR).

(d) GOI Accounts - Main Features

- Annual Cycle - April to March
- Single Currency
- Double Entry System
- Cash Basis
- Additional Disclosures:
  - Liabilities
  - Contingent Liabilities
  - Financial Assets
- Proforma Accounts
- Functional cum Programme Classification
- Decentralized Payment & Accounting system
- Single Cash Balance
- Elaborate Banking Arrangement