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]

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]

(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]

(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: I. Find out the Purchase Consideration.

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

(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]

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]

(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]

(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]

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]

(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]

(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]

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

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]