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.

1. (a) ABC Limited acquired a bank loan of ₹80 lakhs on interest rate of 20% per annum on 1st July, 2014. The said loan was utilized by the company for three transactions as under:

(i)	**Construction of Factory shed**	**₹20,00,000**
(ii)	**Purchase of Plant and Machinery**	**₹50,00,000**
(iii)	**Balance loan was unallocated and used generally for the purpose of business.**	

The accountant of the company has charged the total interest to the Profit and Loss account. Comment in view of provisions of AS-16. [5]

(b) State the objective and scope of IFRS 4 (Insurance Contracts) [5]

Answer:

(a) Total interest amounting ₹12,00,000 (interest for 9 months @ 20% on ₹80,00,000) cannot be charged to Profit and Loss account.

The amount to be charged to Profit and Loss account will be computed as under.

Treatment of Interest (Borrowing Cost) as per AS-16 'Borrowing Cost'

SL. No.	Particulars	Nature	Interest to be capitalized	Interest to be charged to P&L A/c
(i)	Construction of Factory shed (Refer Note 1)	Qualifying Asset	12,00,000 × 20/80 = 3,00,000	
(ii)	Purchase of Plant and Machinery (Refer Note 2)	Not A qualifying asset		12,00,000×50/80 = 7,50,000
(iii)	Working Capital (used generally for business)(Refer Note 3)	Not a qualifying asset		12,00,000×10/80 = 1,50,000
	Total		3,00,000	9,00,000

Notes:

1. Construction of a factory shed necessarily takes a substantial period of time to get ready for its intended use or sale.
2. It is assumed that the machinery purchased is immediately ready for use. Therefore, it is a non-qualifying asset. Hence, the interest cost on it, would not be capitalized.
3. As per AS-16 'Borrowing Cost', borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets should be capitalized as part of the cost of that asset. Other borrowing costs are recognized as expense in the period in which they are incurred.

(b) Objective

The objective of this IFRS is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in this IFRS as an insurer) until the Board completes the second phase of its project on insurance contracts.

In particular, this IFRS requires:

(a) limited improvements to accounting by insurers for insurance contracts.

(b) disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

Scope

An entity shall apply this IFRS to:

(a) Insurance contracts (including reinsurance contracts) that it issues and reinsurance contracts that it holds.

(b) Financial instruments that it issues with a discretionary participation feature (see paragraph 35). IFRS 7 Financial Instruments: Disclosures requires disclosure about financial instruments, including financial instruments that contain such features.

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

2.(a) AD Ltd agreed to absorb BD Ltd on 31st March whose Balance Sheet stood as follows:

I. Equity and Liabilities	**₹**
Shareholders' Funds:	
(a) Share Capital (80000 shares of ₹10 fully paid)	**8,00,000**
(b) Reserve and Surplus -general reserve	**1,00,000**
Non-Current Liabilities:	
Long Term Borrowings	
-Secured Loans	**-**
-Unsecured Loans	**-**
Current Liabilities:	
Trade Payables -Sundry Creditors	**1,00,000**
Total	**10,00,000**
II. Assets	**₹**
Non-Current Assets:	
(a) Fixed Assets	**7,00,000**
(b)Non-Current Investments	**-**
Current Assets:	
(a)Inventories	**1,00,000**
(b)Trade Receivables - Debtors	**2,00,000**
Total	**10,00,000**

The consideration was agreed to be paid as follows-

(i) A payment of ₹5 per share in BD Ltd, and

(ii) The issue of ₹10 each in AD Ltd. on the basis of 2 Equity Shares (valued at ₹15) and one 10% Cumulative Preference Share (Valued at ₹10) for every 5 shares held in BD Ltd.
The whole of the Share Capital consists of shareholding in exact multiple of five except the following holding-

(iii) P-116 share, (ii)Q-76 shares, (iii)R-72 shares, (iv)S-28 shares, (v)Other Individuals-8 shares (eight members holding one share each).Total of such fractional holding =300 shares.

It was agreed that AD Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in BD Ltd. i.e. ₹65 for 5 shares of ₹50 paid.

Prepare a statement showing the purchase consideration receivable in shares and cash.
[5]

Answer:

(a)

Analysis of fractional holdings and Exchange of shares

Name of shareholder	Shares Held	Exchangeable in multiples of five	Exchange in equity shares	Exchange in preference shares	Non-exchangeable
P	116	115	(115 × 2/5) =46	(115 × 1/5) =23	1
Q	76	75	(75 × 2/5) =30	(75 × 1/5) =15	1
R	72	70	(70 × 2/5) =28	(70 × 1/5) =14	2
S	28	25	(25 × 2/5) =10	(25 × 1/5) =5	3
Others	8	-	-	-	8
Total	300	285	114	57	15

Computation of Shares Exchangeable

Particulars	Shares in BD Ltd	Equity Shares of AD Ltd.	Pref. Shares of AD Ltd.
Fractional Holdings(as above)	300	114	57
Other holdings	(80,000 – 300) = 79,700	79,700 x 2/5 =31,880	79,700 x 1/5 =15,940
	80,000	31,994	15,997

There are 15 shares in BD Ltd. which are not capable of exchange into equity & preference shares of AD Ltd. Hence they will be paid cash as 15 shares x ₹10 paid up value x 65/50 = ₹195

Settlement of Purchase Consideration

Particulars	₹
31,994 equity shares at ₹15 each(face value of ₹10 each)	4,79,910
15,997 Preference shares at ₹10 each	1,59,970
Cash for (80000 – 15)=79,985 shares at ₹5 each	3,99,925
Total	10,39,805
Add: Cash for 15 shares (fractional holding non-exchangeable)	195
Total Purchase Consideration	10,40,000

2. (b) Star and Moon had been carrying on business independently. They agree to Amalgamate and form a new Company Neptune Ltd with an Authorised Share Capital of ₹ 2,00,000 divided into 40,000 Equity Share of ₹ 5 each.

On 31st March, the respective Balance Sheets of Star and Moon were as follows (in ₹)

Particulars	Star	Moon
Fixed Assets	3,17,500	1,82,500
Current Assets	1,63,500	83,875
Total Assets	4,81,000	2,66,375
Less: Current Liabilities	2,98,500	90,125
Balance representing Capital	1,82,500	1,76,250

Additional Information:

1. **Revalued figures of Fixed and Current Assets were as follows:**

Particulars	Star	Moon
Fixed Assets	3,55,000	1,95,000
Current Assets	1,49,750	78,875

2. **The Debtors and Creditors include ₹ 21,675 owed by Star to Moon.**

The Purchase Consideration is satisfied by issue of the following Shares and Debentures –

- **30,000 Equity Shares of Neptune Ltd to Star and Moon in the proportion to the profitability of their respective Business based on the Average Net Profit during the last three years which were as follows –**

Particulars	Star	Moon
Year 1 Profit	2,24,788	1,36,950
Year 2 (Loss) / Profit	(1,250)	1,71,050
Year 3 Profit	1,88,962	1,79,500

- **15% Debentures in Neptune Ltd at par to provide an Income equivalent to 8% Return on Capital Employed in their respective Business as on 31st March after revaluation of assets.**

Required:

(1) Compute the amount of Debentures and Shares to be issued to Star and Moon, and

(2) Prepare the Balance Sheet of Neptune Ltd showing the position immediately after Amalgamation (Use Purchase Method). [10]

Answer:

Selling Co: Star Ltd, Moon Ltd	**Date of Balance Sheet:** 31st march	**Nature of Amalgamation**
Buying Co: Neptune Ltd.	**Date of Amalg. :** 31st march	Purchase(as given in the question)

Computation of Amount of Debentures and Shares to be issued

Particulars	Star	Moon
(a) Average Net Profit	$\frac{2,24,788-1,250+1,88,962}{3 \text{ years}}$ = 1,37,500	$\frac{1,36,950+1,71,050+1,79,500}{3 \text{ years}}$ = 1,62,500
(b) Equity Shares to be issued in the above ratio of (a) [Total 30,000 in		

1375:1625)	13,750	16,250
(c) Equity Share capital at ₹5 per share	13,750 × 5 = 68,750	16,250 ×5 = 81,250
(d) Capital Employed (after revaluation) Fixed Assets Current Assets	3,55,000 1,49,750	1,95,000 78,875
	5,04,750	2,73,875
Less: Current Liabilities	(2,98,500)	(90,125)
Capital Employed	2,06,250	1,83,750
(e) 8% return on capital Employed	2,06,250 × 8% = 16,500	1,83,750 × 8% = 14,700
(f) 15% debentures to be issued to provide equivalent income at e above	(16,500/15%)= 1,10,000	(14,700 /15%)= 98,000
(g) Total Purchase Consideration (c) + (f)	1,78,750	1,79,250

Computation of Goodwill/Capital Reserve

Particulars	Star	Moon	Total
Fixed Assets taken over	3,55,000	1,95,000	5,50,000
Current Assets (after adjustment of inter-company owings)	1,49,750	57,200	2,06,950
Total Assets taken over	5,04,750	2,52,200	7,56,950
Less: Current Liabilities (adjusting inter-company owings)	(2,76,825)	(90,125)	(3,66,950)
Net Assets taken over	2,27,925	1,62,075	3,90,000
Less: Purchase Consideration calculated above	(1,78,750)	(1,79,250)	(3,58,000)
Capital Reserve / (Goodwill)	49,175	(17,175)	32,000

Balance Sheet of Neptune Ltd.
as at 31st March (After Amalgamation)

	Particulars	Note	This Year	Prev. Year
I	**Equity and Liabilities**			
(1)	Shareholders' Funds:			
	(a) Share Capital	**1**	1,50,000	
	(b) Reserves & Surplus – Capital reserve		32,000	
(2)	Non-Current Liabilities			
	Long Term Borrowings -15% Debentures (1,10,000 + 98,000)		2,08,000	
(3)	Current Liabilities as computed above		3,66,950	
	Total		7,56,950	
II	**Assets**			
(1)	Non-Current assets			
	Fixed assets: - Tangible Assets (3,55,000 + 1,95,000)		5,50,000	
(2)	Current assets – as computed above		2,06,950	
	Total		7,56,950	

Notes to the Balance Sheet

Particulars	This Year	Prev. Year
Authorized: 40,000 Equity Shares of ₹5 each	2,00,000	
Issued, Subscribed & Paid up : 30,000 equity shares of ₹5 each (Above shares were issued for non-cash consideration based on a scheme of amalgamation)	1,50,000	

Total	1,50,000	

2. (c) The Balance Sheet (Extract) of M Ltd. and D Ltd. are given below as at 31st March-

Equity and Liabilities	M Ltd.	D Ltd.	Assets	M Ltd.	D Ltd.
(1) Shareholders' Funds:			**(1) Non-Current Assets:**		
(a) Share Capital (Shares of ₹10)	**2,00,000**	**4,00,000**	**(a) Fixed Assets**		
(b) Reserves & Surplus	**44,000**	**1,00,000**	**(i) Tangible Assts**	**3,10,000**	**5,90,000**
(2) Non-Current Liabilities:			**(ii) Loan to D Ltd**	**30,000**	**-**
- **Long Term Borrowings**			**(b)Non-Current Investments (5,000 shares of D Ltd.)**	**50,000**	**-**
(i)7% Debentures (₹100 each)	**1,00,000**	**-**	**(2) Current Assets: Cash**	**-**	**10,000**
(ii) Loan from M Ltd.	**-**	**30,000**			
(3) Current Liabilities:	**46,000**	**70,000**			
Total	**3,90,000**	**6,00,000**	**Total**	**3,90,000**	**6,00,000**

D Ltd. takes over M Ltd. on the following terms:

1. **D Ltd. will issue sufficient number of its shares at ₹11 each and pay ₹0.50 cash per share held by members of M Ltd.**
2. **7% debentures of M Ltd. are to be paid at 8% premium by issue of sufficient number of 8% debentures of D Ltd. at ₹90.**

Show Journal Entries in the books of D Ltd. **[10]**

Answer:

1. Basic Information

Selling Co: M Ltd.	**Date of Balance Sheet:** 31st march	**Nature of Amalgamation**
Buying Co: D Ltd	**Date of Amalg. :** 31st march	Purchase(Since purchase consideration is discharged other than by way of equity shares)

2. Computation of Purchase Consideration by Net Assets Method

Particulars	**₹**
Tangible Assets	3,10,000
Loan to D Ltd.	30,000
Invt in shares of D Ltd taken at Fair Value = Issue Price (5,000 × ₹11)	55,000
Total of Assets	3,95,000
Less: Liabilities 7% Debentures (1,00,000 + 8% premium)	(1,08,000)
Current Liabilities	(46,000)
Net Assets taken over = Total Consideration due	2,41,000

3. Settlement of Purchase Consideration

Particulars	**₹**
(a) Total Value of Assets taken over = consideration due as calculated above	2,41,000
(b) Cash paid at ₹0.50 per share to all members of M Ltd = 20,000 shares × 0.50	10,000
(c) Balance consideration to be settled in terms of shares	2,31,000
(d) Number of shares of D Ltd. issuable at ₹11 per share = ₹2,31,000 / 11	21,000 shares
(e) Shares of D Ltd. already held by M Ltd.	5,000 shares

(f) Balance shares now issuable	16,000 shares
(g) Equity Share Capital = 16,000 × ₹10 per share	1,60,000
(h) Securities premium = 16,000 × ₹1 per share	16,000
(i) Total Purchase Consideration settled (b) + (g) + (h)	1,86,000

4. Journal Entries in the books of D Ltd.

Particulars		(Debit) ₹	(Credit) ₹
1. Business Purchase	Dr.	1,86,000	
To Liquidator of M Ltd.			1,86,000
(Being consideration due for Purchase of Business of M Ltd.)			
2. Tangible Assets	Dr.	3,10,000	
Loan to D Ltd.	Dr.	30,000	
To Debentureholders			1,08,000
To Current Liabilities			46,000
To Business Purchase			1,86,000
(Being Asset and Liabilities of M Ltd. incorporated in accounts)			
3. Liquidator of M Ltd.	Dr.	1,86,000	
To Equity Share Capital			1,60,000
To Securities Premium			16,000
To Bank			10,000
(Being settlement of purchase consideration in the form of cash and shares)			
4. Debentureholders	Dr.	1,08,000	
Discount on issue of debentures	Dr.	12,000	
To 8% Debentures			1,20,000
(Being debentureholders settled by issue of own 8% debentures at ₹90)			
5. Loan from M Ltd.	Dr.	30,000	
To Loan to D Ltd.			30,000
(Being mutual cancellation of Inter-Company Owings)			

2. (d) A Ltd and B Ltd, both engaged in similar merchanting activities since 2015,decide to amalgamate their business. Holding company C Ltd would be formed on 1st April 2015 to acquire the entire share in both the companies.

From the information given below you are required to

(1) Calculate the Purchase Consideration

(i) The terms of the offer were:

- **₹100 15% debentures for every 100 of Net Asset owned by each company on 31st March 2014 and**
- **₹100 Equity Shares based on two years purchase of profit before taxation. The profit is to be determined taking weighted average profits of 2013 and 2014 weights being 1 and 2 respectively.**

(ii) It was agreed that the accounts of B Ltd. for the two years ended March 31, 2014 be adjusted, where necessary, to confirm with accounting policies followed by A Ltd.

(iii) The pre-tax profits, including investments income, of the two companies were as follows:

Particulars	2013	2014
A Ltd.	**₹16,38,000**	**₹18,36,000**
B Ltd.	**₹17,88,300**	**₹25,74,000**

(iv) A Ltd. values its stock on FIFO basis while B Ltd. used different basis. To bring B Ltd's values in line with those of A Ltd, its value will require to be reduced by ₹36,000 at the end of 2013 and ₹1,02,000 at the end of 2014.

(v) Both the companies use straight-line method of depreciation.

(vi) B Ltd deducts 1% from Trade Debtors as a general provision against Doubtful Debts.

(vii) Prepaid expenses in B Ltd include advertising expenditure carried forward of ₹1,80,000 in 2011 and ₹90,000 in 2012,being part of initial advertising in 2013 which is being written off over three years. Similar expenditure in A Ltd has been fully written off in 2013.

(viii) To bring Directors Remuneration on to a comparative basis, the profit of B Ltd are to be reduced by ₹1,20,000 in 2013 and ₹1,80,000 in 2014 and the net assets are also to be adjusted accordingly.

Balance Sheet (Extract) as on 31st March 2013 and 2014 were as follows –

Balance Sheets of A Ltd. (information in ₹)

Liabilities	2013	2014	Assets	2013	2014
Share Capital:			Fixed Assets		
Issued & subscribed			Furniture & Fixture : Cost	6,90,000	6,90,000
12,000 shares of ₹100 each fully paid	12,00,000	12,00,000	Less: Depreciation	(69,000)	(1,38,000)
Reserves & Surplus			Investments: Quoted Invts at Market Value	-	7,80,000
- Capital Reserve	-	2,10,000	Current Assets		
- Revenue Reserve	7,98,300	16,74,000	Stock at cost	18,30,000	21,75,000
Current Liabilities & Provisions			Sundry Debtors	18,00,000	22,20,000
Sundry Creditors	15,02,700	18,21,000	Prepaid Expenses	30,000	42,000
Provision for Taxation	8,40,000	9,60,000	Cash at bank	60,000	96,000
Total	43,41,000	58,65,000	Total	43,41,000	58,65,000

Balance Sheets of B Ltd. (information in ₹)

Liabilities	2013	2014	Assets	2013	2014
Share Capital:			Fixed Assets at cost	9,60,000	9,60,000
Issued & subscribed			Less: Depreciation	(1,44,000)	(2,88,000)
15,000 shares of ₹100 each fully paid	15,00,000	15,00,000	Investments: Quoted Invts Market Value =14,70,000	-	12,00,000
Reserves & Surplus			Current Assets		
- Revenue Reserve	8,58,000	21,42,000	Stock-in-trade at cost	17,91,000	22,26,000
Current Liabilities & Provisions			Sundry Debtors	17,82,000	26,73,000
Sundry Creditors	14,70,000	14,82,000	Prepaid Expenses	2,16,000	1,44,000
Bank Overdraft	-	5,10,000	Cash at bank	1,53,000	9,000
Provision for Taxation	9,30,000	12,90,000			
Total	47,58,000	69,24,000	Total	47,58,000	69,24,000

[10]

Answer:

1. Statement of Adjusted Net Profits of B Ltd (Amount in ₹)

Particulars	Year 2013	Year 2014

Details of Adjustment	(Less)	Add	(Less)	Add
Net Profit as reported above	-	17,88,300	-	25,74,000
Adjust: Reduction in stock in trade	(36,000)	-	(1,02,000)	36,000
Sundry Debtors	-	(WN1)18,000	-	27,000
Advertising	(1,80,000)	-	-	90,000
Directors' Remuneration	(1,20,000)	-	(1,80,000)	-
Depreciation	-	(WN2)48,000	-	48,000
Appreciation in investment	-	-	-	2,70,000
Total of above	(3,36,000)	18,54,300	(2,82,000)	30,45,000
Adjusted Net Profit		15,18,300		27,63,000

Notes:

1. Debtors: Debtors as per B/S = ₹17,82,000 and ₹26,73,000 are after charging 1% provision. Hence, provision to be added back = (₹17,82,000 /99%)× 1% = ₹18,000 for year 2013.
2. Depreciation: SLM Depreciation rates of the companies are (₹69,000 /₹6,90,000) = 10% for A and (₹1,44,000 / ₹9,60,000) = 15% for B Ltd. To ensure uniformity in accounting, the difference of 5% in depreciation (₹9,60,000 × 5%)= ₹48,000 is added back, to the profits of B Ltd.

2. Adjustment of Net assets of B Ltd.

Particulars	₹	₹
Furniture & Fixtures	9,60,000	
Less: Depreciation at 10% for 2 years	1,92,000	7,68,000
Quoted Investments (now taken at Market value)		14,70,000
Stock (22,26,000 -1,02,000)		21,24,000
Debtors (provision reversed)(26,73,000 + 27,000)		27,00,000
Prepaid Expenses (1,44,000 –90,000)		54,000
Cash at bank		9,000
Total Assets		71,25,000
Less: Current Liabilities	32,82,000	
Liability for Directors' Remuneration	3,00,000	35,82,000
Adjusted Net Assets for B Ltd		35,43,000

3. Issue of Equity Shares equal to two years purchase of Average Profits

	A Ltd.			B Ltd.		
Year	₹	Weight	₹	₹	Weight	₹
2013	16,38,000	1	16,38,000	15,18,300	1	15,18,300
2014	18,36,000	2	36,72,000	27,63,000	2	55,26,000
Total Profits of above		3	53,10,000		3	70,44,300
Average Profits (divided by 3)			17,70,000			23,48,100
Two years purchase (goodwill)			35,40,000			46,96,200
Net assets as adjusted (Note)			30,84,000			35,43,000
Total Purchase Consideration			66,24,000			82,39,200

Discharge of Purchase Consideration: Shares will be issued for Goodwill and 15% debentures for net assets.

Note: Adjusted Net Assets = Total Assets ₹58,65,000 – Creditors ₹18,21,2000 and Tax Provision ₹9,60,000 = ₹30,84,000.

4. Statement of Purchase Consideration

Particulars	₹

To Shareholders of A Ltd	
In Equity Shares (for Goodwill)35,400 Equity Shares of ₹100 each of C Ltd, issued at par as fully paid up	35,40,000
In Debentures (for Net Assets) 30,840 15% Debentures of ₹100 each of C Ltd, issued at par as fully paid up)	30,84,000
Total Purchase Consideration	**66,24,000**
To Shareholders of B Ltd	
In Equity Shares (for Goodwill)46,962 Equity Shares of ₹100 each of C Ltd, issued at par as fully paid up	46,96,200
In Debentures (for Net Assets) 35,430 15% Debentures of ₹100 each of C Ltd, issued at par as fully paid up)	35,43,000
Total Purchase Consideration	**82,39,200**

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

3. (a) S Ltd acquired 50,000 shares of A Ltd. at ₹ 48 per Share cum- Dividend constituting 62.5% holding in the latter. Immediately after purchase, A Ltd declared and distributed a dividend of ₹ 4 per share, which S Ltd credited to its P&L.

One year later, A Ltd. declared a bonus of 1 fully paid equity share of ₹ 10 each for every 5 shares held. Later on A Ltd. proposed to raise funds and made a Right issue of 1 share for 5 held at ₹ 36 per share. S Ltd. exercised its rights.

After some time, at its AGM, A Ltd. has decided to split its Equity Share of ₹ 10 each into Two Equity Share of ₹ 5 each. The necessary resolutions were passed and share certificates issued to all existing shareholders.

To increase its stake in A Ltd. to 80%, S Ltd. acquired sufficient number of Shares at ₹ 30 each.

Ascertain the Cost of Control as on 31st December if S Ltd's Share in Capital Profits (duly adjusted for purchase in lots) as on that date was ₹31,50,000. [10]

Answer:

1. Cost of Investment

Particulars	Shares	₹
Cost of Acquisition (50,000 ×₹48) **Less:-** Pre – Acquisition Dividend (50,000 × ₹4 per share)	50,000 NA	24,00,000 (2,00,000)
Corrected Cost of Investment **Add:** Bonus Shares (1/5 × 50,000 Shares)	50,000 10,000	22,00,000 -
Cost After Bonus Shares **Add:-** Right Shares (1/5 × 60,000 Shares × ₹36)	60,000 12,000	22,00,000 4,32,000
Cost after Right Issue before Share Split	**72,000**	**26,32,000**
Cost after Share Split (WN1) (2 Shares for 1 for 72,000 = 72,000× 2) Add:- Acquisition to increase holding to 80% **(WN2)** (40,320×₹30)	1,44,000 40,320	26,32,000 12,09,600
Balance on Date of Consolidation	**1,84,320**	**38,41,600**

Notes:

- **Share Split:** In case of Share Split, the Cost of Acquisition will not undergo any change. Only the number of Equity Shares and the Face Value will change. This is similar to adjustment for Bonus Issue. However, for Bonus Issue, the Face Value & Paid Up Value of Share will be the same as the original share. In Share Split the Face Value & the Paid Up Value will be lesser than that of the Original Shares.

- **Calculation of Number of Shares to be acquired to increase the stake to 80%**

Particulars	Shares
(a) Shares held before acquisition	1,44,000
(b) % of holding (Bonus, Rights & Share Split will not change the % of holding)	62.5%
(c) Hence, Total Number of Shares of A Ltd. (a ÷ b) {1,44,000 ÷ 62.5%}	2,30,400
(d) 80 % of the above (c × 80%) {2,30,400 × 80%}	1,84,320
(e) Number of Shares to be acquired (d – a) {1,84,320 – 1,44,000}	40,320

2. Cost of Control

Particulars		₹
Cost of Investment	**(A)** (from 1 above)	**38,41,600**
Nominal Value of Equity Capital	(1,84,320 × ₹5 per share)	9,21,600
Share in Capital Profit		31,50,000
Total of above	**(B)**	**40,71,600**
Capital Reserve (if B > A)	**(B – A)**	**2,30,000**

3. (b) M Ltd. acquired 8,000 Shares of ₹ 100 each in N Ltd. on 30.09.2012. The summarized Balance Sheets of the two Companies as on 31.03.2013 were as follows:-

	M Ltd.	N Ltd.
Equity & Liabilities		
(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 N Ltd.)**	**21**	**-**
(3) Current Liabilities:		
Trade Payables		
- **Sundry Creditors**	**179**	**70**
- **Bills Payable (incld. ₹5,000 to M Ltd.)**	**-**	**17**
Total	**3,882**	**1,867**
Assets		
(1) Non- Current Assets:		
(a) Fixed Assets	**1,500**	**1,447**
(b) Non-Current Investments		
- **Investment in N Ltd.**	**1,700**	**-**
(2) Current Assets		
(a) Inventories	**400**	**200**

(b) Trade Receivables		
- **Debtors**	**250**	**180**
- **Bills Receivables (incl ₹5,000 from N Ltd.)**	**12**	**-**
(c) Cash & Cash Receivables	**20**	**20**
(d) Short Term Loans & Advances		
- **Loan to M Ltd.**	**-**	**20**
Total	**3,882**	**1,867**

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

Additional Information:

1. **N 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 M Ltd. to N Ltd. has not been credited in the accounts of N Ltd.**
3. **The credit balance in the P&L Account of N Ltd. on 01.04.2012 was ₹ 21,000.**
4. **The Directors decided on the date of the acquisition that the Fixed Assets of N 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 – M Ltd. Subsidiary -- N Ltd.	Acquisition: 30.09.2012 Consolidation: 31.03.2013	Holding Company 80% Minority Interest 20%

2. Analysis of Reserves and Surplus of N Ltd.

(a) Capital Reserve

Balance as on date of consolidation	₹5,50,000	**Remarks**
Less:- Bonus Issue (₹10,00,000 ×1/2)	₹5,00,000	The entire balance is
Corrected Balance	₹50,000	considered as **Capital Profits**

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

(c) General Reserves

Balance as per Balance Sheet ₹ 50,000

As on 01.04.2012 Date of previous Balance Sheet ₹50,000 Assumed that entire balance is available on this date **(Capital Profits)**	Current Year 2012-13 upto consolidation- **Nil** **(Revenue Reserve)**

(d)Profit & Loss Account

Balance as on date of Consolidation	₹1,80,000
Add:- Interest on Loan to M Ltd. (given)	₹ 1,000
Corrected Balance	₹1,81,000

Balance on 1.4.2012
Date of Previous B/S ₹21,000
Capital Profit

Profit for 2012-2013 (balancing figure) ₹1,60,000

Upto date of acquisition 01.04.2012 to 30.09.2012 ₹1,60,000 × 6/12
Capital Profit ₹ 80,000

Acquisition to Consolidation 30.09.2012 to 31.03.2013 ₹1,60,000 × 6/12
Revenue Profit ₹80000

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 Gen. Res.	Post-Acquisition P&L A/c
N Ltd (Holding 80%, Minority 20%)					
Equity Capital (₹10,00,000+Bonus Share ₹5,00,000)	15,00,000	3,00,000	12,00,000		
General Reserve	50,000	10,000	40,000		
Profit & 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 M Ltd. & its subsidiary N Ltd. as on 31.03.2013

	Notes	This year	Prev Yr.
Equity & 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**	
Assets			
(1)**Non- Current Assets**:			
(a) Fixed Assets			
(i) Tangible Assets 15,50,000+14,47,000- Revaluation 50,000)		28,97,000	
(ii) Intangible Assets (Goodwill on)		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 Receivables (20,000+20,000)		40,000	
Total		**43,53,200**	

Contingent liability fir Bills Discounted ₹6,000

Notes to Balance Sheet

Note1: Share Capital

Particulars	This year	Previous year
Authorised: …… Equity Shares of ₹ 100 each		
Issued, Subscribed & Paid Up: 30,000 Equity Shares of ₹ 100 each	**30,00,000**	

Note 2 : Reserves & Surplus

Particulars	This year	Previous year
(a) Other Reserves - General Reserves	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	Previous year
(a) Sundry Creditors (1,79,000 + 70,000)	2,49,000	
(b) Bills Payable (17,000 – 5,000 Mutual owings)	12,000	
Total	**2,61,000**	

Note 4: Trade Receivables

Particulars	This year	Previous year
(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.

3. (c) The Balance Sheets of P Ltd and its subsidiary B Ltd. as on 31.03.2013 are as under:

	P Ltd. (₹in Lakhs)	B Ltd.(₹inLakhs)
Equity & Liabilities		
(1)Shareholders' Funds:		
(a) Share Capital		
(i) Equity Shares of ₹ 10 each	**48.00**	**20.00**
(ii) 10% Preference Shares of ₹ 10 each	**7.00**	**3.8**
(c) Reserves & Surplus		
(i) General Reserve	**5.50**	**4.20**
(ii)Profit & Loss A/c	**10.00**	**6.00**
(2)Current Liabilities:		
(a) Short Term Borrowings		
- **Bank Overdraft**	**1.20**	**0.70**
Trade Payables		
- **Sundry Creditors**	**4.30**	**4.80**
- **Bills Payable**	**-**	**1.60**
Total	**76.00**	**41.10**
Assets		
(1) Non- Current Assets:		
(a)Fixed Assets		
(i) Tangible Assets		
-Plant & Machineries	**12.00**	**5.00**

-Motor Vehicles	9.50	7.50
-Furniture & Fittings	6.50	4.00
(ii) Intangible Assets		
-Goodwill	4.50	3.00
(b) Non-Current Investments	26.00	4.50
(2) Current Assets		
(a)Inventories	4.50	7.20
(b) Trade Receivables		
- Debtors	9.30	7.80
- Bills Receivables	1.45	-
(f) Cash & Cash Receivables	2.25	2.10
Total	76.00	41.10

Details of acquisition of Shares by P Ltd. are as under:

Nature of Shares	Nos. Acquired	Date of Acquisition	Cost of Acquisition
Preference Shares	14,250	01.04.2010	3,10,000
Equity Shares	80,000	01.04.2011	9,50,000
Equity Shares	70,000	01.04.2012	8,00,000

Other Information:

1. **On 1.4.2012 Profit & Loss A/c and General Reserve of B Ltd. had credit balances of ₹3,00,000 and ₹2,00,000 respectively.**
2. **Dividend @ 10% was paid by B Ltd. for the year 2011-2012 out of its Profit & Loss A/c. balance as on 1.4.2012. P Ltd had credited its share of Dividend to its Profit & Loss A/c.**
3. **B Ltd. allotted Bonus Shares out of its General Reserve at the rate of 1 Share for every 10 Shares held. Accounting thereof has not yet been made.**
4. **Bills Receivable of P Ltd. were drawn upon B Ltd.**
5. **During the year 2012-2013 P Ltd. purchased goods from B Ltd for ₹1,00,000 at a Sale Price of ₹1,20,000. 40% of these goods remained unsold for the year.**
6. **On 01.04.2012 Motor Vehicles of B Ltd. were overvalued by ₹1,00,000.Applicable Depreciation rate is 20%.**
7. **Dividends recommended for the year 2012-2013 in the Holding and the Subsidiary Companies are 15% and 10% respectively.**

Prepare Consolidated Balance Sheet as on 31.03.2013. [15]

Answer:

Company Status	Dates of Acquisition	Holding Status
Holding Company – P Ltd. Subsidiary -- B Ltd.	Lot 1: 80,000 shares , 01.04.2011 Lot 2: 70,000 shares, 01.04.2012	Holding Company 75% Minority Interest 25%

Note- consolidation is applicable only from the date on which a company becomes Subsidiary of another company. In this case, only the acquisition of second lot, B Ltd. becomes the subsidiary of P Ltd. & hence Reserves as on 01.04.2012 are pre-acquisition and Reserves during 2012-2013 are post-acquisition.

2. Analysis of Reserves and Surplus of B Ltd.

(a) General Reserve

Balance as per Balance Sheet	4,20,000
Less:- Bonus Issue (1/10 × ₹20,00,000)	(2,00,000)
Corrected Balance as on Balance Sheet Dt.	2,20,000

As on 1.4.2012 (Dt. of controlling Acq.) 2,00,000
Less:- Bonus Issue (2,00,000)
Balance **Capital Profit** **Nil**

From 01.04.2012 to B/S Date (upto Consolidation)
₹2,20,000 Revenue Reserves

Group Interest Pre
= 2,62,000 × 75%
= 1,65,000

Minority Interest
= 2,20,000 × 25%
= 55,000

(b) Profit & Loss Account

Balance as per Balance Sheet	6,00,000
Less:- Pref Dividend (10% × 3,80,000)	(38,000)
Less:- Equity Dividend (10% × ₹20 Lakhs)	(2,00,000)
Corrected Balance on Balance Sheet date	3,62,000

As on 1.4.2012 (dt. Controlling Acq.) 3,00,000
Less:- Dividend for FY 11-12 (20Lakhs×10%) 2,00,000
Balance Capital Profit **1,00,000**

Group Interest Pre-
= 1,00,000 × 75% = 75,000

Minority Interest
= 1,00,000 × 25%
= 25,000

From 1.4.2012 to B/S Dt. (upto Consolidation)
₹2,62,000 Revenue Profit

Group Interest Post
=2,62,000 × 75%
=1,96,500

Minority Interest
= 2,62,000 × 25%
= 65,500

(c) Gain/Loss on revaluation of Assets

- Loss on Revaluation of Machinery = (₹ 1,00,000) **Capital Profit**
- Depreciation gain on Revaluation Loss (1,00,000 × 20%) = ₹20,000 **Revenue Profit**

1. Consolidation of Balances

Particulars	Total	Minority Interest	Pre-Acquisition	Post-Acquisition	
				Gen. Res.	P&L A/c
B Ltd (Holding 75%, Minority 25%)					
Equity Capital (20,00,000+Bonus 2,00,000)	22,00,000	5,50,000	16,50,000		
Preference Share (62.5% : 37.5%)	3,80,000	2,37,500	1,42,500		
General Reserve	2,20,000	55,000		1,65,000	
Profit & Loss A/c	3,62,000	90,500	75,000		1,96,500
Proposed Equity Dividend	2,00,000	50,000			1,50,000
Proposed Preference Dividend	38,000	23,750			14,250
Loss on Revaluation Of Machinery	(1,00,000)	(25,000)	(75,000)		
Depreciation gain on revaluation loss	20,000	5,000			15,000
Stock Reserve [(Price 1,20,000 – Cost 1,00,000) × 40%]	(8,000)	(2,000)			(6,000)
Minority Interest		**9,84,750**			
Total (Cr.)			17,92,500	1,65,000	3,69,750
Cost of Investment (Dr.)			(19,90,000)		
Parent's Balances (Note 1)				5,50,000	1,40,000
For Consolidated Balance Sheet		**9,84,750**	**(1,97,500)**	**7,15,000**	**5,09,750**

			(Goodwill)		

Note – Parent's P&L A/c Balance and Cost of Investment

Particulars		Investment	P&L A/C
Balance as per Balance Sheet			
Equity Shares (₹9,50,000 + ₹8,00,000)	17,50,000		
Preference Shares	3,10,000	20,60,000	10,00,000
Less:- Dividend out of Pre- Acquisition profits (₹7,00,000 × 10%)		(70,000)	(70,000)
Proposed Equity Dividend (₹4,80,000 × 15%)			(7,20,000)
Proposed Preference Dividend (₹7,00,000 × 10%)			(70,000)
For Consolidation of Balances		**19,90,000**	**1,40,000**

4.Consolidated Balance Sheet of P Ltd. & its subsidiary B Ltd. as on 31.03.2013

	Notes	This year	Prev. Yr.
Equity & Liabilities			
(1)**Shareholders' Funds:**			
(c) Share Capital	1	55,00,000	
(d) Reserves & Surplus	2	12,24,750	
(2)**Minority Interest**		9,84,750	
(3)**Current Liabilities:**			
(a) Trade Payables	3	9,25,000	
(b)Other Current Liabilities – Bank Overdraft (120+70)		1,90,000	
(c)Short Term Provisions - Proposed Dividend (720+70)		7,90,000	
Total		**96,14,500**	
Assets			
(1)**Non- Current Assets:**			
(a)Fixed Assets			
(i)Tangible Assets	4	43,70,000	
(ii)Intangible Assets	5	9,47,500	
(b)Non-current Investments (2,600 + 450 – 2,060)		9,90,000	
(2)**Current Assets**			
(a)Inventories (450 + 720 – 8 stock reserve)		11,62,000	
(b)Trade Receivables	6	17,10,000	
(c)Cash & Cash Receivables (225+210)		4,35,000	
Total		**96,14,500**	

Notes to Balance Sheet
Note1: Share Capital

Particulars	This year	Previous year
Authorised: …… Equity Shares of ₹ 10 each and 10% Preference shares of ₹ 10 each		
Issued, Subscribed & Paid Up: 4,80,000 Equity Shares of ₹ 10 each 70,000 10% Preference Shares of ₹10 each	48,00,000 7,00,000	
Total	**55,00,000**	

Note 2 : Reserves & Surplus

Particulars	This year	Previous year
(c) Other Reserves - General Reserves	7,15,000	
(d) Surplus (Balance in P&L A/c)	5,09,750	
Total	**12,24,750**	

Note 3: Trade Payables

Particulars	This year	Previous year
(c) Sundry Creditors (430 + 480)	9,10,000	
(d) Bills Payable (160-145 Mutual Owings)	15,000	
Total	**9,25,000**	

Note 4: Tangible Assets

Particulars	This year	Previous year
(a) Plant & Machinery (1,200 + 500)	17,00,000	
(b) Motor Vehicles (950+750-100+20)	16,20,000	
(c) Furniture (650+400)	10,50,000	
Total	**43,70,000**	

Note 4: Intangible Assets

Particulars	This year	Previous year
(a) Goodwill on Consolidation	1,97,500	
(b) Goodwill (450+300)	7,50,000	
Total	**9,47,500**	

Note 4: Trade Receivables

Particulars	This year	Previous year
(c) Bills Receivables (145-145 Mutual)	Nil	
(d) Debtors (930+780)	17,10,000	
Total	**17,10,000**	

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

4. (a) 'Integrated Reporting can result in better Governance' – Discuss. [5]

Answer:

Integrated Reporting Can Result in Better Governance

- Integrated reporting needs to reflect an organization's strategy and values, as well as how it is managed in all social, environmental, and economic dimensions of performance;
- The process of integrated reporting, in turn, is a powerful tool to help drive an organization's strategic agenda, providing management with key drivers of performance; Integrated reporting has to be open and transparent by reflecting both improvements in performance as well as weaknesses; and
- Pension fund investors, as well as some other institutional investors, are increasingly looking for financial implications of ESG factors to understand how an organization's strategy and operations are affecting the numbers and key measures of performance.

4. (b) ADS & Co. has provided the following information:

	₹ in lakhs
Equity Share Capital (₹10 each)	**400**
15% Preference Share Capital (₹10 each)	**200**

Reserves and Surplus	**220**
15% Debentures	**1600**
10% Non-trade investments (Nominal value ₹100 each)	**140**
Land and Building held as investment	**20**
Advance given for purchase of plant	**10**
Capital work in progress	**30**
Underwriting commission not written off	**20**
Earnings per share	**16**
Tax rate	**30%**
Beta factor	**1.65**
Market rate of return	**16.25%**
Risk free rate	**9.85%**

Calculate Economic Value Added by the company. **[10]**

Answer:

Computation of Economic Value Added (EVA)

Particulars	**₹ in lakhs**
Net Operating Profit after Tax (NOPAT)	831.00
Less: Weighted average cost of operating capital employed (13.35% of 2,200)(See W.N.7)	(293.70)
Economic Value Added (EVA)	537.30

Working Notes:

1. Net operating profit after tax (NOPAT)

Earnings per share	₹16
No. of Equity shares	40 lakhs
	₹ in lakhs
Profit after Interest, Tax & Preference Dividend [40 lakhs × ₹16]	640.00
Add: Preference Dividend (15% of ₹200 lakhs)	30.00
Profit after tax	670.00
Add: Tax @ 30% [670/70×30]	287.14
Profit before tax	957.14
Add: Interest on debentures [15% of ₹1,600 lakhs]	240.00
Profit before interest and tax	1197.14
Less: Income from Non-trade investment[10% of ₹100 lakhs]	(10.00)
Net operating profit before tax	1,187.14
Less: Tax @30%	(356.14)
Net Operating Profit after tax [NOPAT]	831.00

2. Cost of Equity = Risk free rate + Beta factor × (Market rate –Risk Free rate)
   = 9.85% +1.65 (16.25-9.85) = 20.41%

3. Cost of Preference shares =15%

4. Cost of Debt = Interest Rate × (1- tax rate) = 15% × (1-0.30) = 10.5%

5. Total Capital Employed = [Equity share capital + Retained Earnings + Preference Share Capital + Debentures] = [400+(220 – 20) +200+1,600]= 2,400

6. Weighted Average Cost of Capital (WACC) =

$$\left(\frac{600}{2,400}\times 20.41\%\right)+\left(\frac{200}{2,400}\times 15\%\right)+\left(\frac{1,600}{2,400}\times 10.5\%\right)$$

= 5.10 + 1.25 + 7 = 13.35%

7. Operating Capital Employed

	₹ in lakhs	**₹ in lakhs**
Total Capital		2,400
Less: Non-operating Capital Employed		
10% Non-trade Investment	140	
Land and Building held as Investment	20	
Advance given for purchase of a plant	10	
Capital work in progress	30	(200)
Operating Capital Employed		2,200

4.(c) (i) Write a note on Approved Taxonomies. [4]

(ii) List the books of accounts/documents required by statute to be maintained by the member of a stock exchange. [6]

Answer:

(c) (i) Approved Taxonomies have to comply with the official XBRL guidelines for that type of taxonomy, as well as with the XBRL Specification.

Approved Taxonomies must

1. Comply with the FRTA document.
2. Have been used to create a number of instance documents which confirm it adequately covers the data it purports to represent.
3. Have been through a period of open review following initial Acknowledgement

(ii) Books of accounts/documents required to be maintained by the Member of a Stock Exchange:

Required by Statute: A Member is required to maintain the following books as per Rule 15 of Securities Contracts (Regulation) Rules, 1957 and Rule 17 of SEBI (Stock Brokers and Sub-Brokers) Rules, 1992 –

(a) Transactions Register (Sauda Book) / Daily Transaction List.

(b) Clients Ledger.

(c) General Ledger.

(d) Journals.

(e) Cash Book.

(f) Bank Pass Book.

(g) Securities Inward – Outward Register for particulars of shares / securities received and delivered.

(h) Members' Contract Book for all contracts entered into him with other Members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other Members.

(i) Counterfoils / Duplicates of contracts notes issued to clients.

(j) Written consent of clients in respect of contracts entered into as principals

(k) Margin Deposit Book.

(l) Register of Accounts of Sub-brokers.

(m) Agreement with a sub-broker giving the scope of authority and responsibilities of the stock-broker and such sub-brokers.

4.(d) From the following information in respect of C&S Ltd., calculate the Total Value of Human Capital by following Lev and Schwartz Model. The Company uses 15% Cost of Capital for discounting purposes. Retirement Age is 55 years. Distribution of Employees is –

	Unskilled		Skilled	
Age	**No.**	**Average Annual Earnings**	**No.**	**Average Annual Earnings**
30-39	**60**	**₹ 6,00,000**	**30**	**₹10,00,000**
40-49	**30**	**₹ 8,00,000**	**15**	**₹ 12,00,000**
50-54	**10**	**₹ 10,00,000**	**5**	**₹ 14,00,000**

[10]

Answer:

VALUATION IN RESPECT OF UNSKILLED EMPLOYEES

1. Age Group 30-39: (assuming that all 60 employees are just 30 years old)

Particulars	Computation	Present Value
₹ 6,00,000 p.a. for next 10 years ₹ 8,00,000 p.a. from 11 to 20 ₹ 10,00,000 p.a. from 21 to 25	(6,00,000 x 5.0188) (8,00,000 x 6.2593) – (8,00,000 x 5.0188) (10,00,000 x 6.4641) – (10,00,000 x 6.2593)	30,11,280 9,92,400 2,04,800
	Total	**42,08,480**

2. Age Group 40-49: (assuming that all 30 employees are just 40 years old)

Particulars	Computation	Present Value
₹ 8,00,000 p.a. for next 10 years ₹ 10,00,000 p.a. from 11 to 15	(8,00,000 x 5.0188) (10,00,000 x 5.8474) – (10,00,000 x 5.0188)	40,15,040 8,28,600
	Total	**48,43,640**

3. Age Group 50-54: (assuming that all 10 employees are just 50 years old)

Particulars	Computation	Present Value

₹ 10,00,000 p.a. for next 5 years	(10,00,000 x 3.3522)	**33,52,200**

VALUATION IN RESPECT OF SKILLED EMPLOYEES

1. **Age Group 30-39:** (assuming that all 30 employees are just 30 years old)

Particulars	Computation	Present Value
₹10,00,000 p.a. for next 10 years ₹ 12,00,000 p.a. from 11 to 20 ₹ 14,00,000 p.a. from 21 to 25	(10,00,000 x 5.0188) (12,00,000 x 6.2593) – (12,00,000 x 5.0188) (14,00,000 x 6.4641) – (14,00,000 x 6.2593)	50,18,800 14,88,600 2,86,720
	Total	**67,94,120**

2. **Age Group 40-49:** (assuming that all 15 employees are just 40 years old)

Particulars	Computation	Present Value
₹ 12,00,000 p.a. for next 10 years ₹ 14,00,000 p.a. from 11 to 15	(12,00,000 x 5.0188) (14,00,000 x 5.8474) – (14,00,000 x 5.0188)	60,22,560 11,60,040
	Total	**71,82,600**

3. **Age Group 50-54:** (assuming that all 5 employees are just 50 years old)

Particulars	Computation	Present Value
₹ 14,00,000 p.a. for next 5 years	(14,00,000 x 3.3522)	**46,93,080**

TOTAL VALUE OF HUMAN CAPITAL

	Unskilled		Skilled		Total	
Age	**No.**	**PV of future earnings**	**No.**	**PV of future earnings**	**No.**	**PV of future earnings**
30-39	60	25,25,08,800 (42,08,480 x 60)	30	20,38,23,600 (67,94,120 x 30)	90	45,63,32,400
40-49	30	14,53,09,200 (48,43,640 x 30)	15	10,77,39,000 (71,82,600 x 15)	45	25,30,48,200
50-54	10	3,35,22,000 (33,52,200 x 10)	5	2,34,65,400 (46,93,080 x 5)	15	5,69,87,400
Total	100	43,13,40,000	50	33,50,28,000	150	**76,63,68,000**

Question No. 5 (Answer any three):

(a) State the general principles of Government Accounting. [5]

(b) Discuss the setup of Audit Board in Commercial Audit. [5]

(c) List the responsibilities of the Government Accounting Standards Advisory Board (GASAB)

[5]

(d) State the objective and scope of IGAS 2(Accounting and Classification of Grants-in-aid). **[5]**

Answer:

(a) The general principles of Government Accounting are as follows:

1. The Government Expenditure are classified under Sectors, major heads, minor heads, sub-heads and detailed heads of account, the accounting is more elaborate that that followed in commercial accounts. The method of budgeting and accounting under the service heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates.

2. In its Budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the later. Similarly, in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts, Government determines (a) whether it will be justified in curtailing or expanding its activities (b) whether it can and should increase or decrease taxation accordingly.

3. In the field of Government accounting, the end products are the monthly accounts and the annual accounts. The monthly accounts serve the needs of the day-to-day administration, while the annual accounts present a fair and correct view of the financial stewardship of the Government during the year.

(b) A unique feature of the audit conducted by the Indian Audit and Accounts Department is the constitution of Audit Boards for conducting comprehensive audit appraisals of the working of Public Sector Enterprises engaged in diverse sectors of the economy.

These Audit Boards associate with them experts in disciplines relevant to the appraisals. They discuss their findings and conclusions with the managements of the enterprises and their controlling ministries and departments of government to ascertain their view points before finalisation.

The results of such comprehensive appraisals are incorporated by the Comptroller and Auditor General in his reports

(c) Responsibilities of the Board

1. To establish and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
2. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
3. To keep the standards current and reflect change in the Governmental environment;
4. To provide guidance on implementation of standards.

5. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
6. To improve the common understanding of the nature and purpose of information contained in the financial reports.

(d) Objective

The objective of this Standard is to prescribe the principles for accounting and classification of Grants-in-aid in the Financial Statements of Government both as a grantor as well as a grantee. The Standard also aims to prescribe practical solutions to remove any difficulties experienced in adherence to the appropriate principles of accounting and classification of Grants-in-aid by way of appropriate disclosures in the Financial Statements of Government.

Scope

This Standard applies to the Union Government and the State Governments in accounting and classification of Grants-in-aid received or given by them. The Financial Statements should not be described as complying with this Standard unless they comply with all the requirements contained therein.