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]

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]

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]

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]

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]

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]

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]

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	-
(e) 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]

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]

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]

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]

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	No.	Average Annual

		Earnings		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]

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]