Paper 18- Corporate Financial Reporting

Paper 18- Corporate Financial Reporting

Full Marks : 100 **Time allowed: 3 hours**

Answer Question No. 1 (carrying 20 marks) which is compulsory and also answer any five questions (carrying 16 marks each) from Question No. 2 to Question No. 8.

1. Answer any four questions from the following: **[4×5= 20]**

(a) Wealth Ltd. aquired 1,50,000 shares of Health Ltd. on August 1, 2016. The Equity Capital of Health Ltd. is ₹ 20 lakh of ₹ 10 per share. The machinery of Health Ltd. is re-valued upwards by ₹ 4,00,000. Compute the minority interest to be shown in the Consolidated Balance Sheet as at March 31, 2017

(b) Who appoints the Public Accounts Committee's Chairman? What is the Procedure of Appointment of Chairman of the Public Accounts Committee?

(c) List the sources of Government Revenue?

(d) A firm of contractors obtained a contract for construction of bridges across a river. The following details are available in the records kept for the year ended 31st March, 2015.

	₹ In lakhs
Total contract price	2,000
Work certified	1,000
Work not certified	210
Estimated further cost to completion	990
Progress payment received	800
To be received	280

Determine the amount of
- Contract work-in-progress;
- Amount due from/to customer.

(e) As on 1st April, 2015 the Fair Value of Plan Assets was ₹ 1,00,000 in respect of a pension plan of X Ltd. On 30th September, 2015 the plan paid out benefits of ₹ 20,000 and received inward contributions of ₹ 50,000. On 31st March, 2016 the fair value of plan assets was ₹ 1,50,000 and present value of the defined benefit obligation was ₹ 1,48,000. Actuarial losses on the obligations for the year 2015-16 were ₹ 1,000. On 1st April, 2015 the company made the following estimates, based on its market studies, understanding and prevailing prices :

Interest & Dividend Income, after tax payable by the fund	9.50%
Realized and unrealized gains on Plan Assets (after tax)	2.00%
Fund Administrative Costs	(1.25%)
Expected Rate of Return	10.25%

Required: Find the Expected & Actual Returns on Plan Assets for the year 2015-16.

2. Anu Ltd. and Minu Ltd. decided to amalgamate and to form a new company Amuin Ltd. The following are their summarized Balance Sheets as on March 31, 2016.

(Amount in ₹ lakhs)

		Anu Ltd.	Minu Ltd.
	Equity and Liabilities:		

1.	Shareholders' funds:		
	(a) Share Capital:		
	Equity shares of ₹ 100/- each	1,760	1,650
	12% Preference shares of ₹ 100 each	660	440
	(b) Reserves and Surplus:		
	Profit and Loss Account	110	66
	General Reserve	374	330
	Revaluation Reserve	330	220
	Investment Allowance Reserve	110	110
2.	Non-current Liabilities:		
	10% Debentures (₹ 100 each)	132	66
3.	Current Liabilities:		
	Trade payables	924	418
	Total	4,400	3,300
	Assets:		
1.	Non-current assets		
	(a) Fixed Assets:		
	Land and Building	1,210	880
	Plant and Machinery	770	550
	(b) Non-current Investments		
	Investments	330	110
2.	Current Assets:		
	(a) Inventories	770	550
	(b) Trade Receivables	660	770
	(c) Cash and Cash equivalents	660	440
	Total	4,400	3,300

Additional Information:

(i) Amuin Ltd. will issue 5 equity shares for each equity share of Anu Ltd. and 4 equity shares for each equity share of Minu Ltd. The shares are to be issued @ ₹30 each, having a face value of ₹ 10 per share.

(ii) 10% debenture holders of Anu Ltd. and Minu Ltd. are discharged by Amuin Ltd. issuing such numbers of its 15% Debentures of ₹ 100 each, so as to maintain the same amount of interest.

(iii) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of Amuin Ltd. at a price of ₹ 150 per share (face value ₹ 100).

(iv) Investment allowance reserve is to be maintained for 4 more years.

Required:

Prepare the Balance Sheet of Amuin Ltd. as on 1st April, 2016 as per Schedule-III of the Companies Act, 2013, after the amalgamation has been carried out on the basis of amalgamation in the nature of purchase. **[16]**

3. BLU LTD. is a holding company and ANU LTD. and TINU LTD. are subsidiaries of BLU LTD., their Balance Sheets (drafted) as on 31.03.2016 are given below:

(Amount in ₹)

	BLU LTD.	ANU LTD.	TINU LTD.		BLU LTD.	ANU LTD.	TINU LTD.
Share Capital	6,00,000	6,00,000	3,60,000	Fixed Assets	1,20.000	3,60,000	2,58,000
Reserves	2,88,000	60,000	54,000	Investments:			

Profit & Loss Account	96,000	72,000	54,000	Shares in ANU Ltd.	5,70,000	—	—
TINU Ltd. Balance	18,000			Shares in TINU Ltd.	78,000	3,18,000	____
Trade payables	42,000	30,000		Inventories in Trade	72,000		
BLU Ltd. Balance		42,000		ANU Ltd. Balance	48,000		
				Trade receivables	1,56,000	1,26,000	1,92,000
				BLU Ltd. Balance			18,000
	10,44,000	8,04,000	4,68,000		10,44,000	8,04,000	4,68,000

The following particulars are given:

(a) The share capital of all companies is divided into shares of ₹10 each.

(b) BLU Ltd. held 48,000 shares of ANU LTD. and 6,000 shares of TINU LTD.

(c) ANU Ltd. held 24,000 shares of TINU LTD.

(d) All these investments were made on 30.09.2015

(e) On 31.03.2015 the position was as shown below: (Amount in ₹)

	ANU LTD.	TINU LTD.
Reserve	48,000	45,000
Profit and Loss Account	24,000	18,000
Trade payables	30,000	6,000
Fixed Assets	3,60,000	2,58,000
Inventories in trade	24,000	2,13,000
Trade receivables	2,88,000	1,98,000

(f) 10% dividend is proposed by each company.

(g) The whole of inventories in trade of ANU LTD. as on 30.09.2015 (₹24,000) was later sold to BLU Ltd. for ₹26,400 and remained unsold by BLU LTD. as on 31.03.2016.

(h) Cash-in-transit from ANU LTD. to BLU LTD. was ₹ 6,000 as at the close of business.

Required:

Prepare the consolidated Balance Sheet of BLU GROUP as on 31.03.2016 as per requirements of schedule-III of the Companies Act, 2013 with Notes to Accounts.

[16]

4. **(a)** PQ Ltd has got the license to manufacture particular medicines for 10 years at a license fee of ₹ 400 lakhs, given below is the pattern of expected production and expected operating cash inflow.

Year	Production in bottles (In thousands)	Net operating cash flow (₹ in lakhs)
1	300	900
2	600	1800
3	650	2300
4	800	3200
5	800	3200
6	800	3200
7	800	3200
8	800	3200
9	800	3200
10	800	3200

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method. **[8]**

(b) From the following details in respect of ADHUNIK LTD., compute according to LEV and SCHWARTZ (1971) Model, the total value of Human Resource of the skilled employees with different age groups.

Age Group	Skilled employees	
Age (years)	No. of employee	Average annual earnings
30 - 39	30	₹ 8,00,000
40 - 49	15	₹10,00,000
50 - 54	5	₹11,00,000

Retirement age is 55 years. Adhunik Ltd. uses 15% cost of capital for discounting purposes. The following Annuity factors of ₹1 at 15% are supplied to you:

Interest Rate	5 years	10 years	15 years	20 years	25 years
15%	3.3522	5.0188	5.8474	6.2593	6.4641

[8]

5. (a) A company Amrit Ltd. announced a Stock Appreciation Right on 01/04/14 for each of its 525 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹ 125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31/03/17 but before 30/06/17. The fair value of SAR was ₹ 21 in 2014-15, ₹ 23 in 2015-16 and ₹ 24 in 2016-17. In 2014-15 the company estimates that 2% of the employees shall leave the company annually. This was revised to 3% in 2015-16. Actually, 10 employees left the company in 2014-15, 5 left in 2015-16 and 3 left in 2016-17. The SAR therefore actually vested to 482 employees. On 30/06/17, when the SAR was exercised, the intrinsic value was ₹ 25 per share.
Show Provision for SAR A/c by fair value method. **[10]**

(b) A Factory started activities on 1st April. From the following data, obtain the Value of Closing Stock on 30th April.

- Raw Materials purchased during April = 80,000 kg at ₹12 (out of which Excise Duty = ₹2 per kg). Stock on hand as on 30th April = 5,000 kg.
- Production during April = 14,000 units (of which 10,000 units were sold). In addition to the production, 1,000 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).
- Wages and Production Overheads =₹30 per completed unit.
- Selling Price=₹110 per unit(of which Excise Duty is ₹10 per unit). **[6]**

6. (a) K Ltd. furnishes you with the following Balance Sheet as at 31st March,2016:

(₹ in Crores)

Sources of Funds		
Share capital :		
Authorised		200
Issued:		
12% redeemable preference shares of ₹ 100 each fully paid	150	
Equity shares of ₹ 10 each fully paid	50	200
Reserves and surplus		
Capital Reserve	30	
Securities Premium	50	

Revenue Reserves	520	600
		800
Funds employed in :		
Fixed assets (Tangible) : cost	200	
Less: Provision for depreciation	200	nil
Investments at cost (Market value ₹ 800 Cr.)		200
Current assets	680	
Less : Current liabilities	80	600
		800

The company redeemed preference shares on 1st April 2016. It also bought back 100 lakh equity shares of ₹ 10 each at ₹ 50 share. The payments for the above were made out of the huge bank balances, which appeared as a part of Current assets.

You are asked to :

i. Pass journal entries to record the above.

ii. Value equity share on net asset basis. **[9]**

(b) A Mutual Fund raised ₹100 lakh on 01.04.2015, by issue of 10 lakh units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakh. The initial expenses amounted to ₹7 lakh. During April, 2015, the fund sold certain securities of cost ₹38 lakh for ₹40 lakh and purchased certain other securities for ₹ 28.20 lakh. The fund management expenses for the month amounted to ₹ 4.50 lakh, of which ₹0.25 lakh was in arrears. The dividend earned was ₹ 1.286 lakh. 70% of the realised earnings was distributed. The market value of the portfolio on 30.04.2015 was ₹ 103.714 lakh.
Determine the Net Asset Value (NAV) of a mutual fund. **[7]**

7. (a) X Ltd. had the following summarised Balance Sheet as at 31st March, 2015:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Stock	3,75,000	Land	2,00,000
Retained Earnings	1,22,500	Plant and Machinery	3,37,500
Bonds Payable	1,25,000	Investments	1,00,000
Long-term loan	1,27,500	Account Receivable	1,50,000
Current Liabilities	75,000	Cash	37,500
Total	8,25,000	Total	8,25,000

During 2015-16, the following transactions took place:

(i) A piece of land was purchased for ₹38,750 in cash.

(ii) Bonds payable worth ₹ 30,000 were paid in cash at face value.

(iii) An additional amount of ₹1,00,000 was received in cash on issue of equity shares.

(iv) Dividend totaling ₹ 46,875 was paid.

(v) Net income for 2015-16 was ₹1,42,250, after allowing depreciation of ₹ 47,500.

(vi) Another land was purchased through the issuance of bonds worth ₹1,12,500.

(vii) A part of investments portfolio was sold for ₹64,375 in cash. The transaction resulted in a gain of ₹6,875.

(viii) Current liabilities increased to ₹ 90,000 as on 31.03.2016.

(ix) Accounts receivable as on 31.03.2016 total ₹ 1,90,000.

Prepare a statement of cash flow for 2015-16 using indirect method, as per AS-3 (Revised). **[7]**

(b) Aro Ltd. furnishes the following profit and loss Account –

Particulars	Notes	₹ (000)
INCOME:		
Turnover	1	29,872
Other income		1,042
Sub-total		30,914
EXPENDITURE:		
Operating expenses	2	26,741
Interest on 8% debentures		987
Interest on cash credit	3	151
Excise duty		1,952
Sub-total		29,831
Profit before depreciation		1,083
Less: Depreciation		(342)
Profit before tax		741
Less: Provision for tax		(376)
Profit after tax		365
Less: Transfer to fixed assets replacement reserve		(65)
Profit available for distribution		300
Less: dividend paid		(125)
Retained profit		175

Notes:

1. Turnover is based on invoice value and net of sales tax.
2. Salaries, wages and other employee benefits amounting to ₹ 14,761(000) are included in operating expenses.
3. Cash credit represents a temporary sources of finance. It has not been considered as a part of capital.
4. Transfer of ₹54 (000) to the credit of deferred tax account is included in provision for tax.

Prepare value added statement for the year ended 31st march 2014 and reconcile total value added with profit before taxation. **[9]**

8. (a) Discuss the objectives of Government Accounting. **[8]**

(b) Discuss the structure of Government Accounting Standards Advisory Board. **[8]**