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

Answer:

No. of shares of Health Ltd.	= ₹ 20,00,000/10 = 2,00,000	
Minority interest = 200000 - 150000	= 50,000 = 25%	
Profit on revaluation of Machinery	= ₹ 4,00,000	
Share of Minority Group of Silver Ltd. = 25% of ₹ 4,00,000		₹1,00,000
Equity Share Capital : (50000 × ₹10)		₹ 5,00,000
Total minority interest		₹ 6,00,000

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

Answer:

The Chairman of the Committee is appointed by the Speaker from amongst the members of Lok Sabha elected to the Committee.
As a convention, starting from the Public Accounts Committee of 1967-68, a member of the Committee belonging to the main opposition party/group in the House is appointed as the Chairman of the Committee.

(c) List the sources of Government Revenue?

Answer:

Sources of Revenue

- Revenue Receipts
- Tax Revenue
  - Sharable with the States
  - Non sharable
- Non-Tax Revenue
  - Interest
  - Dividends
  - Receipts of Commercial Departments
- External Grants
- Capital Receipts
- Miscellaneous Capital Receipts
  - Disposal of Capital Assets

- Divestment of SOE Shares
- Repayment of Loans.

(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.

Answer:

Contract Work-in-Progress:

= Work certified + Work not certified = ₹ (1,000+210) lakhs = ₹ 1,210 lakhs

Amount due from/ to customer:

= Contract costs incurred + Recognised profits - Recognised losses – (Progress payments received + Progress payments to be received)

= ₹1,210 lakhs + NIL - ₹200 lakhs – ₹(800 + 280)lakhs = (₹70)lakhs i.e., amount due to the customer is ₹70 lakhs.

Working Note:

Amount of Foreseeable loss:

Particulars	Amount (₹ in lakhs)
Total Cost of Construction (1,000+210+990)	2,200
Less: Total Contract Price	2,000
Total foreseeable loss to be recognised as expenses	200

(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.

Answer:

A. Closing Balance of Fair Value of Plan Assets B. Add : Benefit Paid C. Less : Contributions Received D. Less : Opening Balance of Fair Value of Plan Assets	₹ 1,50,000 ₹ 20,000 (₹ 50,000) (₹1,00,000)
E : Actual Return on Plan Assets	**₹ 20,000**
A. Return on Opening Balance of Fair Value of Plan Assets [₹ 1,00,000 × 10.25% × 12/12] B. Return on Net Contributions Received [Contributions - Benefits Paid] [(₹ 50,000 - ₹ 20,000) × 5%]	 ₹ 10,250 ₹ 1,500
C : Expected Return on Plan Assets	**₹ 11,750**
Note : Equivalent Half Yearly Compounding Interest Rate $= \sqrt{1+ \text{ Expected Rate of Return}} - 1 = \sqrt{(1+0.1025)} - 1 = 0.05 \text{ or } 5\%$	

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]

Answer :

Balance Sheet of Amuin Ltd. as at April, 2016

(Amount in ₹ Lakh)

	Particulars	Note	Amount (₹)
I.	Equity and Liabilities		
	1. Shareholders' Funds:		
	(a) Share Capital	1	2640
	(b) Reserves and Surplus	2	3850
	2. Non-current liabilities		
	15% debentures **[W.N. 4]**		132
	3. Current Liabilities		
	(a) Trade payables		1342
	Total		7964
II.	Assets:		
	1. Non-current assets		
	(a) Tangible Fixed Assets		3410
	(b) Intangible Fixed Assets		44
	(c) Non-current investment		440
	(d) Amalgamation adjustment Account		220
	2. Current assets		
	(a) Inventories (770 + 550)		1320
	(b) Trade Receivables		1430
	(c) Cash and Cash equivalents		1100
	Total		7964

Notes to Balance Sheet:

1. Share Capital	
Particulars	**Amount (₹)**
(+)Equity Shares of ₹10 each (880 + 660)	1,540
(+) Preference Shares of ₹100 each (660+440)	1,100
Total	2,640

2. Reserves and Surplus	
Particulars	**Amount (₹)**
Securities Premium (330+220+1,760+1,320)	3,630
Less: Investment Allowance Reserve (110+110)	(220)

Total	3,850

Working Notes:

1. Computation of Purchase Consideration

(Amount in ₹ Lakh)

Particulars	Anu Ltd.	Minu Ltd.
(a) Preference Shareholders		
6,60,000 × 1 × ₹150 each	990	
4,40,000 × 1 × ₹150 each		660
(b) Equity Shareholders		
17,60,000 × 5 × ₹30 each	2,640	
16,50,000 × 4 × ₹30 each		1,980
Amount of Purchase Consideration	3,630	2,640

2. Computation of Net Assets Value:

(Amount in ₹ Lakh)

Particulars	Anu Ltd.	Minu Ltd.
Total Assets	4,400	3,300
Less: 10% Debentures [Face Value / 0.15]	(88)	(44)
Trade Payables	(924)	(418)
Net Assets	3,388	2,838

3. Net Assets less Purchase Consideration:

(Amount in ₹ Lakh)

Particulars	Anu Ltd.	Minu Ltd.
Net Assets	3,388	2,838
Purchase Consideration	3,630	2,640
Goodwill / Capital Reserve	(242)	198
Goodwill	(242 – 198) =44	

4. Discharge of Debentures

(Amount in ₹ Lakh)

Particulars	Anu Ltd.	Minu Ltd.
Issue of 15% Debentures:		
$\frac{132 \times 10\%}{15\%}$	88	
$\frac{66 \times 10\%}{15\%}$		44

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]

Answer:

Balance Sheet of Blu Ltd. and its Subsidiaries as at 31.03.2016

	Equity and Liabilities	Note	Amount (₹)	Amount (₹)
1	**Shareholders' Funds**			
	(a) Share capital		6,00,000	
	(b) Reserve and Surplus	1	3,61,830	
2	**Minority Interest (W. N. 4)**		2,26,920	
3	**Current Liabilities**			
	(a) Trade payables		72,000	
	(b) Short term Provisions	2	60,000	
	Total		**13,20,750**	
1	**Non- Current Assets**			

	(a) Fixed Assets			
	(i) Tangible Assets		7,38,000	
	(ii) Intangible Assets	3	33,150	
2	**Current Assets**			
	(a) Inventories	4	69,600	
	(b) Trade receivables		4,74,000	
	(c) Cash and cash equivalents	5	6,000	
	Total		**13,20,750**	

Notes to Accounts:

		₹	₹
1.	**Reserves and Surplus**		
	Reserves of Blu Ltd. as on 31.03.2016	2,88,000	
	Share in Anu Ltd.	7,200	
	Share in Tinu Ltd.	750	2,95,950
	Profit and Loss A/c		
	Blu Ltd's balance as on 31.3.2016	96,000	
	Share in Anu Ltd.	28,800	
	Share in Tinu Ltd.	3,000	
	Less: Proposed Dividend of Blu Ltd. [10% of ₹6,00,000]	(60,000)	
	Less: Unrealised profit on inventory [80% of ₹2,400]	(1,920)	65,880
	Total		**3,61,830**
2.	**Short term Provision**		
	Proposed Dividend		60,000
3.	**Intangible Assets**		
	Goodwill		33,150
4.	**Inventories**		
	Inventories less unrealized profit		69,600
5.	**Cash and Cash equivalents**		
	Cash in transit (48,000 - 42,000)		6,000

Working Notes:

Shareholding Pattern

	Anu Lt.	Tinu Ltd.
Total shares	60,000	36,000
Held by Blu Ltd.	48,000 (80%)	6,000 [1/6 th]
Held Anu Ltd.	NA	24,000 [4/6 th]
Minority holding	20%	1/6 th

(i) Analysis of Reserves & Profit of Tinu Ltd.

				Pre-acquisition	Post-acquisition	
					Reserves	P&L
Reserves	31/3/16		54,000			
	31/3/15		45,000	45,000		
	Increase		9,000	4,500	4,500	
P & L Account	31/3/16		54,000			
	31/3/15		18,000	18,000		
	Increase		36,000	18,000		18,000
			Total	85,500	4,500	18,000

Shares	Blu	1/6			14,250	750	3,000
	Anu	4/6			57,000	3,000	12,000
	Minority	1/6			14,250	750	3,000

(ii) Analysis of reserves & Profit of Anu Ltd.

ANU- ANALYSIS OF PROFITS				Pre-acquisition	Post-acquisition	
					Reserves	P&L
Reserves	31/3/16		60,000			
	31/3/15		48,000	48,000		
	Increase		12,000	6,000	6,000	
P & L Account	31/3/16		72,000			
	31/3/15		24,000	24,000		
	Increase		48,000	24,000		24,000
			Sub- Total	1,02,000	6,000	24,000
ANU'S SHARE IN TINU					3,000	12,000
			Total	1,02,000	9,000	36,000
Shares	Blu	0.8		81,600	7,200	28,800
	Minority	0.2		20,400	1,800	7,200

(iii) Computation of Cost of Control:

Investment in Anu Tinu	 5,70,000 3,96,000	 9,66,000
Less: Paid up value of Investment Anu Tinu	 4,80,000 3,00,000	 (7,80,000)
Less: Pre-acquisition capital profits Anu Tinu	 81,600 71,250	 (1,52,850)
Total Goodwill		33,150

(iv) Computation of Minority interest

	ANU	TINU
Share Capital	1,20,000	60,000
Share in pre-acquisition Profit	20,400	14,250
Share in post-acquisition Reserves	1,800	750
Share in post-acquisition Profits	7,200	3,000
Less: provision for unrealized profit	(480)	
	1,48,920	78,000
Total Minority Interests		**2,26,920**

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]

Answer:

As per Accounting Standard 26 on intangibles, the amortization method used should reflect the pattern in which economic benefits are consumed by the enterprise. If pattern cannot be determined reliably, then straight line method should be used.

In the instant case, the pattern of economic benefit in the form of net operating cash flow *vis-a-vis* production is determined reliably. X Ltd should amortize the license fee of ₹ 400 lakhs as under:

Year	Net operating Cash inflow	Ratio	Amortize amount (₹ in lakhs)
1	900	0.03	12
2	1800	0.06	24
3	2300	0.08	32
4	3200	0.12	48
5	3200	0.12	48
6	3200	0.12	48
7	3200	0.12	48
8	3200	0.12	48
9	3200	0.12	48
10	3200	0.11 (balance)	44
	27400	1.00	400

(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]

Answer:

(a) **ADHUNIK LTD.**

Valuation of human resources of Skilled Employees:

(1) Age group: 30 – 39 years (Assuming that all 30 employees are just 30 years old).

Particulars	Computation (Average Annual Earning × Annuity/Discounting Factor)	Present value ₹
₹8,00,000 p. a. for next 10 years	(8,00,000 × 5.0188)	40,15,040
₹10,00,000 p. a. for 11 to 20 years	(10,00,000 × 6.2593) – (10,00,000 × 5.0188)	12,40,500
₹11,00,000 p.a. for 21 to 25 years	(11,00,000 × 6.4641) – (11,00,000 × 6.2593)	2,25,280
	Total	54,80,820

(2) Age group: 40 – 49 years (assuming that all 15 employees are just 40 years old)

Particulars	Computation	Present value ₹
₹10,00,000 p. a. for next 10 years	10,00,000 × 5.0188	50,18,800
₹11,00,000 p.a. for 11 to 15 years	(11,00,000 × 5.8474) – (11,00,000 × 5.0188)	9,11,460
	Total	59,30,260

(3) Age Group 50 – 54 (Assuming that all 5 employees are just 50 years old)

Particulars	Computation	Present value ₹
₹11,00,000 p.a. for next 5 years	11,00,000 × 3.3522	36,87,420

Total value of Human resources

Age Group	No. of employee	PV of future earnings (₹)
30 – 39	30	54,80,820 × 30 = 16,44,24,600
40 – 49	15	59,30,260 × 15 = 8,89,53,900
50 – 54	5	36,87,420 × 5 = 1,84,37,100
Total	**50**	**27,18,15,600**

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]

Answer:

Dr.		Provision of SARs Account			Cr.
Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
2014-15	To Balance c/d	3,29,700	2014-15	By Employees Compensation Expenses A/c	3,29,700
2015-16	To Balance c/d	7,06,867	2015-16	By Balance b/d	3,29,700
				By Employee Compensation Expenses A/c	3,77,167
		7,06,867			7,06,867
2016-17	To Balance c/d	11,56,800	2016-17	By Balance b/d	7,06,867
				By Employee Compensation Expenses A/c	4,49,933
		11,56,800			11,56,800
2017-18	To Bank(48,200×25)	12,05,000	2017-18	By Balance b/d	11,56,800
				By Employee Expenses A/c	48,200
		12,05,000			12,05,000

The Provision for SAR is a liability as settlement of SAR is through cash payment equivalent to an excess of market price of company's shares on exercise date over the exercise price.

Working Notes:

Year 2014-15

Number of employees to whom SARs were announced (482+10+5+3) = 500 employees.
Total number of employees after three years, on the basis of the estimation in 2014-15 = (500 x 0.98 x 0.98 × 0.98) = 471employees.
No. of SARs expected to vest = 471employees ×100 = 47,100 SAR
Fair value of SARs = 47,100SARs × ₹ 21= ₹ 9,89,100
Vesting period = 3 years
Recognized as expense in 2014-15 = ₹ 9,89,100/3 years = ₹ 3,29,700

Year 2015-16

Total number of employees after three years, on the basis of the estimation in 2015-16 = [(500-10) × 0.97 × 0.97) = 461employees
No. of SARs expected to vest = 461employees ×100 = 46,100 SARs
Fair value of SARs =46,100 SARs × ₹ 23 = ₹ 10,60,300
Vesting period = 3 years
No. of years expired = 2 years
Cumulative value of SARs to be recognized as expense =10,60,300/3 × 2 = ₹ 7,06,867
SARs recognize as expense in 2015-16 = ₹ 7,06,867- ₹ 3,29,700 = ₹ 3,77,167

Year 2016-17

Fair value of SARs = ₹ 24
SARs actually vested = 482 employees x 100 = 48,200 SARs
Fair value = 48,200 SARs × ₹ 24 = ₹ 11,56,800
Cumulative value to be recognized = ₹ 11,56,800
Value of SARs to be recognized as an expense = ₹ 11,56,800 – ₹ 7,06,867 = ₹ 4,49,933

Year 2017-18

Cash payment of SARs = 48,200 SARs ×₹ 25 = ₹ 12,05,000

Value of SARs to be recognized as an expense in 2017-18 = ₹12,05,000 – ₹ 11,56,800 = ₹ 48,200

(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]**

Answer:

Particulars	Computation	₹
1. Raw Material Valuation (net of Input Excise Duty)	5,000 kg x ₹10 per kg.	50,000
2. WIP Valuation (net of RM input duty)	(₹50 + 60% of ₹30) x 1,000 units	68,000
3. Finished Goods Valuation (including ED on SP)	(RM 50 + Lab & OH 30 + ED 10) =	
	₹90 × (14,000 units - 10,000 units)	3,60,000
Total		**4,78,000**

Computation of Cost per unit of production:

- Raw Materials: (80,000 - 5,000) = 75,000 kg for 15,000 units total = 5 kg x ₹10 (net of ED)=₹50
- Wages and Production Overhead =₹30 per completed unit (given)

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]**

Answer:

Part I - Journal entries in the books of K Ltd.

(₹ **in Crore**)

Particulars		**Debit**	**Credit**
a. Redemption of Preference Shares on 1st April 2016			
i. Due Entry			
12% Preference Share Capital A/c	Dr.	150	
To Preference Share Holders A/c			150
ii. Payment Entry			
Preference Shareholders A/c	Dr.	150	
To Bank A/c			150
b. Shares bought back			
i. On buy back			
Shares bought back A/c	Dr.	50	
To Bank A/c			50
(100 lakhs shares × ₹ 50 per share)			
ii. On Cancellation			
Equity Share capital A/c (100 Lakhs × ₹ 10)	Dr.	10	
Securities premium A/c (100 Lakhs × ₹ 40)	Dr.	40	
To Shares bought back A/c			50
iii. Transfer to Capital Redemption Reserve			
Revenue Reserve A/c	Dr.	160	
To Capital Redemption Reserve A/c			160
(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			

Part - III - Net Asset Value of Equity Shares

Particulars	**Amount**	**Amount**
a. i. Fixed assets	Nil	
ii. Investments (at market value)	800	
iii. Current assets	680	1,480
b. Less : Current liabilities		(80)
Net assets available for equity share holders		1,400
c. No. of equity shares outstanding (in lakhs)		4

d.	Value per equity share of ₹ 10 each = (1,400÷4)	₹ 350

(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]

Answer:

COMPUTATION OF NAV PER UNIT

Particulars	₹ in lakhs	₹ in lakhs	
Opening Bank Balance [(100 - 90 - 7) ₹ lakhs]	3.00		
Add: Proceeds from sale of securities	40.00		
Dividend received	1.286	44.286	
Less: Cost of securities	28.20		
Fund management expenses [(4.50 - 0.25) ₹ lacs]	4.25		
Capital gains distributed [70% of (40.00 - 38.00) ₹ lacs]	1.40		
Dividends distributed (70% of ₹ 1.286 lakhs)	0.90	(34.75)	
Closing bank balance		9.536	
Closing market value of portfolio		103.714	
		113.25	
Less: Arrears of Expenses		(0.25)	
A. Closing Net assets		113.00	
B. Number of units			10,00,000
C. Closing Net Assets Value (NAV) [113 lakhs/10 lakh]			₹11.30

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]

Answer:

Cash Flow Statement for the year ended 31.03.2016

Particulars	₹	₹
Cash Flows from Operating Activities		
Net Profit	1,42,250	
Add: Depreciation	47,500	
Less: Gain on sale of investment	(6,875)	
Operating profit before working capital changes	1,82,875	
Add: increase in current liabilities	15,000	
Less: increase in account receivable	(40,000)	
Net Cash flow from operating activities		1,57,875
Cash Flows from Investing Activities		
Sale of investment	64,375	
Purchase of Land	(38,750)	
Net Cash from investing activities		25,625
Cash Flows from Financing Activities		
Issue of shares	1,00,000	
Redemption of Bonds	(30,000)	
Dividend paid	(46,875)	
Net Cash from financing activities		23,125
Net increase in cash and cash equivalents during the period		2,06,625
Add: Cash and cash equivalents in the beginning of the period		37,500
Cash and cash equivalents at the end of the period		2,44,125

Note: Significant non-cash transaction: - Purchase of land by issue of Bonds ₹1,12,500.

(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]

Answer:

Value Added Statement of Aro Ltd.

Particulars	₹(000)	₹(000)	₹(000)
Turnover			29,872
Less: Operating Expenses [Total ₹26,741 – salaries ₹14,761]			(11,980)
Value added by Trading Activities			17,892
Less: Interest on Cash Credit			(151)
Add: Other Income			1042
Total value Added			18,783
Applied as follows-			
1. To Employees Salaries, Wages etc.		14,761	78.6%
2. To Government Excise Duty	1,952		
Income tax (376-54)	322	2274	12.1%
3. To Financiers Interest on Debentures		987	5.3%
4. To Shareholders Dividends		125	0.7%
5. To Earnings retained for expansion and replacement			
Retained Profit	175		
Depreciation	342		
Deferred tax credit	54		
Fixed Asset Replacement Reserve	65	636	3.3%
Total Application		18,783	100%

Reconciliation of Total Value Added with Profit before taxation

Particulars	₹(000)	₹(000)
Profit before taxation		741
Add: Depreciation	342	
Interest on Borrowings	987	
Excise Duty paid to Government	1,952	
Salaries and Wages to Employees	14,761	18,042
Total Value Added		18,783

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

Answer:

Objectives of Government Accounting:

The objectives of government accounting are the financial administration of the activities of the government to promote maximisation of welfare in the form of various services. The specific objectives can be stated as under:
1. To record financial transactions of revenues and expenditure relating to the government organizations.
2. To provide reliable financial data and information about the operation of public fund.

3. To record the expenditures as per the appropriate Act, Rules, and legal provisions as set by the government.
4. To avoid the excess expenditures beyond the limit of the budget approved by the government.
5. To help in the preparation of various financial statements and reports.
6. To facilitate the auditing by the concerned government department.
7. To prevent misappropriation of government properties by maintaining the systematic records of cash and store items.
8. To facilitate for estimating the annual budget by providing historical financial data of government and expenditures.

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

Answer:

The Board has high level representation from the important accounting heads in Government, Ministry of Finance, Department of Post, Finance Secretaries of states, RBI and heads of premier accounting & research organizations. The board consists of the following members:

1. Deputy Comptroller and Auditor General (Government Accounts) as Chairperson
2. Financial Commissioner, Railways
3. Member (Finance) Telecom Commission, Department of Telecom
4. Secretary, Department of Post
5. Controller General of Defence Accounts
6. Controller General of Accounts
7. Additional / Joint Secretary (Budget), Ministry of Finance, Government of India
8. Deputy Governor, Reserve Bank of India, or his nominee

9-12. Principal Secretary (Finance) of four States, by rotation

13. Director General, National Council of Applied Economic Research(NCAER), New Delhi
14. President, Institute of Chartered Accountants of India (ICAI), or his nominee
15. President, Institute of Cost and Works Accountants of India, or his nominee
16. Principal Director in GASAB, as Member secretary.