Paper 18- Corporate Financial Reporting

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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) Rose Ltd. entered into agreement with Tulip Ltd. for sale of goods of ₹8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2016. On the same day Tulip Ltd. entered into another agreement with Rose Ltd. to resell the same goods at ₹10.80 lakhs on 1st August, 2016. State the treatment of this transaction in the financial statements of Rose Ltd. as on 31.03.16. The pre-determined re-selling price covers the holding cost of Tulip Ltd. Give the Journal Entries as on 31.03.14 in the books of Rose Ltd.

Answer:

In the given case , Rose Ltd. concurrently agreed to repurchase the same goods from Tulip Ltd. on 1st Feb., 2016. Also the re-selling price is pre-determined and covers purchasing and holding costs of Tulip Ltd. Hence , the transaction between Rose Ltd. and Tulip Ltd. on 1st Feb.,2016 should be accounted for as financing rather than sale. The resulting cash flow of ₹9.60 lakhs received by Rose Ltd., cannot be considered as revenue as per AS 9 " Revenue Recognition".

Journal Entries in the books of Rose Ltd.

Date	Particulars	Debit (₹)	Credit (₹)
01.02.16	Bank A/c Dr.	9.60	
	To, Advance from Tulip Ltd.		9.60
	(Being advance received from Tulip Ltd. amounting [₹8 lakhs + 20% of ₹8 lakhs = 9.60 lakhs] under sale and re-purchase agreement)		
31.03.16	Financing Charges A/c Dr.	0.40	
	To, Tulip Ltd.		0.40
	(Financing charges for 2 months at ₹1.20 lakhs i.e. ₹[10.80-9.60] $\times \frac{2}{6}$)i.e.(₹1.2 lakhs $\times \frac{2}{6}$)		
31.03.16	Profit and Loss A/c Dr.	0.40	
	To, Financing Charges A/c		0.40
	(Being amount of finance charges transferred to P& L A/c)		

(b) Diamond Ltd. supplied the following information:

Net profit for 2014 – 15	**₹33 lakh**
Net profit for 2015 – 16	**₹49.50 lakh**
No. of shares before rights issue	**1,65,000**
Rights issue ratio	**One for every four held**
Right issue price	**₹270**
Date of Exercising rights option	**30th June, 2015 (Fully Subscribed on this date)**
Fair value of share before rights issue	**₹405**

You are required to compute:

(i) Basic earnings per share and

(ii) Adjusted earnings per share as per AS- 20. [8]

Answer:

Basic EPS: Profit available to equity shareholders/ No. of shares

	2014 – 2015	2015 – 2016
Basic EPS	$\frac{33,00,000}{1,65,000}$ = ₹20 per share	$\frac{49,50,000}{1,65,000}$ = ₹30 per share
Adjusted earnings per share	$\frac{33,00,000}{1,65,000 \times 1.070}$ = ₹18.69 per share	$\frac{49,50,000}{(1,65,000 \times 1.07 \times 0.25) + (2,06,250 \times 0.75)}$ $= \frac{49,50,000}{1,98,825}$ = ₹24.90 per share
Right factor = $\frac{\text{Fair value per share prior to right issue}}{\text{Theoretical ex-right fair value per share}}$		405/378 = 1.071

Right factor:

Theoretical Ex-right

$$\text{Fair Value} = \frac{\text{Aggregate fair Value of share prior to right issue + Proceeds from right issue}}{\text{No. of shares outstanding after right issue}}$$

$$= \frac{(₹405 \times 1,65,000) + (₹270 \times 41,250)}{2,06,250} = \frac{7,79,62,500}{2,06,250}$$

= ₹378.

(c) While closing its books of accounts on 31st March, a NBFC has its advances classified as follows –

Particulars	₹ Lakhs	Particulars	₹Lakhs
Standard Assets	**8,400**	**Unsecured Portion of Doubtful Debts**	**87**
Sub-Standard Assets	**910**	**Loss Assets**	**24**
Secured Portions of Doubtful Debts:			
- Up to one year	**160**		
- One year to three years	**70**		
- more than three years	**20**		

Calculate the amount of provision which must be made against the advances.

Answer:

Particulars	**Loan (₹ Lakhs)**	**Provision (%)**	**Provision (₹Lakhs)**
Standard Assets	8,400	0.35%	29.40
Sub- Standard Assets	910	10%	91
Secured Portions of Doubtful Debts:			
- Up to one year	160	20%	32

- 1 year to 3 years	70	30%	21
- more than three years	20	50%	10
Unsecured Portions of Doubtful Assets	87	100%	87
Loss Assets	24	100%	24
Total			294.4

(d) Ajanta grants 120 share options to each of its 230 employees. Each grant is conditional on the employee working for Ajanta over the next three years. Ajanta has estimated that the fair value of each share option is ₹24. Ajanta estimates that 25% of employees will leave during the three-year period and so forfeit their rights to the share options. Everything turns out exactly as expected.
Calculate the amounts to be recognized as expense during the vesting period.

Answer:

Year	Calculation	Expense for Period (₹)	Cumulative Expense (₹)
1	(27,600 options × 75% × ₹ 24 × 1/3 years)	1,65,600	1,65,600
2	(27,600 options × 75% × ₹ 24 × 2/3 years) – ₹ 1,65,600	1,65,600	3,31,200
3	(27,600 options × 75% × ₹ 24 × 3/3 years) – ₹ 3,31,200	1,65,600	4,96,800

Ajanta should review all estimates taken in consideration for valuation of option. The value of options recognized as expense in an accounting period is the excess of cumulative expense as per latest estimates up to the current accounting period over total expense recognized up to the previous accounting period.

(e) S Ltd. acquired a patent at a cost of ₹60 lacs for a period of 5 years and the product-life cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹10 lacs per annum. After two years it was found that the product life-cycle may continue for another 4 years from then. the net cash flows from the product during these 4 years were expected to be ₹49,50,000; ₹54,00,000; ₹58,50,000 and ₹63,00,000. Find out the amortization cost of the patent for each of the year.

Answer:

As per AS-26, "Intangible Assets", the amortization method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise, if that pattern cannot be determined reliably, the straight line method should be used.
In the instant case, the pattern of economic benefit in the form of net cash flows is determined reliably after two years. In the initial two years, the pattern of economic benefits could not have been reliably estimated therefore amortization was done at straight-line method, i.e. ₹10 lacs per annum. However, after two years pattern of economic benefits for the next five years in the form of net cash flows is reliably estimated as under and therefore amortization will also be done as per the pattern of cash inflows:

Cash inflows (₹)	Amount of amortization in the next 4 years (₹)
49,50,000	[40,00,000 x 49,50,000/2,25,00,000] = 8,80,000
54,00,000	[40,00,000 x 54,00,000/2,25,00,000] = 9,60,000
58,50,000	[40,00,000 x 58,50,000/2,25,00,000] = 10,40,000
63,00,000	[40,00,000 x 63,00,000/2,25,00,000] = 11,20,000
2,25,00,000	**Balance of WDV = 40,00,000**

2. The following are the summarized Balance Sheet (drafted) ZIN Ltd. and VES Ltd. as on March 31,2016.

(Amount in ₹)

Equity and Liability	ZIN Ltd.	VES Ltd.	Assets	ZIN Ltd.	VES Ltd.
1. Shareholders' Funds:			1. Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets	14,00,000	10,00,000
(i) Equity shares of ₹10 each	12,00,000	12,00,000	(b) Non-Current investments		
(ii) 10%Pref. Shares of ₹10 each	4,00,000	4,00,000	(i) 12,000 equity shares of VES Ltd.	1,60,000	
(b) Reserves & Surplus	6,00,000	8,00,000	(ii) 20,000 equity shares of Z in Ltd.		3,20,000
2. Non-Current liabilities:			2. Current Assets:		
Long term Borrowings (12% Debentures)	4,00,000	6,00,000	(a) Inventories	4,80,000	12,80,000
3. Current Liabilities:			(b) Trade Receivables		
Trade Payables			(i) Debtors	7,20,000	7,60,000
(i) Sundry Creditors	4,40,000	5,00,000	(ii) Bills Receivable	1,20,000	80,000
(ii) Bills payable	60,000	1,00,000	(c) Cash & Cash Equivalents	2,20,000	1,60,000
Total	**31,00,000**	**36,00,000**	**Total**	**31,00,000**	**36,00,000**

Fixed assets of both the companies are to be revalued at 15% above Book values and stock and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends, preference dividends having been already paid. After the above transactions are given effect to, Zin Ltd. will absorb Ves Ltd. on the following terms:

(a) 8 equity shares of ₹ 10 each will be issued by Zin Ltd. at par against 6 shares of Ves Ltd.

(b) 10% preference share of Ves Ltd. will be paid off at 10% discount, by issue of 10% preference share of ₹100 each in Zin Ltd. at par.

(c) 12% Debenture Holders of Ves Ltd. are to be paid off at a 8% premium by 12% debentures in Zin Ltd. issued at a discount of 10%.

(d) ₹ 60,000 to be paid by Zin Ltd. to Ves Ltd. for liquidation expenses.

(e) Sundry Creditors of Ves Ltd. include ₹40,000 due to Zin Ltd.

You are required to Prepare:

(i) Statement of purchase consideration payable by Zin Ltd.

(ii) Balance Sheet of Zin Ltd. as on March 31, 2016 after its absorption of Ves Ltd. as per Schedule-III to the Companies Act, 2013 with Notes to Accounts. [3+13 = 16]

Answer:

(i) Calculation of Purchase Consideration to be paid to Ves Ltd.

No. of shares of Ves Ltd.	1,20,000
Less: Held by Zin Ltd.	12,000
No. of shares held by outsiders	1,08,000

Exchange Ratio = 8:6 i.e. 4:3

∴ No. of shares to be issued by Zin Ltd.

$$1,08,000 \times \frac{4}{3} = 1,44,000$$

Less: Shares already held by Ves Ltd.	=	20,000
		1,24,000

It can also be calculated on equal footing as:

No. of Shares of Ves Ltd.	$1,20,000 \times \frac{4}{3} = 1,60,000$
(-) Held by Zin Ltd (assuming if it was held by other than Zin Ltd) $12,000 \times \frac{4}{3} = 16,000$	16,000
	1,44,000
	20,000
(-) Held by Ves Ltd. Shares to be issued	1,24,000

Particulars	₹
10% Preference shares @ 10% discount by issue of 10% Preference shares of A Ltd. of ₹100 each i.e. $₹4,00,000 \times \frac{90}{100}$	3,60,000

Purchase consideration:	
1,24,000 equity shares of ₹10 each	₹12,40,000
3,600 10% Preference shares of ₹100 each	₹3,60,000
	₹16,00,000

(ii)

Name of the Company: Zin Ltd.					
Balance Sheet as at 31.03.2016					
Ref No.		**Particulars**	**Note No.**	**As at 31st March, 2016**	**As at 31st March, 2015**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	32,00,000	
		(b) Reserves and surplus	2	8,62,000	
	2	Non-current liabilities			
		(a) Long-term borrowings	3	11,20,000	
	3	Current Liabilities			
		(a) Trade payables	4	10,60,000	
		Total		62,42,000	
	II.	Assets			

	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	27,60,000	
		(b) Other non-current assets	6	72,000	
	2	Current assets			
		(a) Inventories	7	16,96,000	
		(b) Trade receivables	8	16,02,000	
		(c) Cash and cash equivalents	9	1,12,000	
		Total		62,42,000	

[Relevant notes]

		(₹)
Note 1. Share Capital	**As at 31st March, 2016**	**As at 31st March, 2015**
Authorised, Issued,and paid up Capital of ₹ 10 each	24,40,000	
2,44,000 Equity Shares of ₹10 each	24,40,000	
40,000 10% Preference Shares of ₹10 each	4,00,000	
3,600 10% Preference Shares of ₹100 each	3,60,000	
Total	32,00,000	
Note 2. Reserves and Surplus		
Reserve	4,32,000	
Revaluation Reserve	2,10,000	
Capital Reserve	2,20,000	
Total	8,62,000	
Note 3. Long Term borrowing		
12% Debentures 4,00,000+[(6,00,000×108%)/0.90]	11,20,000	
Total	11,20,000	
Note 4. Trade payables		
Sundry Creditors [4,40,000 + 5,00,000 – 40,000]	9,00,000	
Bills Payable [60,000 + 1,00,000]	1,60,000	
Total	10,60,000	
Note 5. Tangible Assets		
Fixed Assets [(14,00,000×115%)+(10,00,000×115%)]	27,60,000	
Total	27,60,000	
Note 6. Other non-current Assets		
Discount on Issue of Debentures [6,00,000×108%(10/90)]	72,000	

Total	72,000	
Note 7. Inventories		
Stock [4,80,000 + (12,80,000 × 95%)]	16,96,000	
Total	16,96,000	
Note 8. Trade Receivables		
Debtors (7,20,000 + 95% of 7,60,000)- 40,000	14,02,000	
Bills Receivables [1,20,000 + 80,000]	2,00,000	
Total	16,02,000	
Note 9. Cash and Cash Equivalent		
Cash at Bank	1,12,000	
Total	1,12,000	

Working Note:

1. **Calculation of goodwill/capital reserve**

Particulars	₹
Net asset taken over from Ves Ltd.	
Fixed asset (10,00,000 × 115%)	11,50,000
Stock (12,80,000 × 95%)	12,16,000
Debtors (7,60,000 × 95%)	7,22,000
Bills Receivable	80,000
Cash at bank	60,000
	32,28,000
Less: 12% Debenture (₹6,00,000 × 108%]	6,48,000
Sundry creditors and Bills Payable	6,00,000
	19,80,000
Less: Investment cancelled	1,60,000
	18,20,000
Less: Purchase consideration	16,00,000
Capital Reserve	2,20,000

2. **Computation of amount of cash at bank of Ves Ltd.**

Particulars	₹
Balance as per Balance Sheet	1,60,000
Add: Dividend from Zin Ltd.	20,000
	1,80,000
Less: Dividend paid by Ves Ltd.	1,20,000
	60,000

3. **Combined cash in Balance Sheet**

Particulars	₹
Balance of Zin Ltd. as per B/S	2,20,000
Take over from Ves Ltd.	60,000
	2,80,000
Less: Dividend paid	1,20,000
Expenses on Liquidation	60,000
	1,00,000
Add: Dividend from Ves Ltd.	12,000
	1,12,000

4. Calculation of Reserves

Particulars	₹
As per Balance Sheet of Zin Ltd. Less: Expenses on Liquidation Less: Dividend declared	6,00,000 60,000 1,20,000 4.
 Add: Dividend received from Ves Ltd.	4,20,000 5. 12,000 6.
	4,32,000 7.

3. A Ltd. owned 80% of B Ltd, 35% of C Ltd. and 30% of D Ltd. C Ltd. is jointly controlled entity and D Ltd. is an associate. Balance Sheet (draft) of all four companies as on 31.03.2016 are:

(₹ in lakhs)

Particulars	A Ltd.	B Ltd.	C Ltd.	D Ltd.
Liabilities				
Equity share of ₹ 1 each fully paid-up	**1,500**	**600**	**1,200**	**1,200**
Retained Earnings	**6,000**	**5,100**	**5,400**	**5,400**
Creditors	**300**	**450**	**380**	**375**
Total	**7,800**	**6,150**	**6,980**	**6,975**
Assets				
Fixed Assets	**1,500**	**1,200**	**2,100**	**1,500**
Investment in B Ltd.	**1,200**			
Investment in C Ltd.	**900**			
Investment in D Ltd.	**900**			
Current Assets	**3,300**	**4,950**	**4,880**	**5,475**
Total	**7,800**	**6,150**	**6,980**	**6,975**

A Ltd. acquired shares in

(i) B Ltd. many years ago, when the company had retained earnings of ₹ 780 lakhs.

(ii) C Ltd. at the beginning of the year, when the company had retained earnings of ₹ 600 lakhs.

(iii) D Ltd. on 01.04.2015, when the company had retained earnings of ₹ 600 lakhs.

The balance of goodwill relating to B Ltd. had been written off three years ago. The value of goodwill in C Ltd. remains unchanged.

Prepare the Consolidated Balance Sheet of A Ltd. as on 31.03.2016 as per AS-21, AS-23 and AS-27. [16]

Answer:

Consolidated Balance Sheet of A Ltd. as at 31st March, 2016

Particulars	Note No	Amount
A. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	1,500
(b) Reserves and Surplus	2	12,480
total		13,980
2. Minority Interest		1,140
3. Current Liabilities		
Trade Payables	3	883
Total (1+2+3)		16,003
B. ASSETS		

1. Non-current Assets		
(a) Fixed Assets		
(i) Tangible assets	4	3,435
(ii) Intangible assets	5	270
(b) Non-current investments	6	2,340
Total		6,045
2. Current Assets		
Other current assets	7	9,958
Total (1+2)		16,003

Notes to Accounts:

Note No:-1. Share Capital (₹ in lakhs)

Share capital in equity shares	1,500
Total	1,500

Note No:-2. Reserve and Surplus.

Retained Earnings (W.N.-2)	12,480
Total	12,480

Note No:-3. Trade Payables.

Creditors[300+450+133(35% of 380)]	883
Total	883

Note No:-4.Tangible Assets.

Fixed Assets [1,500+1,200+735(35% of 2,100)]	3,435
Total	3,435

Note No:- 5. Intangible Assets.

Goodwill (W.N. 2)	270
Total	270

Note No:-6. Non-current Investments.

Investments in Associates (W.N. 4)	2,340
Total	2,340

Note No:-7. Other current assets

Other current assets [3,300+4,950+1,708(35% of 4,880)]	9,958
Total	9,958

WORKING NOTES:

1. Computation of Goodwill

B Ltd. (subsidiary)		
Cost of investment		1,200
Less: Paid up value of shares acquired	480	
Share in pre-acquisition profits of B Ltd.(780×80%)	624	1,104
Goodwill		96
C Ltd.(Jointly Controlled Entity)		
Cost of investment		900
Less: Paid up value of shares acquired(35% of 1,200)	420	
Share in pre-acquisition profits of C Ltd.(35% of 600)	210	630
Goodwill		270

Note: Jointly controlled entity C Ltd to be consolidated on proportionate basis i.e.35% as per AS-27.		
D Ltd.(Associate as per AS-23)		
Cost of investment		900
Less: Paid up value of shares acquired(30% of 1,200)	360	
Share in pre-acquisition profits of C Ltd.(30% of 600)	180	540
Goodwill		360
Goodwill to be shown in the consolidated		
Goodwill of C Ltd.		270
Goodwill of B Ltd		96
Less: Goodwill written off of B Ltd.		96
Goodwill		270

2. Consolidated Retained Earnings:-

A Ltd.	6,000
Share in post acquisition profits of B Ltd - 80% (5,100 - 780)	3,456
Share in post acquisition profits of C Ltd - 35% (5,400 - 600)	1,680
Share in post acquisition profits of D Ltd - 30% (5,400 - 600)	1,440
Less: Goodwill written off	(96)
	12,480

3. Minority Interest-B Ltd.

Share Capital (20% of 600)	120
Share in Retained Earnings (20% of 5,100)	1,020
	1,140

4. Investment in Associates

Cost of Investments (including goodwill ₹360 lakhs)	900
Share of post acquisition profits	1,440
Carrying amount of investment (including goodwill ₹360 lakhs)	2,340

4. (a) A Company purchased a plant for ₹50 Lakhs during the financial year and installed it immediately. The price charged by the Vendor included Excise Duty (CENVAT Credit Available) of ₹5 Lakhs. During this year, the Company also produced excisable goods on which Excise Duty chargeable is ₹4.50 Lakhs. Show the Journal Entries describing CENVAT Credit treatment. [8]

Answer:

Journal

Particulars		Dr. (₹)	Cr. (₹)
Fixed Assets A/c	Dr.	45,00,000	
CENVAT Credit Receivable (Capital Goods)A/c	Dr.	2,50,000	
CENVAT Credit Deferred (Capital Goods)A/c	Dr.	2,50,000	
To Asset Vendor / Bank A/c			50,00,000
(Being Plant purchased recorded, including immediate CENVAT Credit available of 50%, balance 50% (assumed) credit available in subsequent year)			
Excise Duty A/c	Dr.	2,50,000	
To CENVAT Credit Receivable A/c (Capital Goods)			2,50,000
(Being set off of CENVAT Credit during the year)			
Excise Duty A/c	Dr.	2,00,000	
To Bank A/c			2,00,000

(Being balance Excise Duty payable ₹4,50,000 ,₹2,50,000 set-off, now settled)		
Subsequent Financial Year CENVAT Credit Receivable (Capital Goods) A/c Dr. To CENVAT Credit Deferred (Capital Goods) A/c (Being transfer of balance CENVAT Credit available on Capital Goods)	2,50,000	2,50,000

(b) From the following information in respect of Unnat Ltd., prepare a value added statement for the year 2016

	₹ '000
Turnover	**2,300**
Plant and Machinery (net)	**1,080**
Depreciation on Plant and Machinery	**275**
Dividends to ordinary shareholders	**146**
Debtors	**195**
Creditors	**127**
Total stock of all materials, WIP and finished goods	
Opening Stock	**160**
Closing Stock	**200**
Raw materials purchased	**625**
Cash at Bank	**98**
Printing and Stationary	**22**
Auditor's remuneration	**28**
Retained Profits (Opening balance)	**994**
Retained Profits for the year	**288**
Rent, Rates and Taxes	**165**
Other expenses	**85**
Ordinary share capital issued	**1,500**
Interest on borrowing	**40**
Income tax for the year	**276**
Wage and Salaries	**327**
Employees State Insurance	**35**
PF- Contribution	**28**

Calculate the Value added per employee, average earning per employee and sales per employee on the basis that 95 employees work in Unnat Ltd. [8]

Answer:

Gross Value Added Statement

(₹ '000)

Particulars	₹	₹
Sales		**2,300**
Add: Increase in Stock (200-160)		**40**
		2,340
Cost of Bought in goods & services		
Raw materials	625	
Printing & Stationary	22	
Rent	165	
Other Expenses	85	
Auditor's remuneration	28	**925**
GVA		**1,415**
Application Towards		
Employee (28+35+327)	390	

P/ Finance	40	
Government-tax	276	
Dividend to Share Holders	146	
Retained Earnings(275+288)	563	**1,415**

(i) Value Added = $\frac{1,415}{95}$=14.89

(ii) $\frac{288}{95} = 3.03$

(iii) Sale per employee = $\frac{2,300}{95} = 24.21$

5. (a) Discuss the concept of Triple Bottom Line Reporting. [6]

Answer:

The concept of TBL reporting refers to the publication of economic, environmental and social information in an integrated manner that reflects activities and outcomes across these three dimensions of a company's performance.

Economic information goes beyond the traditional measures contained within statutory financial reporting that is directed primarily towards shareholders and management. In a Triple Bottom Line context, economic information is provided to illustrate the economic relationships and impacts, both direct and indirect, that the company has with its stakeholders and the communities in which it operates.

The concept of Triple Bottom Line does not mean that companies are required to maximise returns across three dimensions of performance - in terms of corporate performance, it is recognized that financial performance is the primary consideration in assessing its business success.

- An expanded spectrum of values and criteria for measuring organizational and societal success - economic, environmental, social.
- In the private sector, a commitment to Corporate Social Responsibility implies a commitment to some form of **Triple Bottom Line** reporting.

The Triple Bottom Line is made up of "Social, Economic and Environmental"

"People, Planet, Profit "

The trend towards greater transparency and accountability in public reporting and communication is reflected in a progression towards more comprehensive disclosure of corporate performance to include the environmental, social and economic dimensions of an entity's activities.

Reporting information on any one or more of these three elements is referred to as TBL (Triple Bottom Line) Reporting. This trend is being largely driven by stakeholders, who are increasingly demanding information on the approach and performance of companies in managing the environmental and social/community impact of their activities and obtaining a broader perspective of their economic impact.

(b) Techno Ltd. has 2 divisions Laptops and Mobiles.
Division Laptops has been making constant profits while division Mobiles has been invariably suffering losses.
On 31st March 2015 the division-wise draft Balance Sheet was: (₹ in crores)

		Laptops	Mobiles	Total
Fixed assets cost		250	500	750
Depreciation		(225)	(400)	(625)
Net Assets	(A)	25	100	125
Current assets:		200	500	700
Less: Current liabilities		(25)	(400)	(425)
	(B)	175	100	275
Total (A+B)		200	200	400
Financed by:				
Loan funds		-	300	300
Capital: Equity ₹10 each		25	-	25
Surplus		175	(100)	75
		200	200	400

Division Mobiles along with its assets and liabilities was sold for ₹50 crores to Turnaround Ltd. a new company, who allotted 1 crore equity shares of ₹10 each at a premium of ₹40 per share to the members of Techno Ltd. in full settlement of the consideration, in proportion to their shareholding in the company.
Assuming that there are no other transactions, you are asked to:
(i) Pass journal entries in the books of Techno Ltd.
(ii) Prepare the Balance Sheet of Techno Ltd. after the entries in (i).
(iii) Prepare the Balance Sheet of Turnaround Ltd. [10]

Answer:

Journal of Techno Ltd. (₹ in crores)

		Dr. ₹	Cr. ₹
(1)	Turnaround Ltd. Dr.	50	
	Loan Funds Dr.	300	
	Current Liabilities Dr.	400	
	Provision for Depreciation Dr.	400	
	To Fixed Assets		500
	To Current Assets		500
	To Capital Reserve		150
	(Being division Mobiles along with its assets and liabilities sold to Turnaround Ltd. for ₹ 50 crores)		
	Capital Reserve Dr.	50	
(2)	To Turnaround Ltd.		50
	(Being allotment of 1 crore equity shares of ₹10 each at a premium of ₹40 per share to the members of Techno Ltd. in full settlement of the consideration)		

Techno Ltd,
Balance Sheet after reconstruction

		Note No.		(₹ in crores)
I.	**Equity and liabilities**			
	(1) **Shareholders' funds**			
	(a) Share Capital		25	
	(b) Reserves and surplus	1	175	200

	(2) **Current Liabilities**			25
	Total			225
II.	**Assets**			
	(1) **Non-current assets**			
	(a) Fixed assets			25
	(2) **Current assets**			200
	Total			225

Notes to Accounts

1.		(₹ in crores)
	Reserves and Surplus	75
	Add: Capital Reserve on reconstruction	100
		175

Note to Accounts: Consequent on transfer of Division Mobiles to newly incorporated company Turnaround Ltd., the members of the company have been allotted 1 crore equity shares of ₹10 each at a premium of ₹40 per share of Turnaround Ltd., in full settlement of the consideration in proportion to their shareholding in the company.

Balance Sheet of Turnaround Ltd.

		Note No.		(₹ in crores)
1.	**Equity and liabilities**			
	(1) **Shareholders' funds**			
	(a) Share Capital	1	10	
	(b) Reserves and surplus:			
	Securities Premium		40	50
	(2) **Non-current liabilities**			
	Long term borrowings			300
	(3) **Current liabilities**			400
	Total			750
	Assets			
II.	**(1) Non-current assets**			
	Fixed assets			
	(i) Tangible assets		100	
	(ii) Intangible assets	2	150	
				250
	(2) Current assets			500
	Total			750

Notes to Accounts

		(₹ in crores)
1.	**Share Capital:**	
	Issued and Paid-up capital	
	1 crore Equity shares of ₹ 10 each fully paid up	10
	(All the above shares have been issued for consideration other than cash, to the members of Techno Ltd. on takeover of Division Mobiles from Techno Ltd.)	
2.	**Intangibles Assets:**	
	Goodwill (WN 1)	150

Working Note

1. Calculation of Goodwill/Capital Reserve for Turnaround Ltd.

Assets taken over

Non Current Assets	100
Current Assets	500
Total Assets(A)	600
Loan Funds	300
Current Liabilities	400
Total Liabilities (B)	700
Net Assets C= (A-B)	(100)
Purchase Consideration (given) D	50
Goodwill (D-C)	150

6. X Ltd. granted 500 stock options to its employees on 01.04.2013 at ₹ 50 per share. The vesting period is 2 ½ years and the maximum exercise period is one year. Market price on that date is ₹ 140 per share. All the options were exercised on 30.06.2016. Pass journal entries giving suitable narrations, if the face value of equity share is ₹ 10 per share. Also show the impact of the above items in the Balance Sheet for the year Mar. 31, 2014 to 2016.

Answer:

X Ltd.

Journal

Date	Particulars	Dr. ₹	Cr. ₹
31.3.14	Employees Stock Option Expenses A/c Dr.	18,000	
	To Employees Stock Option Outstanding A/c		18,000
	(Being expenses on 500 stock options recognised)		
31.3.14	P/L A/c Dr.	18,000	
	To Employees Stock Option Expenses A/c		18,000
	(Being Employees Stock Options expenses transferred)		
31.3.15	Employees Stock Option Expenses A/c Dr.	18,000	
	To Employees Stock Option Outstanding A/c		18,000
	(Being expenses on 500 stock options recognised)		
31.3.15	P/L A/c Dr.	18,000	
	To Employees Stock Option Expenses A/c		18,000
	(Being Employees Stock Options expenses transferred)		
31.3.16	Employees Stock Option Expenses A/c Dr.	9,000	
	To Employees Stock Option Outstanding A/c		9,000
	(Being expenses on 500 stock options recognised)		
31.3.16	P/L A/c Dr.	9,000	
	To Employees Stock Option Expenses A/c		9,000
	(Being Employees Stock Options expenses transferred)		
30.6.16	Bank A/c [500 × ₹ 50] Dr.	25,000	
	To Employees Stock Option Outstanding A/c		25,000
	(Being money received on 500 options exercised)		
30.6.16	Employees Stock Option Outstanding A/c Dr. [500 × ₹ 10]	70,000	
	To Equity Share Capital A/c		5,000
	To Securities Premium Reserve A/c [500 × ₹ 130]		65,000
	(Being Employees Stock Option Outstanding Account transferred to equity share capital and Securities Premium Reserve Account)		

Balance Sheet as at 31.03.14 (includes)

Balance Sheet as at 31.3.14 (includes)

Particulars	Note No.	₹
Reserves & Surplus	1	18,000

Notes to Accounts:	
1. Reserves & Surplus	
Employees Stock Option Outstanding	18,000

Balance Sheet as at 31.3.15 (includes)

Particulars	Note No.	₹
Reserves & Surplus	1	18,000

Notes to Accounts:	
1. Reserves & Surplus	
Employees Stock Option Outstanding	36,000

Balance Sheet as at 31.3.16 (includes)

Particulars	Note No.	₹
Reserves & Surplus	1	18,000

Notes to Accounts:	
1. Reserves & Surplus	
Employees Stock Option Outstanding	45,000

Workings:

Calculation of intrinsic value of option = Market price per share – Exercisable price per share = 140 – 50 = ₹ 90

Employee Compensation Expenses to be recognised:

	13-14 (₹)	14-15 (₹)	15-16 (₹)
Gross Value of employee compensation expenses	18,000	36,000	45,000
$GV = \text{No.of Options expected to vest X Intrinsic Value} \times \frac{\text{Expired Period}}{\text{Vesting Period}}$	[500 × 90 × 1/2.5]	[500 × 90 × 2/2.5]	[500 × 90 × 2.5/2.5]
Less: Expenses already recognised upto preceding accounting period	-	18,000	36,000
∴ Expenses to be recognised	18,000	18,000	9,000

7. (a) Bill Ltd. exchanges used car for building that possibly become Bill Ltd.'s storage space. Future cash flow will significantly change. The books value of the car total is ₹80,000 (cost of ₹2,04,000 – accumulated depreciation of ₹1,24,000). The car's fair value is ₹90,000. In addition, Bill Ltd. must pay ₹40,000 cash as part of the exchange. Calculate the gain to be recognized on the exchange and Cost of building to be capitalized. What will be the gain and cost of building to be capitalized, if fair value of the car is ₹76,000. [10]

Answer:

Particulars	Amount in ₹	
Fair value of Car (given up)		90,000
Book Value of Car:		
Cost of Car	2,04,000	
Accumulated depreciation	(1,24,000)	
Book Value		(80,000)
Gain on disposal of car		10,000

The cash given up does not enter into the calculation of gain on exchange, which is fair value less book value.

Calculation on Cost to be capitalized

The cash given up in the exchange is used to calculate the cost on the books of Bill Ltd.

Fair value of Car (given up)	90,000
Plus: Cash paid	40,000
Building Cost to be capitalized	1,30,000

Journal entry to record the exchange and the gain on the exchange:

Particulars		Dr. (₹)	Cr.(₹)
Building	Dr.	1,30,000	
Accumulated depreciation – car	Dr.	1,24,000	
To Car			2,04,000
To Gain on disposal of car			10,000
To Cash			40,000

(b) The following information is available for a concern. Compute EVA.

Debt Capital 12%	**₹8,000 crores**	**Risk free rate**	**9%**
Equity capital	**₹2,000 crores**	**Beta factor**	**1.05**
Reserves & Surplus	**₹30,000 crores**	**Market rate of return**	**19%**
Capital Employed	**₹40,000 crores**	**Equity(market) risk premium**	**10%**
Operating profit after tax	**₹8,400 crores**	**Tax rate**	**30%**

[6]

Answer:

Particulars	
Cost of Equity (k_e)= Risk free rate + (Beta × market risk premium)	9 + (1.05 × 10)=19.5%
Cost of Debt (K_d) = Interest × (100% -tax rate)	12 × 70% = 8.40%
Debt- Equity Ratio (as given in the question)	20% & 80%
WACC = [(K_d) × Debt % + (k_e) × Equity %	(8.40 × 20% + 19.50 × 80%)=17.28%
Operating profit after tax	₹8,400 crores
Capital charge = Capital employed × WACC	₹6,912 crores
Economic Value Added	₹(8,400 – 6,912)=₹1,488 crores

8. (a) "IGAS 3 - Loans and Advances made by Governments " — Discuss. [8]

(b) Discuss in brief the Standard – setting procedure of Government Accounting Standards Advisory Board. [8]

Answer:

(a) IGAS 3 — Loans and Advances made by Governments.

Introduction

1. The Government of India has been empowered under proviso (2) of Article 293 of the Constitution of India to make loans to the States, subject to such conditions as may be laid down by or under any law made by Parliament, any sums required for the purpose of making such loans being chargeable to the Consolidated Fund of India.

2. The Union Government has been providing financial assistance to the State Governments, a substantial portion of which is in the form of loans. These loans are advanced to the States both in the form of plan and non-plan assistance intended for both developmental and non-developmental purposes. Loans are also provided by the Union Government to Foreign Governments, Government companies and

Corporations, Non-Government institutions and Local bodies. The Union Government also disburses recoverable advances to Government servants.

3. The State Governments disburse loans to Government Companies, Corporations, Local Bodies, Autonomous Bodies, Cooperative Institutions, Statutory Corporations, quasi-public bodies and other non-Government/private institutions. The State Governments also disburse recoverable advances to Government servants.

Objectives

4. The objective of the Standard is to lay down the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Union and the State Governments in their respective Financial Statements to ensure complete, accurate, realistic and uniform accounting practices, and to ensure adequate disclosure on Loans and Advances made by the Governments consistent with best international practices.

Scope

5. This Standard applies to Loans and Advances given by the Government for incorporation and presentation in the Financial Statements of the Government. Financial Statements shall not be described as complying with this Standard unless they comply with all the requirements contained therein. This standard shall apply only to government accounts being maintained on a cash basis.

(b) Standard-setting Procedure for Accounting Standards :

A. The following procedures are adopted by the Government Accounting Standards Advisory Board (GASAB) for formulating Standards:

(i) The GASAB Secretariat identifies areas for Standard formulation and places them before the GASAB for selection and approval. While doing so, the Secretariat places before the GASAB all important suggestions, references, proposals received from various sections of the Union and State Governments, members of GASAB, members of Civil Society, Professional Bodies and other stakeholders. The priorities, as approved by the GASAB, guide further functioning of the GASAB Secretariat.
(ii) The GASAB Secretariat thereafter prepares the discussion paper on the selected issues for consideration of the GASAB.
(iii) While doing so, the Secretariat studies the existing rules, codes and principles as internal sources, and documents/pronouncements/Standards issued by other national and international Standard setting and regulatory bodies. The Secretariat may also hold consultation with such other persons as are considered necessary for this purpose.
(iv) On consideration of the Discussion paper and the comments received thereon, the GASAB finalizes the Exposure Draft.
(v) The GASAB may constitute Standing Committee and/or Task based Groups from amongst the Members or their representatives to consider specific areas before finalization.
(vi) The Exposure Draft, as approved for issue by the GASAB, are widely circulated in the public domain and forwarded to all stakeholders. The Exposure Draft is required to be hosted at the website of GASAB.
(vii) Based on the comments received on the Exposure Draft, the Standards are finalized by the GASAB. The Standards, as finalized, are forwarded to the Government for notification in accordance with the provisions of the Constitution of India.

B. The meetings are normally chaired by the Chairperson. In unforeseen circumstances when Chairperson is unable to attend, the senior-most member from the Central Government will chair the meeting. The Comptroller & Auditor General of India will be kept informed of the important developments in the meetings of GASAB.

C. The GASAB may meet as often as is deemed necessary but generally not less than four times in a financial year. The decisions of the GASAB may preferably be by general consensus. In case differences persist, the decision shall be on the basis of voting favoring the recommendation. The dissenting views should also be forwarded to the Government along with the recommendations.

D. GASAB allows an exposure period of 90 days for inviting comments on Exposure Draft.