Paper 18 – Corporate Financial Reporting

Whenever necessary suitable assumptions may be made and disclosed by way of note.

Working Notes should form part of the answers

Answer all the questions.

1. Answer any two of the following: [2×5]

H Ltd. is showing an intangible Asset at ₹ 72 lakhs as on 01.04.2013 and that item was required for ₹ 96 lakhs on 01.04.2010 and that item was available for use from that date. H Ltd. has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to relevant accounting standard.

Answer:

As per AS 26 "Intangible Assets", the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.
H Ltd. has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. The period of 12 years is more than the maximum period of 10 years specified under AS 26. Accordingly, H Ltd. would be required to restate the carrying amount of intangible asset as on 1.4.2013 at ₹96 lakhs less ₹ 28.8 lakhs (₹ 9.6 lakhs × 3 years) = ₹ 67.2 lakhs. If amortisation had been as per AS 26, the carrying amount would have been ₹67.2 lakhs. The difference of ₹4.8 lakhs i.e. (₹ 72 lakhs – ₹67.2 lakhs) would be required to be adjusted against the opening balance of revenue reserves. The carrying amount of ₹67.2 lakhs would be amortised over 7 (10 less 3) years in future.

(b) Cost of asset	**₹56 akhs**
Useful life period	**10 years**
Salvage value	**Nil**
Current carrying value	**₹27.30 lakhs**
Useful life remaining	**3 years**
Recoverable amount	**₹12 lakhs**
Upward revaluation done in last year	**₹14 lakhs**

From the information

(i) Find out impairment loss

(ii) Treatment of impairment loss

(iii) Current year depreciation

Answer:

According AS 28 "Impairment of Assets", an impairment loss on a revalued asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

Impairment Loss and its treatment	₹
Current carrying amount (including revaluation amount of ₹14 lakhs)	27,30,000
Less: Current recoverable amount	12,00,000
Impairment Loss	15,30,000
Impairment loss charged to revaluation reserve	14,00,000
Impairment loss charged to profit and loss account	1,30,000

As per AS 28, "after the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life."

In the given case, the carrying amount of the asset will be reduced to ₹12,00,000 after impairment. This amount is required to be depreciated over remaining useful life of 3 years (including current year). Therefore, the depreciation for the current year will be ₹4,00,000.

(c) Write a note on treatment of refund of Government grants.

Answer:

As per AS 12 "Accounting for Government Grants", government grant that becomes refundable should be treated as an extraordinary item. The amount refundable in respect of a government grant related to revenue is applied first against any unamortized deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement. The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, *i.e.*, where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset. Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the government on non-fulfillment of some specified conditions, the relevant amount recoverable by the government is reduced from the capital reserve.

2. Given below is the Balance Sheet of H Ltd. as on 31.3.2013:

(Figures in ₹ lakhs)

Liabilities	₹	**Assets**	₹

Equity share capital	**4.00**	**Block assets less depreciation to date**	**6.00**
(in equity shares of ₹ 10 each)		**Stock and debtors**	**5.30**
10% preference share capital	**3.00**	**Cash and bank**	**0.70**
General reserve	**1.00**		
Profit and loss account	**1.00**		
Creditors	**3.00**		
	12.00		**12.00**

M Ltd. another existing company holds 25% of equity share capital of H Ltd. purchased at ₹ 10 per share.
It was agreed that M Ltd. should take over the entire undertaking of H Ltd. on 30.09.2013 on which date the position of current assets (except cash and bank balances) and creditors was as follows:

Stock and debtors	**4 lakhs**
Creditors	**2 lakhs**

Profits earned for half year ended 30.09.2013 by H Ltd. was ₹ 70,500 after charging depreciation of ₹ 32,500 on block assets. H Ltd. declared 10% dividend for 2013-14 on 30.08.2013 and the same was paid within a week.

Goodwill of H Ltd. was valued at ₹ 80,000 and block assets were valued at 10% over their book value as on 31.3.2013 for purposes of take over. Preference shareholders of H Ltd. will be allotted 10% preference shares of ₹ 10 each by M Ltd. Equity shareholders of H Ltd. will receive requisite number of equity shares of ₹ 10 each from M Ltd. valued at ₹ 10 per share.

(a) Compute the purchase consideration.

(b) Explain, how the capital reserve or goodwill, if any, will appear in the Balance Sheet of M Ltd. after absorption. [10]

Answer:

Calculation of Purchase Consideration (for net assets of H Ltd. taken over)

Assets taken over:		₹
	Goodwill as agreed	80,000
	Block Assets at 10% over their book value as on 31.3.2013	6,60,000
	(agreed value for purposes of takeover)	
	Stock and Debtors	4,00,000
	Cash and Bank (See Working Note)	1,33,000
		12,73,000
Less: Liabilities taken over:		

	Creditors	2,00,000
		10,73,000

Calculation of Shares Allotted:	₹
Net Assets taken over	10,73,000
Less: Allotment of 10% preference shares to preference shareholders of H Ltd.	3,00,000
	7,73,000
Less: Belonging to M Ltd. (1/4 × 7,73,000)	1,93,250
Payable to other equity shareholders	5,79,750

Number of equity shares of ₹ 10 each to be issued (valued at ₹ 10 each) = 57,975

Calculation of Capital Reserve:		₹
Net Assets taken over		10,73,000
Less: Preference shares to be allotted	3,00,000	
Equity shares to be allotted	5,79,750	
Cost of investments	1,00,000	9,79,750
Capital Reserve		93,250
Alternatively, Capital Reserve may be computed as follows:		
Value of investments in H Ltd.		1,93,250
Less: Cost of investments		1,00,000
		93,250

Balance Sheet of M Ltd. as at 30th September, 2013

		₹
Capital Reserve	93,250	
Less: Goodwill	80,000	13,250

Working Note:

Ascertainment of Cash and Bank Balances as on 30th September, 2013:

Through Balance Sheet as at 30th September, 2013
(without following Revised Schedule VI format)

Liabilities	₹	**Assets**	₹
Equity Share Capital	4,00,000	Block Assets 6,00,000	
10% Preference Share Capital	3,00,000	Less: Depreciation 32,500	5,67,500
General Reserve	1,00,000	Stock and Debtors	4,00,000
Profit and Loss Account: Balance brought forward 1,00,000		**Cash and Bank (Balancing figure)**	**1,33,000**

Add: Profit for the first half 70,500			
1,70,500			
Less: Dividend on preference share capital paid 30,000			
Dividend on equity share capital paid 40,000 70,000	1,00,500		
Creditors	2,00,000		
	11,00,500		11,00,500

Or,

(b) The following are the summarized Balance Sheet of Asha Ltd. and Manav Ltd.

Liabilities	Asha Ltd. ₹	Manav Ltd. ₹	Assets	Asha Ltd. ₹	Manav Ltd. ₹
Equity Share Capital	**32,000**	**28,000**	**Sundry Assets**	**42,000**	**33,000**
Profit and Loss A/c	**5,000**	**-**	**Shares in Manav Ltd.**	**20,000**	**-**
Creditors	**15,000**	**6,000**	**Profit and Loss A/c**	**-**	**1,000**
Loan – Chitra Ltd.	**10,000**	**-**			
	62,000	**34,000**		**62,000**	**34,000**

Note : Loan from Chitra Ltd. assumed to be of less than 12 months, hence treated as short terms borrowings (ignoring interest)
The whole of the shares of Asha Ltd. are held by Chitra Ltd. and the entire Share capital of Manav Ltd. is held by Asha Ltd.
A new company Om Shanti Ltd. is formed to acquire the sundry assets and liabilities of Asha Ltd. and Manav Ltd. For the purpose, the sundry assets of Asha Ltd. are revalued at ₹30,000 and those of Manav Ltd. at ₹20,000.
Show the journal entries to close the books of Manav Ltd. [10]

Answer:

In the Books of Manav Ltd.

Particulars		Debit(₹)	Credit(₹)
1. Realisation A/c	Dr.	33,000	
To Sundry Assets A/c			33,000
[Being Sundry Assets and Shares in Manav Ltd. transferred to Realisation account on sale of business to Om Shanti Ltd.]			

2.	Creditors A/c	Dr.	6,000	
	To Realisation A/c			6,000
	[Sundry Creditor is transferred to Realisation A/c on sale of Business to Om Shanti Ltd.]			
3.	Om Shanti Ltd. A/c	Dr.	14,000	
	To Realisation A/c			14,000
	[Amount of purchase consideration receivable from Om Shanti Ltd. on transfer sundry assets, creditor and Loan vide agreement dated.....]			
4.	Equity Share Capital A/c	Dr.	28,000	
	To Shareholders (Asha Ltd.) A/c			28,000
	[Being amount of Share capital transferred to Shareholder A/c]			
5.	Shareholders A/c	Dr.	14,000	
	To Realisation A/c			13,000
	To Profit and Loss A/c			1,000
	[Loss on realisation and Profit and Loss A/c debit balance transferred to Share holders A/c]			
6.	Shares in Om Shanti Ltd. A/c	Dr.	14,000	
	To Om Shanti Ltd. A/c			14,000
	[Amount of purchase consideration received in shares of Om Shanti Ltd.]			
7.	Shareholders (Asha Ltd.) A/c	Dr.	14,000	
	To Shares in Om Shanti Ltd.			14,000
	[Amount payable to shareholders discharged by issue of shares in Om Shanti Ltd.]			

WN : Calculation of Purchase Consideration (Net Assets Method)

Particulars	Asha Ltd.	Manav Ltd.
Value of net assets	30,000	20,000
Creditors	(15,000)	(6,000)
Loans from Chitra Ltd.	(10,000)	—
Purchase Consideration	**5,000**	**14,000**

In the Books of Manav Ltd. :

Realisation Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Sundry Assets	33,000	By Creditors A/c	6,000
		By Om Shanti Ltd. (Purchase Consideration)	14,000
		By Shareholders (Asha Ltd.) A/c	13,000
		(Loss on Realisation)	
	33,000		**33,000**

Shareholders (Asha Ltd.) Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Realisation A/c	13,000	By Share Capital A/c	28,000
To Profit and Loss A/c	1,000		
To Shares in Om Shanti Ltd. A/c	14,000		
	28,000		**28,000**

3. (a) The draft balance Sheets of A and its American subsidiary B Inc. as at 30.06.2013 are as under –

Liabilities	**A Ltd**	**B Inc.**	**Assets**	**A Ltd**	**B Inc.**
	₹	**US $**		**₹**	**US $**
Share Capital in Equity shares	**30,00,000**	**30,000**	**Fixed assets**	**18,00,000**	**20,000**
Profit & Loss Account	**20,00,000**	**40,000**	**Investments in B**	**17,00,000**	**-**
Loan Funds	**13,00,000**	**20,000**	**Stocks**	**12,00,000**	**30,000**
Trade Creditors	**6,00,000**	**10,000**	**Debtors**	**24,00,000**	**60,000**
Provision for Taxation	**10,00,000**	**20,000**	**Cash and Bank**	**8,00,000**	**10,000**
Total	**79,00,000**	**1,20,000**	**Total**	**79,00,000**	**1,20,000**

1. **A Ltd. acquired 80% of shares in B Inc. on 01.07.2009, when the P & L A/c showed a balance of $20,000.**

2. **Exchange rates per $ prevalent dates were: 01.07.2009: ₹30, 01.07.2012 = ₹ 36 : 30.06.2013: ₹42.**

3. **A Ltd decided to amortise goodwill, if any, over a period of eight years.**

Determine (i) the exchange rate gain and the amount to be transferred to the translation reserve

(ii) Minority interest, and

Show analysis of profit as integral and non-integral operation. **[4+2+4]**

Answer:

Basic information

Company Status	Dates	Holding Status
Holding Company = A Ltd. Subsidiary = B Inc.	Acquisition: 01.07.2009 Consolidation: 30.06.2013	Holding Company = 80% Minority Interest = 20%

Analysis of Profit and Loss Account of B Inc. (for Translation Purposes)

Balance on 30.06.2013 $40,000

01.07.2009 (Acquisition) **$20,000** Addition between 01.07.09 & 30.06.13 **$20,000**

Capital (balancing figure) **Revenue**

Translation into ₹

Particulars	Pre Acquisition reserve	Post Acquisition Reserve	Total
In American Dollar	20,000	20,000	40,000
Conversion rate Per $	30 (date of Acqn.)	(30 + 42)/2 = 36 (Average rate)	
In Indian ₹	6,00,000	7,20,000	13,20,000

Translation of B Inc's Balance sheet into Indian Rupees

Particulars			Integral Operations			Non – Integral Operations		
	Debit ($)	Credit ($)	₹ per $	Debit (₹)	Credit (₹)	₹ per $	Debit (₹)	Credit (₹)

Share Capital		30,000	30		9,00,000	30		9,00,000
Reserves		40,000	WN 2		13,20,000	WN 2		13,20,000
Loan Funds		20,000	42		8,40,000	42		8,40,000
Creditors		10,000	42		4,20,000	42		4,20,000
Taxation		20,000	42		8,40,000	42		8,40,000
Fixed Assets	20,000		30	6,00,000		42	8,40,000	
Stock in Trade	30,000		42	12,60,000		42	12,60,000	
Debtors	60,000		42	25,20,000		42	25,20,000	
Cash in Bank	10,000		42	4,20,000		42	4,20,000	
Total	**1,20,000**	**1,20,000**		**48,00,000**	**43,20,000**		**50,40,000**	**43,20,000**
Exch. Rate Gain					**4,80,000**			**-**
Translation reserve					**-**			**7,20,000**
Total				**48,00,000**	**48,00,000**		**50,40,000**	**50,40,000**

Analysis of Reserves & Surplus on B Inc. (for Consolidation Purposes)

(a) **Profit & Loss Account:** Balance on 30.6.2013 ₹13,20,000

As on date of Acquisition

01.07.2009 ₹**6,00,000**

Capital Profits

Acquisition to consolidation

Profit between 01.07.09 & 30.06.13 ₹ **7,20,000**

(balancing figure) **Revenue**

(b) **Exchange Gain (Only for Integral Operation) = ₹4,80,000 = Revenue Profit**

Consolidation of Balances

Particulars	Integral Operations				Non Integral Operations				
	Total	Minority Interest	Pre. Acqn.	Post. Acqn. P& L A/c	Total	Minority Interest	Pre. Acqn	Post. Acqn.	
								P& L A/c	Trans. Res.
Equity Capital	9,00,000	1,80,000	7,20,000		9,00,000	1,80,000	7,20,000		
Profit & Loss A/c	13,20,000	2,64,000	4,80,000	5,76,000	13,20,000	2,64,000	4,80,000	5,76,000	
Exchange. Rate Gain	4,80,000	96,000		3,84,000	-	-			
Trans. Reserve					7,20,000	1,44,000			5,76,000
Sub Total		5,40,000	12,00,000	9,60,000		5,88,000	12,00,000		
Cost of Investment			(17,00,000)				(17,00,000)		
Part's balances				20,00,000				20,00,000	

Consolidated Balance Goodwill Already Amortized		5,40,000	(5,00,000) (Goodwill) 2,00,000	29,60,000 (2,00,000)		5,88,000	(5,00,000) (Goodwill) 2,00,000	25,76,000 (2,00,000)	5,76,000
For CBS		5,40,000	(3,00,000)	27,60,000		5,88,000	(3,00,000)	23,76,000	5,76,000

Or,

(b) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS 3:

Particulars		₹ in Lakhs	₹ in Lakhs
Net Profit			**60,000**
Add:	**Sale of Investments**		**70,000**
	Depreciation on Assets		**11,000**
	Issue of Preference Shares		**9,000**
	Loan raised		**4,500**
	Decrease in Stock		**12,000**
			1,66,500
Less:	**Purchase of Fixed Assets**	**65,000**	
	Decrease in Creditors	**6,000**	
	Increase in Debtors	**8,000**	
	Exchange gain	**8,000**	
	Profit on sale of investments	**12,000**	
	Redemption of Debenture	**5,700**	
	Dividend paid	**1,400**	
	Interest paid	**945**	**1,07,045**
			59,455
Add:	**Opening cash and cash equivalent**		**12,341**
Closing cash and cash equivalent			**71,796**

[10]

Answer:

Cash Flow Statement

Cash flows from operating activities		(₹ in Lakhs)
Net profit		60,000
Less: Exchange gain		(8,000)
Less: Profit on sale of investments		(12,000)
		40,000
Add: Depreciation on assets		11,000
Change in current assets and current liabilities		51,000
(-) Increase in debtors	(8,000)	
(+) Decrease in stock	12,000	
(-) Decrease in creditors	(6,000)	(2,000)
Net cash from operating activities		49,000
Cash flows from investing activities		
Sale of investments	70,000	
Purchase of fixed assets	(65,000)	
Net cash from Investing activities		5,000
Cash flows from financing activities		
Issue of preference shares	9,000	
Loan raised	4,500	
Redemption of Debentures	(5,700)	
Interest paid	(945)	
Dividend paid	(1,400)	
Net cash from financing activities		5,455
Net increase in cash & cash equivalents		59,455
Add: Opening cash and cash equivalents		12,341
Closing cash and cash equivalents		71,796

4. (a) Following are the Balance Sheets of Mumbai Limited, Delhi Limited, Amritsar Limited and Kanpur Limited as at 31st December, 2013:

₹

Liabilities	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
Share Capital (₹ 100 face value)	1,00,00,000	80,00,000	40,00,000	1,20,00,000
General Reserve	40,00,000	8,00,000	5,00,000	20,00,000
Profit & Loss Account	20,00,000	8,00,000	5,00,000	6,40,000
Sundry Creditors	6,00,000	2,00,000	1,00,000	1,60,000
	1,76,00,000	98,00,000	51,00,000	1,48,00,000
Assets				
Investments :				
60,000 shares in Delhi Ltd.	70,00,000	—	—	—
20,000 shares in Amritsar Ltd	22,00,000	—	—	—
10,000 shares in Amritsar Ltd.	—	10,00,000	—	—
Shares in Kanpur Ltd. @ ₹ 120	72,00,000	36,00,000	12,00,000	—
Fixed Assets	—	40,00,000	30,00,000	1,40,00,000
Current Assets	2,00,000	12,00,000	9,00,000	8,00,000
	1,76,00,000	98,00,000	51,00,000	1,48,00,000

Balance in General Reserve Account and Profit & Loss Account, when shares were purchased in different companies were:

	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
General Reserve Account	20,00,000	4,00,000	2,00,000	12,00,000
Profit & Loss Account	12,00,000	4,00,000	1,00,000	1,20,000

Required :

Prepare the consolidated Balance Sheet of the group as at 31st December, 2013 (Calculations may be rounded off to the nearest rupee). **[15]**

Answer:

Name of the Company: Mumbai Ltd. and its subsidiary Delhi Ltd. , Amritsar Ltd. and Kanpur Ltd.
Consolidated Balance Sheet as at 31st December,2013

Ref No.		Particulars	Note No.	As at 31st December,2013 ₹	As at 31st December,2012 ₹
	I.	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**		-	
		(a) Share capital	1	1,00,00,000	-
		(b) Reserves and surplus	2	80,64,375	-

Ref No.		Particulars	Note No.	As at 31st December,2013	As at 31st December,2012
				₹	₹
		(c) Money received against share warrants		-	-
				-	-
	2	**Minority Interest**		62,50,625	-
	3	**Non-current liabilities**		-	
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	10,60,000	-
		(c) Other current liabilities			-
		(d) Short-term provisions			-
					-
		TOTAL (1+2+3+4)		2,53,75,000	-
	II.	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	2,10,00,000	-
		(ii) Intangible assets	5	12,75,000	-
		(iii) Capital work-in-progress			-
		(iv) Intangible assets under development			-
		(v) Fixed assets held for sale			-
		(b) Non-current investments			
		(c) Deferred tax assets (net)			-
		(d) Long-term loans and advances			-
		(e) Other non-current assets			-
					-
	2	**Current assets**			
		(a) Current investments			-
		(b) Inventories			-

Ref No.	Particulars		Note No.	As at 31st December,2013	As at 31st December,2012
				₹	₹
		(c) Trade receivables			-
		(d) Cash and cash equivalents	6	31,00,000	-
		(e) Short-term loans and advances			-
		(f) Other current assets			-
					-
		TOTAL (1+2)		2,53,75,000	-

Annexure

Note 1. Share Capital	**As at 31st December, 2013 (₹)**	**As at 31st December, 2012(₹)**
Authorised,issued, Subscribed and paid –up Share Capital:		
1,00,000 Equity Shares of ₹100 each	1,00,00,000	
Total	1,00,00,000	

Note 2. Reserves and Surplus	**As at 31st December, 2013 (₹)**	**As at 31st December, 2012(₹)**
General Reserves	51,02,083	
Profit & Loss A/c	29,62,292	
Total	80,64,375	

Note 3. Trade Payables	**As at 31st December, 2013 (₹)**	**As at 31st December, 2012(₹)**
Sundry Creditors (6,00,000+2,00,000+1,00,000+1,60,000)	10,60,000	
Total	10,60,000	

Note 4. Tangible Assets	**As at 31st December, 2013 (₹)**	**As at 31st December, 2012(₹)**
Fixed Assets (40,00,000+30,00,000+1,40,00,000)	2,10,00,000	
	2,10,00,000	

Note 5. Intangible Assets	**As at 31st December, 2013 (₹)**	**As at 31st December, 2012(₹)**
Goodwill (WN iv)	12,75,000	

Total	12,75,000	

Note 6. Cash and Cash Equivalents	**As at 31st December, 2013 (₹)**	**As at 31st December, 2012(₹)**
Cash at Bank	31,00,000	
Total	31,00,000	

(i) Analysis of profits of Kanpur Ltd.

	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
General Reserve on the date of purchase of shares	12,00,000		
Profit and Loss A/c on the date of purchase of shares	1,20,000		
Increase in General Reserve		8,00,000	
Increase in profit			5,20,000
	13,20,000	8,00,000	5,20,000
Less : Minority Interest (1/6)	2,20,000	1,33,333	86,667
	11,00,000	6,66,667	4,33,333
Share of Mumbai Ltd. (1/2)	6,60,000	4,00,000	2,60,000
Share of Delhi Ltd. (1/4)	3,30,000	2,00,000	1,30,000
Share of Amritsar Ltd. (1/12)	1,10,000	66,667	43,333

(ii) Analysis of profits of Amritsar Ltd.

	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
General Reserve on the date of purchase of shares	2,00,000		
Profit and Loss A/c on the date of purchase of shares	1,00,000		
Increase in General Reserve		3,00,000	
Increase in Profit and Loss A/c			4,00,000
Share in Kanpur Ltd.		66,667	43,333
	3,00,000	3,66,667	4,43,333
Less : Minority Interest (1/4)	75,000	91,667	1,10,833
	2,25,000	2,75,000	3,32,500
Share of Mumbai Ltd. (1/2)	1,50,000	1,83,333	2,21,667
Share of Delhi Ltd. (1/4)	75,000	91,667	1,10,833

(iii) Analysis of profits of Delhi Ltd.

	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
General Reserve on the date of purchase of shares	4,00,000		
Profit and Loss A/c on the date of purchase of shares	4,00,000		
Increase in General Reserve		4,00,000	
Increase in Profit and Loss A/c			4,00,000
Share in Kanpur Ltd.		2,00,000	1,30,000
Share in Amritsar Ltd.		91,667	1,10,833
	80,00,000	6,91,667	6,40,833
Less : Minority Interest (1/4)	2,00,000	1,72,917	1,60,208
Share of Mumbai Ltd. (3/4)	6,00,000	5,18,750	4,80,625

(iv) Cost of control

	₹	₹
Investments in		
Delhi Ltd.	70,00,000	
Amritsar Ltd.	32,00,000	
Kanpur Ltd.	1,20,00,000	
	2,22,00,000	
Paid up value of investments in		
Delhi Ltd.	60,00,000	
Amritsar Ltd.	30,00,000	
Kanpur Ltd.	1,00,00,000	
Capital profits in		(1,90,00,000)
Delhi Ltd.	6,00,000	
Amritsar Ltd.	2,25,000	
Kanpur Ltd.	11,00,000	(19,25,000)
Goodwill		12,75,000

(v) Minority interest

	₹	₹
Share Capital:		
Delhi Ltd. (1/4)	20,00,000	
Amritsar Ltd. (1/4)	10,00,000	
Kanpur Ltd (1/6)	20,00,000	50,00,000
Share in profits & reserves (Pre and Post-Acquisitions)		
Delhi Ltd.	5,33,125	
Amritsar Ltd.	2,77,500	

Kanpur Ltd.	4,40,000	12,50,625
		62,50,625

(vi) General Reserve — Mumbai Ltd.

Balance as on 31.12.2013 (given)	40,00,000
Share in	
Delhi Ltd.	5,18,750
Amritsar Ltd.	1,83,335
Kanpur Ltd.	4,00,000
	51,02,083

(vii) Profit and Loss Account — Mumbai Ltd.

Balance as on 31.12.2013 (given)	20,00,000
Share in	
Delhi Ltd.	4,80,625
Amritsar Ltd.	2,21,667
Kanpur Ltd.	2,60,000
	29,62,292

Or,

(b) The following are the Balance Sheets of Sky Ltd. and Star Ltd. as on 31.03.2012 -

Liabilities	Sky (₹)	Star (₹)	Assets	Sky (₹)	Star (₹)
Share Capital:			**Fixed Assets:**		
Equity Shares of ₹ 10 each	**5,00,000**	**2,00,000**	**Goodwill (Purchased)** **Machinery**	**60,000** **1,00,000**	**40,000** **60,000**
12% Pref. Shares of ₹ 100 each	**1,00,000**	**50,000**	**Vehicles**	**1,80,000**	**70,000**
Reserves:			**Furniture**	**50,000**	**30,000**
General Reserve **Profit & Loss A/c**	**1,00,000** **1,50,000**	**60,000** **90,000**	**Investment:** **Shares of Star (Cost)**	 **3,80,000**	 **–**
Current Liabilities & Provisions:			**Current Assets:**		
Creditors	**60,000**	**70,000**	**Stock** **Debtors**	**70,000** **1,00,000**	**1,40,000** **1,65,000**
Income Tax	**70,000**	**60,000**	**Bank Balance**	**40,000**	**25,000**
Total	**9,80,000**	**5,30,000**	**Total**	**9,80,000**	**5,30,000**

The following further information is furnished:

i. **Sky Ltd. acquired 12,000 Equity Shares and 400 Preference Shares on 01.04.2011 at a cost of ₹ 2,80,000 and ₹ 1,00,000 respectively.**
ii. **The Profit & Loss Account of Star Ltd. had a credit balance of ₹ 30,000 as on 01.04.2011 and that of General Reserve on that date was ₹ 50,000.**

iii. On 01.07.2011, Star Ltd. declared dividend out of its pre-acquisition profit, 12% on its Share Capital; Sky Ltd. credited the receipt of dividend to its Profit & Loss Account.

iv. On 01.10.2011 Star Ltd. issued one Equity Share for every three shares held, as Bonus Shares, at a face value of ₹ 100 per share out of its General Reserve. No entry has been made on the books of Sky Ltd. for the receipt of these bonus shares.

v. Star Ltd. owed Sky Ltd. ₹ 20,000 for purchase of goods from Sky Ltd. The entire stock of goods is held by Star Ltd. on 31.03.2012. Sky Ltd. made a profit of 25% on cost. [15]

Prepare a Consolidated Balance Sheet as at 31.03.2012.

Answer:

A. Basic Information

Company Status	Dates	Holding Status
Holding Company= Sky Ltd. Subsidiary = Star Ltd	Acquisition: 01.04.2011 Consolidation: 31.03.2012	Holding Company = 80% Minority Interest = 20%

Shareholding Status: Shares held on 31.03.2012 = 12,000+ 1/3 x 12,000 (Bonus) = 16,000 out of 20,000 = 80%.

***Note*:** Share distribution pattern can be determined as under –

Date	Particulars	Held by Sky Ltd.	% of Holding	Total Shares
01.04.2011	Opening Balance	12,000	NIL	15,000
01.10.2011	Bonus Shares (1/3 x 12,000)	4,000	80%	5,000
31.03.2012	Closing Balance	16,000	80% (16,000/20,000)	20,000 (From Balance Sheet Given)

B. Analysis of Reserves & Surplus of Star Ltd.

(a) General Reserve

Balance on 31.03.2012 ₹ 60,000

	Balance on 01.04.2011 (acquisition)	50,000	Transfer during 2011-12 60,000 (bal. fig) Revenue Reserve
Less:	Bonus Issue (1/3 x 15,000 Shares x ₹ 10)	50,000	
	Capital Profit	**Nil**	

(b) Profit & Loss Account

Balance on 31.03.2012 ₹ 90,000

Balance on 01.04.2011 (acquisition)		30,000	Profit for 2011-12	₹ 84,000
Less:	Dividend on pre-acquisition profit		Less: Preference Dividend	₹ 6,000
	(12% x 15,000 shares x ₹ 10 each)	(18,000)		**₹ 78,000**
Less:	Preference dividend (50,000 x 12%)	(6,000)		**Revenue Profit**

Balance Capital Profits	₹ 6,000		

C. Analysis of Net Worth of Star Ltd.

Particulars			Total	Sky Ltd	Minority
			100%	**80%**	**20%**
(a)	Share Capital:	Equity	2,00,000	1,60,000	40,000
		Preference	50,000	40,000	10,000
(b)	Capital Profits:	General Reserve	Nil		
		Profit & Loss Account	6,000		
			6,000	4,800	1,200
(c)	Revenue Reserve:		60,000	48,000	12,000
(d)	Revenue Profit:	Profit & Loss Account of Star Ltd. for the year	78,000	62,400	15,600
(e)	Preference Dividend		6,000	4,800	1,200
	Minority Interest				80,000

D. Cost of Control

Particulars		₹
Cost of Investment: Equity Shares of Star Ltd.		2,80,000
Preference Shares of Star Ltd.		1,00,000
Total Cost of Investment		**3,80,000**
Less: Dividend out of Pre-acquisition profits		
Preference Shares (400 Shares x ₹ 100 each x 12%)	4,800	
In Equity Shares (12,000 Shares x ₹ 10 each x 12%)	14,400	(19,200)
Adjusted Cost of Investment		3,60,800
Less: (1) Nominal Value of Equity Share Capital	1,60,000	
(2) Nominal Value of Preference Share Capital	40,000	
(3) Share in Capital Profit of Star Ltd.	4,800	(2,04,800)
Goodwill on Consolidation		**1,56,000**

E. Consolidation of Reserves & Surplus

Particulars	Gen. Res	P&L A/c
Balance as per Balance Sheet of Sky Ltd.	1,00,000	1,50,000
Add: Share of Revenue Profits/ Reserves of Star Ltd.	48,000	62,400
Add: Share of Preference Dividend from Star Ltd.	–	4,800
Less: Dividend out of Pre-acquisition Profits (₹ 4,800 + ₹ 14,400)	–	(19,200)
Less: Preference Dividend payable for the current year by Sky Ltd.	–	(12,000)
Less: Stock Reserve on Closing Stock (20,000 x 25 /125)	–	(4,000)

Adjusted Consolidated Balance	**1,48,000**	**1,82,000**

Name of the Company: Sky Ltd. And its subsidiary Star Ltd.
Consolidated Balance Sheet as at 31st March 2012

Ref No.	Particulars		Note No.	As at 31st March, 2012	As at 31st March, 2011
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital @ ₹ 10 each	1	600,000	-
		(b) Reserves and surplus	2	330,000	-
		(c) Money received against share warrants		-	-
				930,000	-
	2	**Minority Interest**		80,000	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
				-	-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	110,000	-
		(c) Other current liabilities		-	-
		(d) Short-term provisions	4	142,000	-
				252,000	-
		TOTAL (1+2+3+4)		1,262,000	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	5	490,000	-
		(ii) Intangible assets (goodwill)	6	256,000	-
		(iii) Capital work-in-progress		-	-
		(iv)Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-

		(b) Non-current investments		-	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				746,000	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories	7	206,000	-
		(c) Trade receivables	8	245,000	-
		(d) Cash and cash equivalents	9	65,000	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets		-	-
				516,000	-
		TOTAL (1+2)		1,262,000	-

Note 1. Share Capital			**Note 2. Reserve and Surplus :-**		
	Current Year	**Previous Year**		**Current Year**	**Previous Year**
Authorised Capital	-	-	General Reserve	1,48,000	-
Issued and Paid Up	-		Profit and loss	1,82,000	-
Equity Share capital @ ₹ 10	5,00,000	-		-	-
12% Preference Share	1,00,000	-		3,30,000	-
	6,00,000	-			

Note 3. Trade Payable			**Note 4. Short Term Provisions**		
	Current Year	**Previous Year**		**Current Year**	**Previous Year**
Sundry Debtors			Prov. For taxations (70000+60000)	1,30,000	-
Sky	60,000	-	Proposed Pref. Dividend payable Sky Ltd.	12,000	-
Star	70,000	-		1,42,000	-
	1,30,000	-			

Less: set off	20,000	-			
	1,10,000	-			

Note 5. Tangible Assets :

	Current Year	Previous Year
Fixed Assets		
Machinery (100000+60000)	1,60,000	-
Vehicles		
(180000+70000)	2,50,000	-
Furniture (50000+30000)	80,000	-
	-	-
	4,90,000	-

Note 6. Intangible Assets:

	Current Year	Previous Year
Goodwill		
Sky	60,000	-
Star	40,000	-
	1,00,000	-
Goodwill on consolidation	1,56,000	-
	2,56,000	-

Note 7. Inventories :

	Current Year	Previous Year
Stock		
Sky	70,000	-
Star	1,40,000	-
	2,10,000	-
Less: Stock Reserve	4,000	-
	2,06,000	-

Note 8. Trade Receivable :

	Current Year	Previous Year
Sky	1,00,000	-
Star	1,65,000	-
	2,65,000	-
Less: Set off	20,000	-
	2,45,000	-

Note 9. Cash and cash equivalent :

	Current Year	Previous Year
sky	40,000	-
star	25,000	-
	65,000	-

Notes:

- Stock Reserve i.e. unrealized profits on Closing Stock have been eliminated in full against Holding Company's Profits, as it arose from downstream transaction (i.e. Holding to Subsidiary).
- Inter Company Owings have been eliminated in full.

5. (a) A Ltd. and B Ltd. were amalgamated on and from 1st April, 2014. A new company C Ltd. was formed to take over the business of the existing companies. The Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2014 are given below:

	(₹ in lakhs)			(₹ in lakhs)	
Liabilities	**A Ltd.**	**B Ltd.**	**Assets**	**A Ltd.**	**B Ltd.**
Share Capital			**Fixed Assets**		
Equity Shares of ₹ 100 each	**800**	**750**	**Land & Building**	**550**	**400**
12% Preference shares of ₹100 each	**300**	**200**	**Plant & Machinery**	**350**	**250**
Reserves and Surplus			**Investments**	**150**	**50**
Revaluation Reserve **General Reserve**	**150** **170**	**100** **150**	**Current Assets, Loans and Advances**		
Investment Allowance Reserve	**50**	**50**	**Stock**	**350**	**250**
Profit and Loss Account	**50**	**30**	**Sundry Debtors**	**250**	**300**
Secured Loans			**Bills Receivable**	**50**	**50**
10% Debentures (₹ 100 each)	**60**	**30**	**Cash and Bank**	**300**	**200**
Current Liabilities and provisions					
Sundry Creditors	**270**	**120**			
Bills Payable	**150**	**70**			
	2,000	**1,500**		**2,000**	**1,500**

Additional Information:

(1) 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

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

(3) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value

of ₹ 10 per share.

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

Prepare the Balance Sheet of C Ltd. as on 1st April, 2014 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. [15]

Answer:

Name of the Company: C Ltd. (after absorption)
Balance Sheet as at 1st April,2014 **(₹ in lakhs)**

Ref No.	Particulars		Note No.	As at 1st April, 2014	As at 1st April, 2013
				₹	₹
	I.	**EQUITY AND LIABILITIES**			
	1	Shareholders' funds			
		(a) Share capital	1	1,200	
		(b) Reserves and surplus	2	1,750	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		(a) Long-term borrowings	3	60	
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables	4	390	
		(c) Other current liabilities	5	220	
		(d) Short-term provisions			
		Total		3,620	
	II.	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			

		(i) Tangible assets	6	1,550	
		(ii) Intangible assets	7	20	
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments	8	200	
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	Current assets			
		(a) Current investments			
		(b) Inventories	9	600	
		(c) Trade receivables	10	550	
		(d) Cash and cash equivalents	11	500	
		(e) Short-term loans and advances			
		(f) Other current assets	12	200	
		Total		3,620	

Annexure

	₹ in lakhs	**₹ in lakhs**
Note 1. Share Capital	**As at 1st April, 2014**	**As at 1st April, 2013**
Share Capital 70,00,000 Equity shares of ₹ 10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	700	
15 % Preference Share Capital	500	
Total	1,200	

(₹ in lakhs)

Reconciliation for Equity Share Capital	**As at 1st April, 2014**		**As at 1st April, 2013**	
Opening Balance as on 1,04,2013	-	-	-	-
Add: Fresh Issue	70	700		
Less: Buy Back	-	-		
Total	70	700		
Reconciliation for Preference Share Capital	**As at 1st**		**As at 1st**	

	April, 2014		April, 2013	
Opening Balance as on 1,04,2013	-	-		
Add: Fresh Issue	50	500		
Less: Buy Back	-	-		
Total	50	500		

Note 2. Reserves and Surplus	**As at 1st April, 2014**	**As at 1st April, 2013**
Securities Premium	1,650	
Investment Allowance Reserve	100	
Total	1,750	

Note 3. Long term Borrowings	**As at 1st April, 2014**	**As at 1st April, 2013**
15% Debentures	60	
Total	60	

Note 4. Trade Payables	**As at 1st April, 2014**	**As at 1st April, 2013**
Sundry Creditors	390	
Total	390	

Note 5. Other Current Liabilities	**As at 1st April, 2014**	**As at 1st April, 2013**
Current Liabilities	220	
Total	220	

Note 6. Tangible Assets	**As at 1st April, 2014**	**As at 1st April, 2013**
Land and Building	950	
Plant and Machinery	600	
Total	1,550	

Note 7. Intangible Assets	**As at 1st April, 2014**	**As at 1st April, 2013**
Goodwill	20	
Total	20	

Note 8. Noncurrent Investments	**As at 1st April, 2014**	**As at 1st April, 2013**
Investment	200	

Total	200	

Note 9. Inventories	**As at 1st April, 2014**	**As at 1st April, 2013**
Stock	600	
Total	600	

Note 10. Trade Receivables	**As at 1st April, 2014**	**As at 1st April, 2013**
Debtors	550	
Total	550	

Note 11. Cash and Cash Equivalent	**As at 1st April, 2014**	**As at 1st April, 2013**
Cash and Bank	500	
Total	500	

Note 12. Other Current Assets	**As at 1st April, 2014**	**As at 1st April, 2013**
Bills Receivable	100	
Amalgamation Adjustment Account [as the Investment Allowance Reserve is to be maintained for 4 more years]	100	
Total	200	

Working Notes:

		(₹ in lakhs)
	A Ltd.	**B Ltd.**
(1) Computation of Purchase consideration		
(a) Preference shareholders:		
$\left(\frac{3,00,00,000}{100}\text{ i.e. } 3,00,000 \text{ shares}\right) \times ₹\,150 \text{ each}$	450	
$\left(\frac{2,00,00,000}{100}\text{ i.e. } 2,00,000 \text{ shares}\right) \times ₹\,150 \text{ each}$		300
(b) Equity shareholders:		
$\left(\frac{8,00,00,000 \times 5}{100}\text{ i.e. } 40,00,000 \text{ shares}\right) \times ₹\,30 \text{ eac}$	1,200	
$\left(\frac{7,50,00,000 \times 4}{100}\text{ i.e. } 30,00,000 \text{ shares}\right) \times ₹\,30 \text{ eac}$		900

	Amount of Purchase Consideration		1,650		1,200
(2)	Net Assets Taken Over				
	Assets taken over:				
	Land and Building		550		400
	Plant and Machinery		350		250
	Investments		150		50
	Stock		350		250
	Sundry Debtors		250		300
	Bills receivable		50		50
	Cash and bank		300		200
			2,000		1,500
	Less: Liabilities taken over:				
	Debentures	40		20	
	Sundry Creditors	270		120	
	Bills payable	150		70	
			460		210
	Net assets taken over		1,540		1,290
	Purchase consideration		1,650		1,200
	Goodwill		110		
	Capital reserve				90

Note:

Since Investment Allowance Reserve is to be maintained for 4 more years, it is carried forward by a corresponding debit to Amalgamation Adjustment Account in accordance with AS-14.

Or,

(b) The following are the Balance Sheets of C Ltd. and D Ltd. on 31st March, 2013:

Balance Sheets

Liabilities	C Ltd.	D Ltd.	Assets	C Ltd.	D Ltd.
	₹	₹		₹	₹
Equity Shares of ₹100 each fully paid	**45,00,000**	**15,00,000**	**Fixed Assets**	**30,00,000**	**1,50,000**
			Investments		
General Reserve	**4,00,000**	**3,00,000**	**3,000 shares in D Ltd.**	**4,50,000**	**—**
Profit and Loss A/c	**7,34,000**	**30,000**	**9,000 Shares in C Ltd.**	**—**	**15,00,000**

14% Debentures	**—**	**9,00,000**	**Debtors**	**8,70,000**	**4,50,000**
Current Liabilities	**6,00,000**	**2,70,000**	**Stock**	**14,40,000**	**6,30,000**
	______	______	**Bank Balance**	**4,74,000**	**2,70,000**
	62,34,000	**30,00,000**		**62,34,000**	**30,00,000**

Stock of C Ltd. includes goods worth ₹ 3,00,000 purchased from D Ltd., which made a profit of 20% on selling price. As on 31.3.2013, C Ltd. owes to D Ltd. ₹ 1,20,000. C Ltd. absorbs D Ltd. on the basis of the intrinsic value of the shares of both companies as on 31st March, 2013. Before absorption C Ltd. has declared a dividend of 12%. Dividend tax is 10%.

Show the Balance Sheet of C Ltd. after the absorption of D Ltd. and the working for the number of shares issued. [15]

Answer:

(i) Computation of Net Assets excluding Inter-Company Investments.

		C Ltd ₹	D Ltd ₹
A	Total Assets		
	Tangible Assets	57,84,000	15,00,000
	Dividend Receivable	-	1,08,000
		57,84,000	16,08,000
B.	External Liabilities		
	Current Liabilities	6,00,000	2,70,000
	Proposed Dividend	5,40,000	-
	Dividend Tax	54,000	-
	14% Debentures	-	9,00,000
		11,94,000	11,70,000
C.	Net Assets (A – B)	45,90,000	4,38,000

(ii) Intrinsic value of equity shares.

Assume **'a'** is the intrinsic value (net assets including inter-company investments) of equity shares of C Ltd and **'b'** is the intrinsic value of equity shares of D Ltd.

$$a = ₹45,90,000 + \frac{1}{5} \times b \qquad (1)$$

$$b = ₹4,38,000 + \frac{1}{5} \times a \qquad (2)$$

$$\text{or} \quad b = ₹4,38,000 + \frac{1}{5}\ (45,90,000 + \frac{1}{5} \times b)$$

or $\quad b = ₹4,38,000 + 9,18,000 + \frac{b}{25}$

or $\frac{24}{25} \times b = ₹13,56,000$

or $\quad b = \frac{₹13,56,000}{24} \times 25 = ₹14,12,500$

Putting the value of b in equation (1) we get,

$a = ₹45,90,000 + \frac{1}{5} \times 14,12,500$

$= ₹\ 48,72,500$

Intrinsic value of share of C Ltd. = $\frac{₹\ 48,72,500}{45,000}$

= ₹ 108.278 approximately

Intrinsic value of share of D Ltd = $\frac{₹14,12,500}{15,000}$ = ₹94.167 approximately.

(iii) Calculation of Purchase consideration

Value of shares held by outside shareholders in D Ltd : $\frac{₹14,12,500 \times 12,000}{15,000}$

= ₹11,30,000

Shares to be issued by C Ltd on the basis of intrinsic value of shares = $₹11,30,000 \times \frac{45,000}{48,72,500}$	10,436.12
Less: Shares held by D Ltd	9,000.00
Number of shares to be issued	1,436.12
Total purchase price for outside shareholders	₹
Additional shares in C Ltd. (1,436 x ₹108.278)	1,55,487*
Cash for fractional shares (0.12 x ₹ 108.278)	13*
Value of 3000 shares held by C Ltd	2,82,500
	4,38,000

(iv) General Reserve (C Ltd)

	₹
As per Balance sheet	4,00,000
Less: Reduction in value of shares held in D Ltd (₹ 4,50,000 - 2,82,500)	1,67,500
	2,32,500

(v) Bank Balance

	C Ltd.	D Ltd.
	₹	₹
As per Balance Sheet	4,74,000	2,70,000

Add: Dividend received	—		1,08,000
		4,74,000	3,78,000
Less: Dividend		5,40,000	
Dividend tax		54,000	
Cash for fractional shares		13	5,94,013
–			
		(1,20,013)	3,78,000
		= ₹ 2,57,987.	

Name of the Company: C Ltd. (after absorption)
Balance Sheet as at 1st April,2013

Ref No.		Particulars	Note No.	As at 1st April, 2013	As at 1st April, 2012
	I.	**EQUITY AND LIABILITIES**		₹	₹
	1.	Shareholders' Funds			
		(a) Share capital	1	46,43,600	
		(b) Reserves and surplus	2	3,84,387	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		(a) Long-term borrowings	3	9,00,000	
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c) Other current liabilities	4	7,50,000	
		(d) Short-term provisions			
		Total		66,77,987	
	II.	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			

		(i) Tangible assets	5	31,50,000	
		(ii) Intangible assets	6	60,000	
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments			
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	Current assets			
		(a) Current investments			
		(b) Inventories	7	20,10,000	
		(c) Trade receivables	8	12,00,000	
		(d) Cash and cash equivalents	9	2,57,987	
		(e) Short-term loans and advances			
		(f) Other current assets			
		Total		66,77,987	

Annexure

	₹	₹
Note 1. Share Capital	**As at 1st April, 2013**	**As at 1st April, 2012**
Share Capital 46,436 Equity shares of ₹ 100 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	46,43,600	
Total	46,43,600	

Reconciliation for Equity Share Capital	**As at 1st April, 2013**		**As at 1st April, 2012**	
Opening Balance as on 1.04.2012	45,000	₹45,00,000	-	-
Add: Fresh Issue	1,436	₹1,43,600		
Less: Buy Back	-	-		
Total	46,436	₹46,43,600		

Note 2. Reserves and Surplus	**As at 1st**	**As at 1st**

	April, 2013	April, 2012
General reserves	2,32,500	
Securities Premium (₹1,55,487-1,43,600)	11,887	
Profit and Loss A/c (₹7,37,000 - ₹5,40,000 - ₹54,000)	1,40,000	
Total	3,84,387	

Note 3. Long term Borrowings	**As at 1st April, 2013**	**As at 1st April, 2012**
9% Debentures	9,00,000	
Total	9,00,000	

Note 4. Other Current Liabilities	**As at 1st April, 2013**	**As at 1st April, 2012**
Current Liabilities	8,70,000	
Less: Inter Company dues	1,20,000	
Total	7,50,000	

Note 5. Tangible Assets	**As at 1st April, 2013**	**As at 1st April, 2012**
Fixed Assets (30,00,000+1,50,000)	31,50,000	
Total	31,50,000	

Note 6. Intangible Assets	**As at 1st April, 2013**	**As at 1st April, 2012**
Goodwill	60,000	
Total	60,000	

Note 7. Inventories	**As at 1st April, 2013**	**As at 1st April, 2012**
Stock	20,70,000	
Less: Unrealised Profit	60,000	
Total	20,10,000	

Note 8. Trade Receivables	**As at 1st April, 2013**	**As at 1st April, 2012**
Debtors (₹ 14,40,000 + ₹ 6,30,000)	13,20,000	
Less: Inter Company dues	1,20,000	
Total	12,00,000	

Note 9. Cash and Cash Equivalent	As at 1st April, 2013	As at 1st April, 2012
Cash and Bank	2,57,987	
Total	2,57,987	

* Appropriate figures have been considered

**Alternatively this sum can also be adjusted against the balance in the Profit and Loss Account.

6. (a) (i) The following information is available of a concern; calculate Economic Value Added(E.V.A):

Debt capital 12%	**₹ 2,000 crores**
Equity capital	**₹ 500 crores**
Reserve and surplus	**₹ 7,500 crores**
Capital employed	**₹ 10,000 crores**
Risk-free rate	**9%**
Beta factor	**1.05**
Market rate of return	**19%**
Equity (market) risk premium	**10%**
Net Operating Profit after Tax	**₹2,100 crores**
Tax rate	**30%**

[7]

Answer:

E.V.A. = NOPAT – COCE
NOPAT = Net Operating Profit after Tax
COCE = Cost of Capital Employed

COCE = Weighted Average Cost Of Capital × Average Capital Employed

= WACC × Capital Employed

Debt Capital		₹2,000 crores
Equity capital 500 + 7,500	=	₹8,000 crores
Capital employed	=	2,000+8,000 = ₹10,000 crores
Debt to capital employed	=	$\frac{2,000}{10,000}=0.20$
Equity to Capital employed	=	$\frac{8,000}{10,000}=0.80$
Debt cost before Tax		12%
Less: Tax (30% of 12%)		<u>3.6%</u>

Debt cost after Tax	8.4%

According to Capital Asset Pricing Model (CAPM)
Cost of Equity Capital = Risk Free Rate + Beta × Equity Risk Premium
Or
= Risk Free Rate + Beta (Market Rate – Risk Free Rate)
= 9 + 1.05 × (19-9)
= 9 + 1.05 × 10 = 19.5%

WACC = Equity to CE x Cost of Equity capital + Debt to CE x Cost of debt
= 0.8× 19.5% + 0.20× 8.40%
= 15.60% + 1.68% = 17.28%
COCE = WACC × Capital employed
= 17.28% × ₹ 10,000 crores = ₹ 1728 crores
E.V.A. = NOPAT – COCE
= ₹ 2,100 – ₹ 1,728 = ₹ 372 crores

(ii) A Company has its share capital divided into shares of ₹ 10 each. On 1st April, 2014 it granted 10,000 employees' stock options at ₹ 40, when the market price was ₹130. The options were to be exercised between 16th December, 2014 and 15th March, 2015. The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries. [8]

Answer:

Journal Entries

	Particulars	Dr.	Cr.
		₹	₹
2014			
April 1	Employee Compensation Expense Dr.	9,00,000	
	To Employee Stock Options Outstanding		9,00,000
	(Being grant of 10,000 stock options to employees at ₹ 40 when market price is ₹ 130)		
2015			
16th Dec. to 15th March	Bank A/c Dr.	3,80,000	
	Employee stock options outstanding Dr.	8,55,000	
	To Equity share capital A/c		95,000
	To Securities premium A/c		11,40,000
	(Being allotment to employees of 9,500 equity shares of ₹ 10 each at a premium of ₹ 120 per share in exercise of stock options by employees)		
March 16	Employee stock options outstanding Dr.	45,000	

	To Employee compensation expense		45,000
	(Being entry for lapse of stock options for 500 shares)		
March 31	Profit and Loss A/c Dr.	8,55,000	
	To Employee compensation expense A/c		8,55,000
	(Being transfer of employee compensation expense to profit and loss account)		

Or,

(b) (i) On the basis of the following information related to trading in Options, you are required to pass relevant Journal Entries (at the time of inception and at the time of final settlement) in the books of Amit (Buyer) and Sumit (Seller). Assume that the price on expiry is ₹1,050/- and both Amit and Sumit follow the calendar year as an accounting year.

Date of	Option Type	Expiry Date	Premium per unit	Contract Lot	Multiplier
29.03.2012	**Equity Index, Call**	**31.05.2012**	**₹10**	**2,000 units**	**₹950 p.u**

[6]

Answer:

In the books of Amit (Buyer)

Sl. No.	Particulars	Debit ₹	Credit ₹
29.03.12	Equity Index Option Premium A/c Dr. To Bank A/c (Being premium paid on Equity Stock Options)	20,000	 20,000
31.05.12	Profit and Loss A/c Dr. To Equity Index Stock Premium A/c (Being premium on option written off on expiry)	20,000	 20,000
31.05.12	Bank A/c Dr. To Profit and Loss A/c (Being profit on exercise of option received = 2,000 units × (₹1,050 - ₹950)) (Exercise Price - Spot Price)	2,00,000	 2,00,000

In the books of Sumit (Seller)

Sl. No.	Particulars	Debit ₹	Credit ₹
29.03.12	Bank A/c Dr. To Equity Index Option Premium A/c (Being premium on Option collected)	20,000	 20,000

31.05.12	Profit and Loss A/c To Bank A/c (Being loss on Option paid)	Dr.	2,00,000	 2,00,000
31.05.12	Equity Index Option Premium A/c To Profit and Loss A/c (Being premium on option recognized as income)	Dr.	20,000	 20,000

(ii) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard-3 (AS-3) revised. [6]

Answer:

As per para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

(a) the direct method whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the enterprise; or

(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial enterprise) and other items in the statement of profit and loss for:

(i) changes during the period in inventories and operating receivables and payables:

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred taxes, and unrealized foreign exchange gains and losses; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

(iii) Distinguish between Human capita and Intellectual Capital. **[3]**

Answer:

Human Capital is People's competencies, capabilities and experience, and their motivations to innovate, including their -

- alignment with and support of an organization's governance framework and risk management approach, and ethical values such as recognition of human rights ,
- ability to understand, develop and implement an organization's strategy ,
- loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

On the other hand, **Intellectual capital is** Organizational, knowledge-based intangibles. It includes -

- intellectual property, such as patents, copyrights, software, rights and licences
- "organizational capital" such as tacit knowledge, systems, procedures and protocols
- intangibles associated with the brand and reputation that an organization has developed.

7. (a) (i) From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz (1971) model:

		Skilled	Unskilled
(i)	**Annual average earning of an employee till the retirement age.**	**₹70,000**	**₹50,000**
(ii)	**Age of retirement**	**65 years**	**62 years**
(iii)	**Discount rate**	**15%**	**15%**
(iv)	**No. of employees in the group**	**30**	**40**
(v)	**Average age**	**62 years**	**60 years**

[6]

Answer:

Valuation of Employees as per Lev and Schwartz method:

$$V = \sum_{t=r}^{t} \frac{I(t)}{(1+r)^{t-r}}$$

Where,

V = the human capital value of a person

I(t) = the person's annual earnings up to retirement.

r = a discount rate specific to the person.

t = retirement age.

Value of Skilled Employees:

$$= \frac{70{,}000}{(1+0.15)^{65-62}} + \frac{70{,}000}{(1+0.15)^{65-63}} + \frac{70{,}000}{(1+0.15)^{65-64}}$$

$$= \frac{70{,}000}{(1+0.15)^{3}} + \frac{70{,}000}{(1+0.15)^{2}} + \frac{70{,}000}{(1+0.15)^{1}}$$

= ₹ $(46{,}026.14 + 52{,}930.06 + 60{,}869.57)$ = ₹ 1,59,825.77.

Total value of skilled employees is

₹ 1,59,825.77× 30 employees = ₹ 47,94,773.

Value of Unskilled Employees:

$$= \frac{50{,}000}{(1+0.15)^{62-60}} + \frac{50{,}000}{(1+0.15)^{62-61}}$$

$$= \frac{50{,}000}{(1+0.15)^{2}} + \frac{50{,}000}{(1+0.15)^{1}}$$

= ₹ $(37{,}807.18 + 43{,}478.26)$ = ₹ 81,285.44

Total value of Unskilled employees is

=₹ 81,285.44 × 40 employees = ₹ 32,51,417.6.

Total value of human resources (Skilled and Unskilled)

= ₹(47,94,773 + 32,51,417.60)= ₹ 80,46,190.60.

(ii) Write a note on Sustainability Reporting. **[4]**

Answer:

A sustainability report is an organizational report that gives information about economic, environmental, social and governance performance.

An increasing number of companies and organizations want to make their operations sustainable. Establishing a sustainability reporting process helps them to set goals, measure performance, and manage change. A sustainability report is the key platform for communicating positive and negative sustainability impacts.

To produce a regular sustainability report, organizations set up a reporting cycle – a program of data collection, communication, and responses. This means that their sustainability performance is monitored on an ongoing basis. Data can be provided regularly to senior decision makers to shape company strategy and policy, and improve performance.

Sustainability reporting is therefore a vital step for managing change towards a sustainable global economy – one that combines long term profitability with social justice and environmental care Sustainability reporting can be considered as synonymous with other terms for non-financial reporting; triple bottom line reporting, corporate social responsibility (CSR) reporting, and more. It is also an intrinsic element of integrated reporting; a recent development that combines the analysis of financial and non-financial performance.

A sustainability report enables companies and organizations to report sustainability information in a way that is similar to financial reporting, which gives comparable data, with agreed disclosures and metrics.

Or,

(b)(i) Discuss about Triple Bottom Line Reporting. **[6]**

Answer:

There is no single, universally accepted definition of **Triple Bottom Line Reporting** (TBL) reporting. TBL reporting is defined as corporate communication with stakeholders that describes the company's approach to managing one or more of the economic, environmental and/ or social dimensions of its activities and through providing information on these dimensions.

Consideration of these three dimensions of company management and performance is sometimes referred to as sustainability or sustainable development.

In its purest sense, 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 TBL 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 TBL 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.

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.

(ii) A factory started it activities on 1st April, 2012. From the following data, compute the value of closing stock on 30th April, 2012.

- **Raw Materials purchased during April - 40,000 kg at ₹24 (out of which Excise Duty = ₹ 4 per kg). Stock on hand as on 30th April – 2,500 kg.**
- **Production during April – 7,000 units (of which 5,000 units were sold). In addition to the production, 500 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).**
- **Wages and Production Overheads - ₹60**
- **Selling Price - ₹ 220 per unit (of which Excise Duty is ₹20 per unit).** **[4]**

Answer:

Particulars	Computation	₹

1. Raw Material Valuation (net of Input Excise Duty)	2,500kg x ₹ 20 per kg	50,000
2. WIP Valuation (net of RM input duty)	(₹100 + 60% of ₹60) x 500 units	68,000
3. Finished Goods Valuation (including ED on SP)	(RM 100 + Lab & OH 60 + ED 20) = ₹180 x (7,000 units – 5,000 units)	3,60,000
Total		**4,78,000**

8. (a) (i) State the responsibilities of Government Accounting Standards Advisory Board. [5]

Answer:

Following are the responsibilities of Government Accounting Standards Advisory Board

i. To establish and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
ii. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
iii. To keep the standards current and reflect change in the Governmental environment;
iv. To provide guidance on implementation of standards.
v. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
vi. To improve the common understanding of the nature and purpose of information contained in the financial reports.

(ii) Discuss in brief the Standard – setting procedure of Government Accounting Standards Advisory Board. [10]

Answer:

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.

Or,

(b) List the Government Accounting Standards which are already notified by Government. [3]

Answer:

Government Accounting Standards that are already notified by Government of India

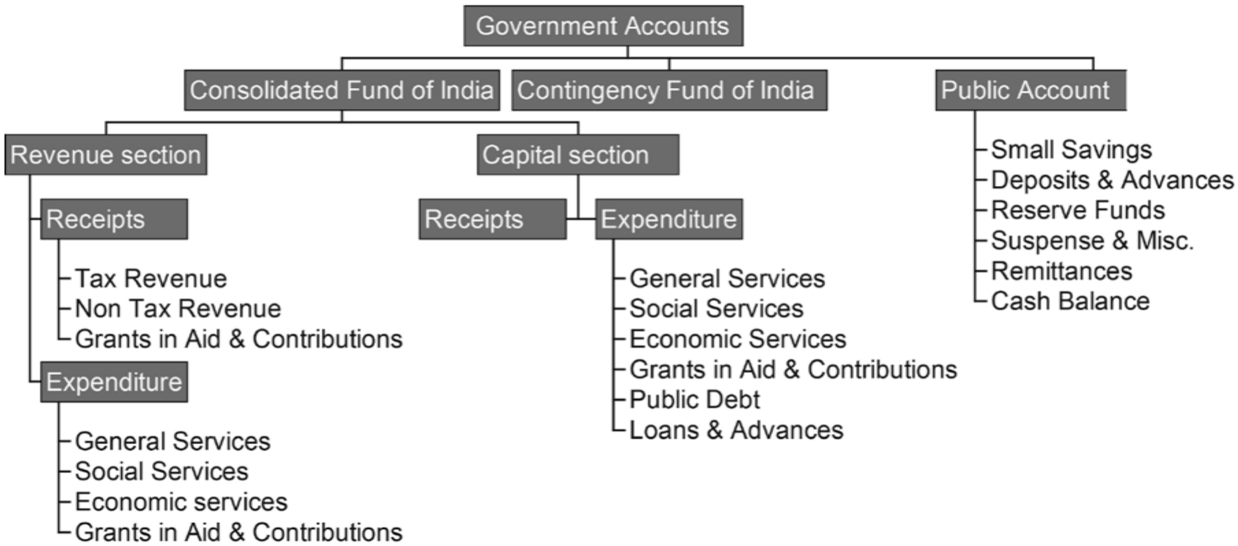
• Guarantees given by Governments: Disclosure Requirements (IGAS1)
[Notified by the Govt. of India]

• Accounting and Classification of Grants-in-aid (IGAS2)
[Notified by the Govt. of India]

• Loans and Advances made by Governments (IGAS 3)
[Notified by the Govt. of India].

(ii) Describe the Total Structure of Government Accounts. [7]

Answer:



The accounts of Government are kept in three parts: -

Consolidated Fund of India

Contingency Fund of India
Public Account

Consolidated Fund of India

All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund constituted under **Article 266 (1)** of the Constitution of India. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament. This is further segregated into revenue section and capital section.

Contingency Fund of India

The Contingency Fund of India records the transactions connected with Contingency Fund set by the Government of India under **Article 267** of the Constitution of India.

Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest account of Government of India and is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs.

Public Account of India

In the Public Account constituted under Article 266 (2) of the Constitution, the transactions relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to 'Remittance' and 'Suspense' shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.

(iii) Write a note Committee on Public Undertaking. [5]

Answer:

The Committee on Public Undertakings exercises the same financial control on the public sector undertakings as the Public Accounts Committee exercises over the functioning of the Government Departments. The functions of the Committee are:
i. to examine the reports and accounts of public undertakings.
ii. to examine the reports of the Comptroller & Auditor General on public undertakings.
iii. to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.
The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.
The objective of the Financial Committees, in doing so, is not to focus only on the individual irregularity, but on the defects in the system which led to such irregularity, and the need for correction of such systems and procedures.