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]**

(a) 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.

(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

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

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]**

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]**

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=10]**

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]

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]**

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)	60,000	40,000
			Machinery	1,00,000	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	1,00,000	60,000	Investment:		
Profit & Loss A/c	1,50,000	90,000	Shares of Star (Cost)	3,80,000	–
Current Liabilities & Provisions:			Current Assets:		
Creditors	60,000	70,000	Stock	70,000	1,40,000
			Debtors	1,00,000	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.

Prepare a Consolidated Balance Sheet as at 31.03.2012. **[15]**

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]**

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]**

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]

(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]**

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]

(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]**

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

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]

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

Or,

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

(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]**

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

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

Or,

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

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

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