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=10]

(a) Umesh Chand Ltd. signed an agreement with workers for increase in wages with retrospective effect. The out-flow on account of arrears was for 2009-10 — ₹10.00 lakhs, for 2010-11 — ₹12.00 lakhs and for 2011-12 — ₹12.00 lakhs. This amount is payable in September, 2012. The accountant wants to charge ₹22.00 lakhs as prior period charges in financial statement for 2012-13. Discuss.

Answer:

According to AS 5(Revised) "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", the term prior period item refers only to income or expenses which arise in the current period as a result of errors or omission in the preparation of the financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods are determined in the current period. The full amount of wage arrears paid to workers will be treated as an expense of current year and it will be charged to profit and loss account as current expenses and not as prior period expenses.

It may be mentioned that additional wages is an expense arising from the ordinary activities of the company. Although abnormal in amount, such an expense does not qualify as an extraordinary item. However, as per Para 12 of AS 5 (Revised), when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

(b) On 30.6.2013, Asmi Ltd. incurred ₹2,00,000, net loss from disposal of a business segment. Also, on 30.7.2013, the company paid ₹60,000 for property taxes assessed for the calendar year 2013. How the above transactions should be included in determination of net income of Asmi Ltd. for the six months interim period ended on 30.9.2013.

Answer:

According to AS 25 "Interim Financial Reporting", If an enterprise prepares and presents a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements as applicable to annual complete set of financial statements. As on 30.9.2013, Asmi Ltd., would report the entire ₹2,00,000 loss on the disposal of its business segment since the loss was incurred during interim period. A cost charged as an expense in an annual period should be allocated to Interim periods on accrual basis. Since ₹60,000 Property Tax payment relates to entire calendar year 2013, ₹30,000 would be reported as an expense for six months ended on 30th September, 2013 while remaining ₹30,000 would be reported as prepaid expenses.

(c)	**Exchange Rate**
Goods purchased on 24-2-2011 of US $ 10000	**₹ 46.60**
Exchange rate on 31-3-2011	**₹ 47.00**
Date of actual payment 5-6-2012	**₹ 47.50**

Calculate the loss/gain for the financial years 2011-2012 and 2012-13.

Answer:

As per AS-11 all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction. Therefore goods purchased on 24-2-2011 and corresponding creditor would be recorded at ₹ 46.60 = US $ 1, i.e.

$$10{,}000 \times 46.60 = ₹\ 4{,}66{,}000$$

As per AS-11 at the balance sheet date all monetary items should be reported using the closing rate therefore creditors of US $ 10,000 outstanding on 31-3-2012 will be reported.

$$10{,}000 \times 47.00 = ₹\ 4{,}70{,}000$$

Exchange loss (4,70,000 – 4,66,000) should be debited in profit and loss account for 2010-11.

As per AS-11 exchange difference on settlement on monetary items should be transferred to profit and loss account as gain or loss therefore 10,000 × 47.50 = 475,000 - 470,000 = ₹ 5000 will be debited to profit or loss for the year 2012-13.

2. (a) The business of P Ltd. was being carried on continuously at losses. The following are the extracts from the Balance Sheet of the Company as on 31st March, 2012.

Balance Sheet as on 31st March, 2012

Liabilities	Amount ₹	Assets	Amount ₹
Authorised, Issed and Subscribed Capital :		Goodwill	50,000
30,000 Equity Shares of ₹ 10 each fully paid	3,00,000	Plant	3,00,000
2,000 8% Cumulative Pref. Shares of ₹ 100 each fully paid	2,00,000	Loose Tools	10,000
Securities Premium	90,000	Debtors	2,50,000
Unsecured Loan(From Director)	50,000	Stock	1,50,000
Sundry creditors	3,00,000	Cash	10,000
Outstanding Expenses (including Directors' remuneration ₹ 20,000)	70,000	Bank	35,000
		Preliminary Expenses	5,000
		Profit & Loss Account	2,00,000
	10,10,000		10,10,000

Note : 1) Dividends on Cumulative Preference Shares are in arrears for 3 years.

2) Unsecured loans (from director) is assumed to be of less than 12 months hence, treated as short term borrowings. (ignoring interest)

The following scheme of reconstruction has been agreed upon and duly approved by the Court.

i. Equity shares to be converted into 1,50,000 shares of ₹ 2 each.

ii. Equity shareholders to surrender to the Company 90 per cent of their holding.

iii. Preference shareholders agree to forego their right to arrears to dividends inconsideration of which 8 percent Preference Shares are. to be converted into 9 per cent Preference Shares.

iv. Sundry creditors agree to reduce their claim by one fifth in consideration of their getting shares of ₹ 35,000 out of the surrendered equity shares.

v. Directors agree to forego the amounts due on account of unsecured loan and Director's remuneration.

vi. Surrendered shares not otherwise utilised to be cancelled.

vii. Assets to be reduced as under :

Goodwill by	**₹ 50,000**
Plant by	**₹ 40,000**
Tools by	**₹ 8,000**
Sundry Debtors by	**₹ 15,000**
Stock by	**₹ 20,000**

viii. Any surplus after meeting the losses should be utilised in writing down the value of the plant further.

ix. Expenses of reconstruction amounted to ₹ 10,000.

x. Further 50,000 Equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid-up.

A member holding 100 equity shares opposed the scheme and his shares were taken over by the Director on payment of ₹ 1,000 as fixed by the Court.

You are required to pass the journal entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the Company. [15]

Answer:

Particulars		*Debit* ₹	*Credit* ₹
a. Sub Division of Shares			
Equity Share Capital (₹ 10 each) A/c	Dr.	3,00,000	
To Equity Share Capital (₹ 2 each) A/c			3,00,000
b. Surrender of Shares			
Equity Share Capital (₹ 2) A/c	Dr.	2,70,000	
To Shares Surrendered A/c			2,70,000

c.	Conversion of Preference Share Capital			
	8% Cumulative Preference Share Capital A/c	Dr.	2,00,000	
	To 9% Cumulative Preference Share Capital A/c			2,00,000
d.	Surrendered shares issued to creditors under reconstruction scheme			
	Shares Surrendered A/c	Dr.	35,000	
	To Equity Share Capital A/c			35,000
e.	Expenses Paid			
	Expenses A/c	Dr.	10,000	
	To Bank A/c			10,000
f.	Cancellation of unissued surrendered shares			
	Shares Surrendered A/c	Dr.	2,35,000	
	To Capital Reduction A/c			2,35,000
g.	Amount sacrificed by Directors			
	Unsecured Loan A/c	Dr.	50,000	
	Sundry Creditors A/c	Dr.	60,000	
	Outstanding Expenses A/c	Dr.	20,000	
	To Capital Reduction A/c			1,30,000
h.	Assets Written off			
	Capital Reduction A/c	Dr.	3,65,000	
	To Goodwill A/c			50,000
	To Loose tools A/c			8,000
	To Sundry debtors A/c			15,000

Particulars		***Debit*** ₹	***Credit*** ₹
To Stock – in – trade A/c			20,000
To Profit and Loss A/c			2,00,000
To Preliminary expenses A/c			5,000
To Expenses A/c			10,000
To Plant A/c			57,000
Issue of Shares			
Applications received			
Bank A/c	Dr.	1,00,000	
To Share Application A/c			1,00,000
Allotment of Shares			
Share Application A/c	Dr.	1,00,000	
To Share Capital A/c			1,00,000

(Being 50000 equity shares of ₹ 2 each
issued as fully paid as per Board's
Resolution dated…)

Note 1 : a. Cancellation of Preference dividend need not be journalized; on cancellation it cease to be contingent liability and hence no further disclosure.

b. Preference shareholders have to forego policy rights presently enjoyed at par with Equity Shareholders.

Note 2 : The transfer of 100 shares by the dissentient shareholders to the director concerned need not be journalized.

Note 3 : It has been assumed that the share premium account is to be kept in fact since the scheme is silent about it.

Name of the Company: P Ltd.					
Balance Sheet as at 31.03.2012					
Ref No.	Particulars		Note No.	**As at 31st March, 2012**	**As at 31st March, 2011**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	3,65,000	
		(b) Reserves and surplus	2	90,000	
		(c) Money received against share warrants			
Ref No.	Particulars		Note No.	**As at 31st March, 2012**	**As at 31st March, 2011**
				₹	₹
	2	Share application money pending allotment			
	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	2,40,000	
		(c)Other current liabilities	4	50,000	
		(d) Short-term provisions			
		Total		7,45,000	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	2,43,000	
		(ii) Intangible assets			
		(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	6	1,32,000	
		(c) Trade receivables	7	2,35,000	
		(d) Cash and cash equivalents	8	1,35,000	

		(e) Short-term loans and advances			
		(f) Other current assets			
		Total		7,45,000	

		(₹)
Note 1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
Particulars	**Amount (₹)**	**Amount (₹)**
Authorised : 1,50,000 equity shares of ₹ 12 each fully paid up 2,000 8% cumulative preference shares of ₹ 100 each	3,00,000 2,00,000	
	5,00,000	
Issued, Subscribed and paidup Subscribed Capital: 82,500 Equity shares of ₹ 2 each fully paid up (of the above 17,500 shares have been issued other than cash under the scheme of reconstruction) 2,000 9% Cumulative Pref. Shares of ₹ 100 each fully paid up	1,65,000 2,00,000	
Total	3,65,000	

RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2012**		**As at 31st March, 2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.11	82,500	165,000,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares, Right shares, split shares, shares issued other than cash)			NIL	NIL
	82,500	165,000,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	82,500	165,000,000	NIL	NIL

Note 2. Reserves and Surplus	As at 31st March, 2012	As at 31st March, 2011
Securities Premium	90,000	

Total	90,000	
Note 3. Trade Payables	As at 31st March, 2012	As at 31st March, 2011
Sundry creditors	2,40,000	
Total	2,40,000	
Note 4.Other Current Liabilities	As at 31st March, 2012	As at 31st March, 2011
Outstanding Expenses	50,000	
Total	50,000	

Note 5. Tangible assets		As at 31st March, 2012	As at 31st March, 2011
Plant less: Amount written off under the sceme of reconstruction	₹ 3,00,000 ₹ 57,000	2,43,000	
Total		2,43,000	

Note 6. Inventories	As at 31st March, 2012	As at 31st March, 2011
Stock-in trade	1,30,000	
Loose tools	2,000	
Total	1,32,000	
Note 7. Trade receivables	As at 31st March, 2012	As at 31st March, 2011
Debtors	2,35,000	

Total	2,35,000	
8. Cash and Cash Equivalents	As at 31st March, 2012	As at 31st March, 2011
Cash at Bank	1,25,000	
Cash in Hand	10,000	
Total	1,35,000	

Or,

(b) X Ltd. has 2 divisions A and B.
Division A has been making constant profits while Division B has been invariably suffering losses. On 31st March, 2012 the division wise Balance Sheet was:

(₹ Crores)

		A	**B**	**Total**
Fixed Assets cost (Tangible)		**250**	**500**	**750**
Depreciation		**225**	**400**	**625**
	(i)	**25**	**100**	**125**
Current Assets:		**200**	**500**	**700**
Less: Current liabilities		**25**	**400**	**425**
	(ii)	**175**	**100**	**275**
	(i) + (ii)	**200**	**200**	**400**
Financed by :				
Loan		**—**	**300**	**300**
Capital : Equity ₹ 10 each		**25**	**_**	**25**
Surplus		**175**	**(100)**	**75**
		200	**200**	**400**

Division B along with its assets and liabilities was sold for ₹ 25 crores to Y Ltd. a new comapny, who allotted 1 crore equity shares of ₹ 10 each at a premium of ₹ 15 per share to the memebers of B Ltd. in full settlement of the consideration in proportion to their shareholding in the company. Asssuming that there are no other transactions, you are asked to :

i. Pass journal entries in the books of X Ltd.
ii. Prepare the Balance Sheet of X Ltd. after the entires in (i). [6+9=15]

Answer:

Part I - Books of X Ltd :
Basic Information :

X Ltd.

Division A
Profit Making
Retained by X Ltd

Division B
Loss Making
Assets and Liabilites
transferred to Y Ltd for
consideration of ₹ 25 Crores.

I. ***Journal Entries***

(₹ Crores)

Particulars		***Debit***	***Credit***
i. Sale of Assets and Liabilities to Y Ltd.			
Y Ltd A/c	Dr.	25	
Loan A/c	Dr.	300	
Current liabilities A/c	Dr.	400	
Provision for depreciation A/c	Dr.	400	
To Fixed Assets A/c			500
To Current Assets A/c			500
To Capital Reserve A/c (bal fig)			125
ii. Receipt of consideration from B Ltd.			
Equity shares in Y Ltd.	Dr.	25	
To Y Ltd. A/c		25	

II.

Name of the Company: X Ltd.

Balance Sheet as at 31.03.2012

Ref No.		**Particulars**	**Note No.**	**As at 31st March, 2012**	**As at 31st March, 2011**
				(₹ in Crore)	**(₹ in Crore)**
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	25.00	
		(b) Reserves and surplus	2	200.00	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	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			
		(c) Other current liabilities	3	25.00	

		(d) Short-term provisions			
		Total		250.00	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	4	25.00	
		(ii) Intangible assets			
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments	5	25.00	
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	Current assets			
		(a)Current investments			
		(b) Inventories			
		(c) Trade receivables			
		(d) Cash and cash equivalents			
		(e) Short-term loans and advances			
		(f) Other current assets	6	200.00	
		Total		250.00	

Note:
Division 'B' was sold to M/s. Y Ltd. The consideration received for the transfer was equity shares of Y Ltd. of ₹ 10 each fully paid, issued at a premium of ₹ 15.

Total value of consideration = 1 Crore shares × (₹ 10 + ₹ 15)
= 1 Crore × ₹ 25
= ₹ 25 Crores

	(₹ in Crore)	
Note 1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
Authorised, Issued, Subscribed and paid up:-	-	

2.5 crores Equity share of ₹ 10 Each	25.00	
Total	25.00	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2012**		**As at 31st March, 2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.11	-	-	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	2.50	25.00	NIL	NIL
	2.50	25.00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	2.50	25.00	NIL	NIL

Note 2. Reserve and Surplus	**As at 31st March, 2012**	**As at 31st March, 2011**
Capital Reserve	125.00	
Profit & loss(existing)	75.00	
Total	200.00	

Note 3. Other Current liabilities	**As at 31st March, 2012**	**As at 31st March, 2011**
Current liabilities	25.00	-
Total	25.00	-

Note 4. Tangible Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Fixed Assets	250.00	-
Less : Provision for Depreciation	225.00	
Total	25.00	-

(It is assumed that all Fixed Asset are Tangible Fixed Assets)

Note 5. Non Current Investment	**As at 31st March, 2012**	**As at 31st March, 2011**
Investment in Equity Share of Y Ltd. (Face value of ₹ 10 subscribed at a Premium of ₹ 15 each)	25.00	-

Total	25.00	-

Note 6. Other Current Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Current Assets	200.00	-
Total	200.00	-

Part II - In the books of Y Ltd.
Journal Entries

(₹ in Crore)

	Particulars		**Debit**	**Credit**
a.	For Business purchase			
	Business Purchase A/c	Dr.	25	
	To X Ltd A/c			25
b.	Assets and liabilities taken over			
	Fixed Assets A/c	Dr.	100	
	Current Assets A/c	Dr.	500	
	Goodwill A/c (Balancing Figure)	Dr.	125	
	To Loan A/c			300
	To Current liabilities A/c			400
	To Business Purchase A/c			25
c.	Discharge of liability			
	X Ltd A/c	Dr.	25	
	To Equity Share capital A/c			10
	To Securities premium A/c			15

3. (a) The following is the Balance Sheet of P Ltd.

Liabilities		**₹**
Equity Share Capital		**2,00,000**
Reserves and Surplus		**4,00,000**
Secured Loan		**2,00,000**
Unsecured Loans		**6,00,000**
		14,00,000
Assets	**₹**	**₹**
Fixed Assets		**7,00,000**
Investments		**4,00,000**
(Market Value ₹ 9,00,000)		
Current Assets	**4,00,000**	
Less: Current liabilities	**(1,00,000)**	**3,00,000**
		14,00,000

The company consists of three divisions. The scheme was agreed upon, according to which a new company B Ltd. is to be formed. It will takeover investmen.ts at ₹ 9,00,000 and unsecured loans at balance sheet value. It is to allot equity shares of ₹ 10 each at par to the shareholders of P Ltd. in satisfaction of the amount due under the arrangement. The scheme was duly approved by the High Court. Pass journal entries in the books of P Ltd. [10]

Answer:

In the Books of P Ltd.

	Particulars		**Debit** ₹	**Credit** ₹
1.	B Ltd. A/c	Dr.	9,00,000	
	To Investments A/c			4,00,000
	To Shareholders A/c			5,00,000
	[Being investments transferred at agreed value of ₹ 9,00,000]			
2.	Unsecured Loans A/c	Dr.	6,00,000	
	To B Ltd. A/c			6,00,000
	[Being unsecured loan taken over by B Ltd.]			
3.	Shareholders A/c	Dr.	3,00,000	
	To B Ltd. A/c			3,00,000
	[Being allotment by B Ltd. of 30,000 Equity shares of ₹ 10 each to shareholders of the company]			
4.	Shareholders A/c	Dr.	2,00,000	
	To Capital Reserve			2,00,000
	[Being balance in Shareholders A/c transferred to Capital Reserve]			

Or,

(b) K Ltd. furnishes you with the following Balance Sheet as at 31st March, 2013:

(₹ in Crores)

Sources of Funds		
Share capital :		
Authorised		**100**
Issued:		
12% redeemable preference shares of ₹ 100 each fully paid	**75**	
Equity shares of ₹ 10 each fully paid	**25**	**100**
Reserves and surplus		

Capital Reserve	**15**	
Securities Premium	**25**	
Revenue Reserves	**260**	**300**
		400
Funds employed in:		
Fixed assets (Tangible) : cost	**100**	
Less: Provision for depreciation	**100**	**nil**
Investments at cost (Market value ₹ 400 Cr.)		**100**
Current assets	**340**	
Less: Current liabilities	**40**	**300**
		400

The company redeemed preference shares on 1 st April 2013. It also bought back 50 lakh equity shares of ₹ 10 each at ₹ 50 share. The payments for the above were made out of the huge bank balances, which appeared as a part of Current assets.

You are asked to :

Pass journal entries to record the above. **[10]**

Answer:

Journal entries in the books of K Ltd.

(**₹ in Crore**)

Particulars		**Debit**	**Credit**
a. Redemption of Preference Shares on 1st April 2012			
i. Due Entry			
12% Preference Share capital A/c	Dr.	75	
To Preference Share Hodlers A/c			75
ii. Payment Entry			
Preference Shareholders A/c	Dr.	75	
To Bank A/c			75
b. Shares bought back			
i. On buy back			
Shares bought back A/c	Dr.	25	
To Bank A/c			25
(50 lakhs shares × ₹ 50 per share)			
ii. On Cancellation			
Equity Share capital A/c (50 Lakhs × ₹ 10)	Dr.	5	
Securities premium A/c (50 Lakhs × ₹ 40)	Dr.	20	

	To Shares bought back A/c			25
iii.	Transfer to Capital Redemption Reserve			
	Revenue reserve A/c	Dr.	80	
	To Capital Redemption Reserve A/c			80
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			

4.(a) X Ltd. purchases its raw materials from Y Ltd. and sells goods to Z Ltd. In order to ensure regular supply of raw materials and patronage for finished goods, X Ltd. through its wholly owned subsidiary, X Investments Ltd. acquires on 31st December, 2013, 51% of equity capital of Y Ltd. for ₹ 150 crores and 76% of equity capital of Z Ltd. for ₹ 300 crores. X Investments Ltd. was floated by X Ltd. in 2007 from which date it was wholly owned by X Ltd.

The following are the Balance Sheets of the four companies as on 31st December, 2013:

	X Ltd.		X Investments Ltd.		Y Ltd.		Z Ltd.	
(₹ in crores)	₹		₹		₹		₹	
Share Capital:								
Equity (Fully paid) ₹ 10 each	250		50		100		150	
Reserves and Surplus	750	100	200	250	150	250	200	350
Loan Funds:								
Secured	150		–		50		200	
Unsecured	100	250	500	500	100	150	150	350
Total Sources		1250		750		400		700
Fixed Assets:								
Cost	600		–		150		300	
Less: Depreciation	350	250	–	–	70	80	170	130
Investments at cost in Equity Shares, fully paid								
X Investments Ltd.		50		–		–		–
Y Ltd.		–		150		–		–
Z Ltd.		–		300		–		–
Other Companies								
(Market Value ₹ 1,160 Cr.)		–		290		–		–
Net Current Assets:								
Current Assets	1050		10		960		2000	
Current Liabilities	100	950	–	10	640	320	1430	570
		1250		750		400		700

There are no intercompany transactions outstanding between the companies.
You are asked to prepare consolidated balance sheet as at 31st December, 2013. [15]

Answer:

Ref No.		Particulars	Note No.	As at 31st December,2013	As at 31st December,2012
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**		-	
		(a) Share capital	1	250.00	-
		(b) Reserves and surplus	2	950.00	-
		(c)Money received against share warrants		-	-
				-	-
	2	**Minority Interest**		206.50	-
	3	**Non-current liabilities**		-	
		(a) Long-term borrowings	3	400.00	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings	4	850.00	-
		(b) Trade payables		-	-
		(c) Other current liabilities	5	2,170.00	-
		(d) Short-term provisions			-
					-
		TOTAL (1+2+3+4)		4,826.50	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets		-	
		(i) Tangible assets	6	460.00	-
		(ii) Intangible assets	7	56.50	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments	8	290.00	
		(c) Deferred tax assets (net)		-	-

Ref No.		Particulars	Note No.	As at 31st December,2013	As at 31st December,2012
				₹	₹
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				-	-
	2	**Current assets**		-	
		(a) Current investments		-	-
		(b) Inventories		-	-
		(c) Trade receivables		-	-
		(d) Cash and cash equivalents		-	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	9	4,020.00	-
				-	-
		TOTAL (1+2)		4,826.50	-

		(₹ in Crore)
Note 1. Share Capital	**As at 31st December,2013**	**As at 31st December,2012**
Authorised, Issued, Subscribed and paid up:-	-	-
Equity share of ₹ 10 Each	250.00	-
Total	250.00	-

Note 2. Reserve and Surplus	**As at 31st December,2013**	**As at 31st December,2012**
Reserve and Surplus	950.00	-
Total	950.00	-

Note 3. Long-term Borrowing	**As at 31st December,2013**	**As at 31st December,2012**
Secured Loan	400.00	-
Total	400.00	-

Note 4. Short-term Borrowing	**As at 31st December,2013**	**As at 31st December,2012**
Unsecured Loan	850.00	-

Total	850.00	-

Note 5. Other Current liabilities	**As at 31st December,2013**	**As at 31st December,2012**
Current Liabilities	2,170.00	-
Total	2,170.00	-

Note 6. Tangible Assets	**As at 31st December,2013**	**As at 31st December,2012**
Fixed Assets	460.00	-
Total	460.00	-

Note 7. Intangible Assets	**As at 31st December,2013**	**As at 31st December,2012**
Goodwill	56.50	-
Total	56.50	-

Note 8. Non-current Investments	**As at 31st December,2013**	**As at 31st December,2012**
Investments	290.00	-
Total	290.00	-

Note 9. Other Current Assets	**As at 31st December,2013**	**As at 31st December, 2012**
Current Assets	4,020.00	-
Total	4,020.00	-

Working Notes:

(A) **X Investments Ltd.**

					(₹ in crores)
(1)	Analysis of Profits and Share Capital:				
			Capital Profit	Revenue Profit	Share Capital
	(i)	Y Ltd.	150.00	–	100.00
		Minority Interest (49%)	73.50	–	49.00
		Share of X Investments Ltd.	76.50	–	51.00
	(ii)	Z Ltd.	200.00	–	150.00
		Minority Interest (24%)	48.00	–	36.00
		Share of X Investments Ltd.	152.00	–	114.00

(2)	Cost of Control:	Y Ltd.		Z Ltd.
	Cost of investments	150.00		300.00
	Less: Paid up value of shares 51.00		114.00	
	Capital profits 76.50		152.00	
		127.50		266.60
	Goodwill on consolidation	22.50		34.00
(3)	Minority interest	Y Ltd.		Z Ltd.
	Share Capital	49.00		36.00
	Capital Profits	73.50		48.00
	Revenue Profits	–		–
		122.50		84.00

Consolidated Balance Sheet of X Ltd. and its subsidiaries
X Investments Ltd., Y Ltd. and Z Ltd. as at 31st December, 2013

Ref No.		Particulars	Note No.	As at 31st December,2013	As at 31st December,2012
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**		-	
		(a) Share capital	1	50.00	-
		(b) Reserves and surplus	2	200.00	-
		(c)Money received against share warrants		-	-
				-	-
	2	**Minority Interest**		206.50	-
	3	**Non-current liabilities**		-	
		(a) Long-term borrowings	3	250.00	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings	4	750.00	-
		(b) Trade payables		-	-

Ref No.		Particulars	Note No.	As at 31st December,2013	As at 31st December,2012
				₹	₹
		(c) Other current liabilities	5	2,070.00	-
		(d) Short-term provisions			-
					-
		TOTAL (1+2+3+4)		3,526.50	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets		-	
		(i) Tangible assets	6	210.00	-
		(ii) Intangible assets	7	56.50	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments	8	290.00	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				-	-
	2	**Current assets**		-	
		(a) Current investments		-	-
		(b) Inventories		-	-
		(c) Trade receivables		-	-
		(d) Cash and cash equivalents		-	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	9	2,970.00	-
				-	-
		TOTAL (1+2)		3,526.50	-

	(₹ in Crore)	
Note 1. Share Capital	**As at 31st December,2013**	**As at 31st December,2012**
Authorised, Issued, Subscribed and paid up:-	-	-

Equity share of ₹ 10 Each	50.00	-
Total	50.00	-

Note 2. Reserve and Surplus	**As at 31st December,2013**	**As at 31st December,2012**
Reserve and Surplus	200.00	-
Total	200.00	-

Note 3. Long-term Borrowing	**As at 31st December,2013**	**As at 31st December,2012**
Secured Loan	250.00	-
Total	250.00	-

Note 4. Short-term Borrowing	**As at 31st December,2013**	**As at 31st December,2012**
Unsecured Loan	750.00	-
Total	750.00	-

Note 5. Other Current liabilities	**As at 31st December,2013**	**As at 31st December,2012**
Current Liabilities	2,070.00	-
Total	2,070.00	-

Note 6. Tangible Assets	**As at 31st December,2013**	**As at 31st December,2012**
Fixed Assets	210.00	-
Total	210.00	-

Note 7. Intangible Assets	**As at 31st December,2013**	**As at 31st December,2012**
Goodwill	56.50	-
Total	56.50	-

Note 8. Non-current Investments	**As at 31st December,2013**	**As at 31st December,2012**
Investments	290.00	-
Total	290.00	-

Note 9. Other Current Assets	As at 31st December,2013	As at 31st December,2012
Current Assets	2,970.00	-
Total	2,970.00	-

(B) **X Ltd.**

(i)	Analysis of Profits of X Investments Ltd.:			
		Capital Profit		Revenue Profit
	Reserves and Surplus	–		200
	Minority Interest	–		–
	(X Investments Ltd. being wholly owned subsidiary of X Ltd.)			
(ii)	Minority Interest in X Investments Ltd.	–		–
(iii)	Cost of Control:			
	Cost of investments in X Investments Ltd.			50
	Less: Paid-up value of shares held in X Investments Ltd. by X Ltd.	50		
	Capital Profit	–		50
	Cost of Control			–

Or,

(b) A Limited is a holding company and B Limited and C Limited are subsidiaries of A Limited. Their Balance Sheets as on 31.12.2012 are given below:

	A Ltd.	B Ltd.	C Ltd.		A Ltd.	B Ltd.	C Ltd.
	₹	₹	₹		₹	₹	₹
Share Capital	**3,00,000**	**3,00,000**	**1,80,000**	**Fixed Assets**	**60,000**	**1,80,000**	**1,29,000**
Reserves	**1,44,000**	**30,000**	**27,000**	**Investments**			
Profit & Loss Account	**48,000**	**36,000**	**27,000**	**Shares in B Ltd.**	**2,85,000**		
C Ltd. Balance	**9,000**			**Shares in C Ltd.**	**39,000**	**1,59,000**	
Sundry Creditors	**21,000**	**15,000**		**Stock in Trade**	**36,000**		
A Ltd. Balance		**21,000**		**B Ltd. Balance**	**24,000**		
				Sundry Debtors	**78,000**	**63,000**	**96,000**
				A Ltd. Balance			**9,000**
	5,22,000	**4,02,000**	**2,34,000**		**5,22,000**	**4,02,000**	**2,34,000**

The following particulars are given:

(i) The Share Capital of all companies is divided into shares of ₹ 10 each.
(ii) A Ltd. held 24,000 shares of B Ltd. and 3,000 shares of C Ltd.
(iii) B Ltd. held 12,000 shares of C Ltd.
(iv) All these investments were made on 30.6.2012.
(v) On 31.12.2011, the position was as shown below:

	B Ltd.	C Ltd.
	₹	₹
Reserve	24,000	22,500
Profit & Loss Account	12,000	9,000
Sundry Creditors	15,000	3,000
Fixed Assets	1,80,000	1,29,000
Stock in Trade	12,000	1,06,500
Sundry Debtors	1,44,000	99,000

(vi) 10% dividend is proposed by each company.
(vii) The whole of stock in trade of B Ltd. as on 30.6.2012 (₹ 12,000) was later sold to A Ltd. for ₹13,200 and remained unsold by A Ltd. as on 31.12.2012.
(viii)Cash-in-transit from B Ltd. to A Ltd. was ₹ 3,000 as at the close of business.
You are required to determine the minority interest. [15]

Answer:

Name of the Company: A Ltd. and its subsidiary B Ltd. and C Ltd.
Consolidated Balance Sheet as at 31st December,2012 (Balance Sheet is not required in this case , it is provided for the guidance only)

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**		-	
		(a) Share capital	1	3,00,000	-
		(b) Reserves and surplus	2	1,80,915	-
		(c)Money received against share warrants		-	-
				-	-
	2	**Minority Interest**		1,13,460	-
	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**			

Ref No.		Particulars	Note No.	As at 31st December, 2012 ₹	As at 31st December, 2011 ₹
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	36,000	-
		(c) Other current liabilities		-	-
		(d) Short-term provisions	4	30,000	-
				-	-
		TOTAL (1+2+3+4)		6,60,375	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets		-	
		(i) Tangible assets	5	3,69,000	-
		(ii) Intangible assets	6	16,575	-
		(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	7	34,800	-
		(c) Trade receivables	8	2,37,000	-
		(d) Cash and cash equivalents	9	3,000	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets		-	-
				-	-
		TOTAL (1+2)		6,60,375	-

Annexure

Note 1. Share Capital	**As at 31st**	**As at 31st**

	December, 2012 (₹)	December, 2011(₹)
Authorised,issued, Subscribed and paid –up Share Capital:		
1,00,000 Equity Shares of ₹10 each	3,00,000	
Total	3,00,000	

Note 2. Reserves and Surplus	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Reserves	1,47,975	
Profit & Loss A/c	32,940	
Total	1,80,915	

Note 3. Trade Payables	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Sundry Creditors (21,000+15,000)	36,000	
Total	36,000	

Note 4. Short term Provision	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Proposed Dividend	30,000	
	30,000	

Note 5. Tangible Assets	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Fixed Assets	3,69,000	
Total	3,69,000	

Note 6. Intangible Assets	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Goodwill	16,575	
Total	16,575	

Note 7. Inventories	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Stock in Trade	36,000	
Less: Unrealised Profit	1,200	

Total	34,800	

Note 8. Trade Receivables	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Sundry Debtors (78,000+63,000+96,000)	2,37,000	
Total	2,73,000	

Note 9. Cash and Cash Equivalents	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Cash in Transit (24,000-21,000)	3,000	
Total	3,000	

Working Notes:

(i) Position on 30.06.2012

	Reserves	**Profit and Loss Account**
B Ltd.	₹	₹
Balance on 31.12.2012	30,000	36,000
Less: Balance on 31.12.2011	24,000	12,000
Increase during the year	6,000	24,000
Estimated increase for half year	3,000	12,000
Balance on 30.06.2012	27,000 (24,000+3,000)	24,000 (12,000 + 12,000)
C Ltd.		
Balance on 31.12.2012	27,000	27,000
Balance on 31.12.2011	22,500	9,000
Increase during the year	4,500	18,000
Estimated increase for half year	2,250	9,000
Balance on 30.06.2012	24,750 (22,500+2,250)	18,000 (9,000 + 9,000)

(ii) Analysis of Profits of C Ltd.

	Capital Profit	**Revenue Reserve**	**Revenue profit**
	₹	₹	₹
Reserves on 30.6.2012	24,750		
Profit and Loss A/c on 30.6.2012	18,000		
Increase in reserves		2,250	

Increase in profit	______	_____	9,000
	42,750	2,250	9,000
Less: Minority interest (1/6)	7,125	375	1,500
	35,625	1,875	7,500
Share of A Ltd. (1/6)	7,125	375	1,500
Share of B Ltd. (4/6)	28,500	1,500	6,000

(iii) Analysis of Profits of B Ltd.

	Capital Profit	Revenue Reserve	Revenue profit
	₹	₹	₹
Reserves on 30.6.2012	27,000		
Profit and Loss A/c on 30.6.2012	24,000		
Increase in reserves		3,000	
Increase in profit			12,000
Share in C Ltd.	_____	1,500	6,000
	51,000	4,500	18,000
Less: Minority interest (2/10)	10,200	900	3,600
Share of A Ltd. (8/10)	40,800	3,600	14,400

(iv) Cost of control

	₹	₹
Investments in		
B Ltd.	2,85,000	
C Ltd.	1,98,000	
		4,83,000
Paid up value of investments in		
B Ltd.	2,40,000	
C Ltd.	1,50,000	
		(3,90,000)
Capital profits in		
B Ltd.	40,800	
C Ltd.	35,625	
		(76,425)
Goodwill		16,575

(v) Minority Interest

Share Capital:	₹	₹
B Ltd.	60,000	

C Ltd.	30,000	90,000
Share in profits and reserves (Pre and Post-Acquisitions)		
B Ltd.	14,700	
C Ltd.	9,000	23,700
		1,13,700
Less: Provision for unrealized profit (20% of ₹ 1,200)		240
		1,13,460

(vi) Reserves – A Ltd.

		₹
Balance as on 31.12.2012 (given)		1,44,000
Share in		
B Ltd.		3,600
C Ltd.		375
		1,47,975

(vii) Profit and Loss Account – A Ltd.

		₹
Balance as on 31.12.2012 (given)		48,000
Share in		
B Ltd.		14,400
C Ltd.		1,500
		63,900
Less: Proposed dividend (10% of ₹ 3,00,000)		30,000
Provision for unrealised profit on stock 80% of (₹ 13,200 – ₹ 12,000)		960
		32,940

5.(a) The following is the income statement XYZ Company for the year 2011-12:

(₹)

Sales			**1,62,700**
***Add*: Equity in ABC Company's earning**			**6,000**
			1,68,700
Expenses		₹	

Cost of goods sold		89,300	
Salaries		34,400	
Depreciation		7,450	
Insurance		500	
Research and development		1,250	
Patent amortisation		900	
Interest		10,650	
Bad debts		2,050	
Income tax :			
Current	6,600		
Deferred	1,550	8,150	
Total expenses			1,54,650
Net income			14,050

Additional informations are :

(i) 70% of gross revenue from sales were on credit.
(ii) Merchandise purchases amounting to ₹ 92,000 were on credit.
(iii) Salaries payable totaled ₹ 1,600 at the end of the year.
(iv) Amortisation of premium on bonds payable was ₹ 1,350.
(v) No dividends were received from the other company.
(vi) XYZ Company declared cash dividend of ₹ 4,000.

Changes in Current Assets and Current Liabilities were as follows:

	Increase (Decrease)
	₹
Cash	500
Marketable securities	1,600
Accounts receivable	(7,150)
Allowance for bad debt	(1,900)
Inventory	2,700
Prepaid insurance	700
Accounts payable (for merchandise)	5,650
Salaries payable	(2,050)

	₹
Dividends payable	**(3,000)**

Prepare a statement showing the amount of cash flow from operations. **[10]**

Answer:

Statement showing cash flow from Operations

	₹	₹
Cash flow from operations		
Cash sales (30% 1,62,700)	48,810	
Collection from debtors	1,20,890	
Total cash from operations		1,69,700
Uses of cash from operations		
Payment to suppliers	86,350	
Salaries expense	36,450	
Payment for insurance	1,200	
Research and development	1,250	
Interest payment	12,000	
Income tax payment	6,600	
Total operating cash payment		1,43,850
Net cash flow from operations		25,850

Notes:

(1)	Collection from debtors		₹
	Credit sales (70%× 1,62,700)		1,13,890
	Less : Bad debts (2,050 less 1,900)		150
			1,13,740
	Add : decrease in accounts receivables		7,150
	Collection from debtors on credit sales		1,20,890
(2)	Dividends earned ₹ 6,000 on equity of ABC Company		

	has not been considered as it has not been received in cash.		
		₹	
(3)	Payment to suppliers		
	Cost of goods sold	89,300	
	Add: Increase in inventory	2,700	
	Purchases	92,000	
	Less: increase in accounts payable	5,650	
	Payment to suppliers		86,350
(4)	Calculation of salaries payment		
	Salary expense	34,400	
	Add : decrease in salary payable	2,050	
	Payment of salaries	36,450	
(5)	Insurance payments		
	Insurance	500	
	Add : increase in prepaid insurance	700	
	Payment for insurance	1,200	
(6)	Interest payment		
	Interest expenses	10,650	
	Add : Amortisation of bond premium	1,350	
	Interest payments	12,000	
(7)	Income tax payments		
	Income tax expense	8,150	
	Less: Deferred tax	1,550	
		6,600	
	Changes in current tax payable	Nil	
	Income tax payments	6,600	

Or,

(b) From the following information determine the amount of unrealized profit to be eliminated and the apportionment of the same. Om Ltd. holds 80% Equity shares of Shanti Ltd.

i. **Om Ltd. sold goods costing ₹60,00,000 to Shanti Ltd. at a profit of 25% on Cost Price. Entire stock were lying unsold as on the date of Balance Sheet.**

ii. **Again, Om Ltd. sold goods costing ₹54,00,000 on which it made a profit of 25% on Sale Price. 60% of the value of goods were included in closing stock of Shanti Ltd.**

iii. **Shanti Ltd. sold goods to Om Ltd. for ₹96,00,000 on which it made a profit of 20% on Cost. 40% of the value of goods were included in the closing stock of Om Ltd.** **[10]**

Answer:

Situation I

Transaction	**Sale by Om Ltd. to Shanti Ltd. [Holding $\longrightarrow$ Subsidiary]**
Nature of Transfer	**Downstream Transaction**
Profit on Transfer	Cost ₹60,00,000 × Profit on Cost i.e. 25% = ₹15,00,000
% of Stock included in Closing Stock	100%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 15,00,000 × 100% = ₹15,00,000
Share of Majority – Reduced from Group Reserve	₹ 15,00,000 × 100% = ₹15,00,000
Share of Minority	Unrealised Profit in case of a Downstream Transaction is fully adjusted against Group Reserves. Minority Interest is not relevant here.

Situation II

Transaction	**Sale by Om Ltd. to Shanti Ltd. [Holding $\longrightarrow$ Subsidiary]**
Nature of Transfer	**Downstream Transaction**
Profit on Transfer	Cost ₹54,00,000 × Profit on Sale Price i.e.25% ÷ Cost on Sale i.e. 75% = ₹18,00,000
% of Stock included in Closing Stock	60%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 18,00,000 × 60% = ₹10,80,000
Share of Majority – Reduced from Group Reserve	100% × ₹10,80,000 = ₹10,80,000
Share of Minority	Unrealised Profit in case of a Downstream Transaction is fully adjusted against Group Reserves. Minority Interest is not relevant here.

Situation III

Transaction	**Sale by Shanti Ltd. to Om Ltd.** **[Subsidiary ⟶ Holding]**
Nature of Transfer	**Upstream Transaction**
Profit on Transfer	Sale ₹96,00,000 × Profit on Cost 20% ÷Sale to Cost 120% =₹16,00,000
% of Stock included in Closing Stock	40%
Unlealised Profit to be eliminated i.e to be reduced from Closing Stock	₹ 16,00,000 × 40% = ₹6,40,000
Share of Majority – Reduced from Group Reserve	Share of Majority i.e. 80% × Unrealised Profit ₹6,40,000 = ₹5,12,000
Share of Minority – Reduced from Minority Interest	Share of Majority i.e. 20% × Unrealised Profit ₹6,40,000 = ₹1,28,000

6. (a) (i) Explain the term Extensible Business Reporting Language (XBRL). **[6]**

Answer:

XBRL stands for e**X**tensible **B**usiness **R**eporting **L**anguage. It is one of a family of "XML" (Extensible Markup Language) languages which is becoming a standard means of communicating information between businesses and on the internet. XBRL provides major benefits in the preparation, analysis and communication of business information and is fast becoming an accepted reporting language globally. It offers major benefits to all those who have to create, transmit, use or analyse such information.

Meaning of the term:

i. Extensible: It means the user can extend the application of a particular business data beyond its original intended purpose and the major advantage is that the extended use can be determined even by the users and not just the ones who merely prepare the business data. This is achieved by adding tags which are both human and machine readable – describing what the data is.
The property of extensibility is very handy in situations when list of items reported for various elements of the financial statements are not the same across firms, industries, and countries. For example, many of item constituting non-current assets in Oil and Gas Industry (items like rigs, exploratory oil and gas wells) may not be applicable to companies in general. In a situation of this kind, XBRL may prepare a taxonomy called a 'Global Common Document' (GCD) for items common to all the firms, industries, and countries, and, any country specific, industry specific and firm-specific variations (extensions / limitations) can, then, be written as independent taxonomies that can be imported and incorporated with the GCD.
ii. Business: It means relevant to the type of business transaction. XBRL focus is on describing the financial statements for both public and private companies.

iii. Reporting: The intention behind promoting use of XBRL is to have all companies report their financial statements in a consolidated manner using the specified formats.

iv. Language: XBRL is based on XML, which prescribes the manner in which the data can be "marked-up" or "tagged" to make it more meaningful to human readers as well as to computers-based system.

(ii) Moon Light Ltd., has entered into a contract by which it has the option to sell its identified property, plant and equipment (PPE) to Three Star Ltd. for ₹ 300 lakhs after 3 years whereas its current market price is ₹ 450 lakhs. Is the put option of Moon Light Ltd., a financial instrument? Explain. [4]

Answer:

As per AS 31, Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In the given case, for the purpose of the definition of financial instrument, Property, Plant and Equipment do not quality the definition of financial asset as per the standard.
To assess whether the put option of Moon Light Ltd., is a financial instrument or not it is necessary to evaluate the past practice of Moon Light Ltd.
If Moon Light Ltd. has the past practice of setting net, then it becomes a financial instrument, and If Moon Light Ltd. intends to sell the identified Property, Plant and Equipment and settle by delivery and there is no past practice of settling net, then the contract should not be accounted for as financial instrument under AS 30 "Financial Instruments: Recognitions Measurement" and AS 31 "Financial Instrument: Presentation".

Or,

(b) (i) Discuss the process of Triple Bottom Line Reporting. [8]

Answer:

The major steps involved in undertaking the reporting process are:

1. Planning for Reporting

• Understand the national, international and industry sector trends in Triple Bottom Line Reporting (TBL) reporting

• Identify key stakeholders

• Establish the 'business case' and set high-level objectives for TBL reporting

• Secure support from the Board and senior executives

• Identify resource requirements and determine budget

2. Setting the Direction for TBL Reporting

• Engage with stakeholders to understand their requirements

• Prioritise stakeholder requirements and concerns

• Set overall objectives for TBL reporting

• Review current approach and assess capability to deliver on reporting objectives

• Identify gaps and barriers associated with current approach, and prioritise risks associated with overall reporting objective

• Review of associated legal implications

• Develop TBL reporting strategy

• Determine performance indicators for inclusion in report

• Establish appropriate structure and content of the report

3. Implementation of TBL Reporting Strategy

• Implementation of TBL reporting strategy (including required data collection and review processes)

• Clarify relationship to statutory financial reporting

4. Publication of TBL Report

• Prepare draft report

• Review content and structure of report internally, and modify accordingly

• Obtain independent assurance - external verification

• Publish TBL report

• Seek feedback from stakeholders and incorporate into planning for the next period's reporting.

(ii) What is meant by the term Financial Instrument? [2]

Answer:

Financial Instrument

Meaning: Financial Instrument is a contract giving rise to a Financial Asset to an enterprise and Financial Liability to another.

They include:

(a) Primary Instruments i.e. Equity Shares, Preference Shares; Debentures etc. and

(b) Derivative Instruments Options, Futures, Forwards, Swaps etc. However Commodity Derivatives are not Financial Instrument.

7. (a) (i) Mr. Sen buys the following Equity Stock Options and the seller/writer of the options is Mr. Ghosh.

Date of purchase	Type of option	Expiry date	Market lot	Premium per unit ₹	Strike price ₹
29 June,2011	PQ Co. Ltd.	30 Aug.,2011	100	30	460
30 June ,2011	MN Co. Ltd.	30 Aug.,2011	200	40	550

Assume the price of PQ Co. Ltd. and MN Co. Ltd. on 30th August,2011 is ₹470 and 500 respectively. Pass journal entries in the books of Mr. Ghosh. [6]

Answer:

In the books of Mr. Ghosh
Journal

Date	Particulars		Debit (₹)	Credit (₹)
26.06.2011	Bank A/c	Dr.	11,000	
	To, Option premium A/c			11,000
	[Being option premium received(₹3,000+₹8,000)]			

30.08.2011	Loss on Derivatives A/c Dr. To, Bank A/c (Being Loss recognised) (₹470 - ₹460)×100 = ₹1,000 (₹550 - ₹500)×200 = ₹10,000	11,000	 11,000
30.08.2011	Option premium A/c Dr. To, Profit & Loss A/c (Being Premium transferred to income)	11,000	 11,000

(ii) State the Key challenges associated with implementation of Triple Bottom Line Reporting. [5]

Answer:

Key challenges associated with the implementation of Triple Bottom Line (TLB) Reporting are:

Specific challenges associated with TBL reporting vary from company to company and between industry sectors. The challenges may be outlined as under:

- awareness of relevant issues associated with TBL to the reporting organization is required;
- clear understanding of the requirements of key stakeholders in relation to public reporting is needed;
- maintenance of clarity in relation to the company's objectives and the risks related to reporting is another requirement; and
- proper determination of key indicators of environmental, social and economic performance, and basis of measurement.

Lack of all the above mentioned components may hamper the total effort of establishing Triple Bottom Line Reporting.

(iii) Write a note on Squaring off of the position with respect to Option contracts. [4]

Answer:

Meaning: "Squaring Off of the position" refers to the process of entering a reverse contract, after entering into an option contract, in the same series with the same strike price.

Gain/Loss: The gain or loss of the client will be the difference between the Option Premium Received and Paid after reducing/adding the brokerage charged by the Clearing Member.

Objective: It is a tool to mitigate the loss to the difference in the premium amounts by squaring off the position before the Expiry Date.

Example: A buyer/holder having bought S&P CNX NIFTY **call option** of January 2005 series with strike price of ₹ 1,120 can square off his position by **selling/writing** S&P CNX NIFTY call option of January 2005 series with ₹1,120 as strike price.

Or,

(b)VA Ltd. furnishes the following Profit and Loss A/c:

Profit and Loss A/c for the year ended 31st March, 2013

Income	Notes	₹('000)
Turnover	1	29,872
Other Income		1,042
		30,914
Expenditure		
Operating expenses	2	26,741
Interest on 8% Debenture		987
Interest on Cash Credit	3	151
Excise duty		1,952
		29,831
Profit before depreciation		1,083
Less: Depreciation		342
Profit before tax		741
Provision for tax	4	376
Profit after tax		365
Less: Transfer to Fixed Assets Replacement Reserve		65
		300
Less: Dividend paid		125
Retained Profit		175

Notes:

i. Turnover is based on invoice value and net of sales tax.

ii. Salaries, wages and other employee benefits amounting to ₹14,761 thousand are included in operating expenses.

iii. Cash Credit represents a temporary source of finance. It has not been considered as a part of capital.

iv. Transfer of ₹54 thousand to the credit of deferred tax account is included in provision for tax.

Prepare value added statement for the year ended 31st March, 2013 and reconcile total value added with profit before taxation. [10+5]

Answer:

Value Added Ltd. Value Added
Statement for the year ended 31st March, 2013

	₹('000)		%
Turnover		29,872	
Less: Cost of bought in materials and services:			
Operating expenses (26,741 –14,761)	11,980		
Excise duty	1,952		
Interest on Cash Credit	151	14,083	

Value added by manufacturing and trading activities		15,789	
Add: Other income		1,042	
Total value added		16,831	
Application of value added:			
To Pay to employees:			
Salaries, wages and other employee benefits		14,761	87.70
To Pay to Government:			
Corporation tax (376 – 54)		322	1.91
To Pay to providers of capital:			
Interest on 8% Debentures	987		
Dividends	125	1,112	6.61
To Provide for maintenance and expansion of the company:			
Depreciation	342		
Fixed Assets Replacement Reserve	65		
Deferred Tax Account	54		
Retained Profit	175	636	3.78
		16,831	100

Note: Deferred tax account could alternatively be shown as an item 'To pay to government'.

Reconciliation between total value added and profit before taxation

	₹('000)	₹('000)
Profit before tax		741
Add back: Depreciation	342	
Wages, salaries and other benefits	14,761	
Debenture interest	987	16,090
Total Value Added		16,831

8. (a) (i) Discuss the structure of Indian Government Accounting Standards Advisory Board. [8]

Answer:

Government Accounting Standards Advisory Board (GASAB) is a representative body and is represented by main stakeholders connected with accounting reforms of Union Government of India and States. The board consists of the following members:

1. Deputy Comptroller and Auditor General (Accounts) as Chairperson
2. Controller General of Accounts
3. Financial Commissioner, Railways
4. Controller General of Defence Accounts
5. Member (Finance) Telecom Commission, Department of Telecom

6. Additional / Joint Secretary (Budget), Ministry of finance, Govt. of India
7. Secretary, Department of Post
8. Deputy Governor, Reserve Bank of India or his nominee
9. Director General, National Council of Applied Economic Research (NCAER)
10. President, Institute of Chartered Accountants of India (ICAI) or his nominee
11. President, Institute of Cost and Works Accountants of India or his nominee
12-15. Principal Secretary (Finance) of four States by rotation
16. Principal Director in GASAB as Member secretary.

(ii) Discuss the applicability of IGAS 10 (Public Debt and Other Liabilities of Governments: Disclosure Requirements). [2]

Answer:

The proposed IGAS shall apply to the financial statements prepared by the Union and State Governments and Union Territories with legislature. The IGAS shall also cover "other obligations" as defined in paragraph 4 of this Standard relating to definitions. The IGAS shall not include in its ambit, guarantees and other contingent liabilities and non-binding assurances.

(iii) Write a note on the objectives of Indian Government Accounting Standard 4 (General Purpose Financial Statements of Government). [5]

Answer:

The purpose of this Standard is to lay down the principles to be followed in presentation of general purpose financial reports of Governments and to prescribe the minimum requirements relating to structure and contents of financial statements of government prepared under cash basis of accounting.

The statement of receipts and disbursements during the year and information about cash flows of an Entity enable stakeholders to evaluate the likely sources and uses of cash and the ability of an Entity to generate adequate cash in the future. This information also indicates the expenditure priorities of the Entity in the delivery of goods and services as well as the impact of the taxation policies of the Entity. Stakeholders can then assess the sustainability of the Entity's activities (whether future budgetary resources will be sufficient to sustain public services and to meet obligations as they become due) and appraise financial accountability.

All Financial Statements need to be standardized to obtain optimal information, to ensure comparability with the Entity's own financial Statements of previous periods and with those of other entities. The basis and policies of accounting need to be uniform to permit meaningful consolidation to develop Whole of Government Accounts. Desirable attributes need to defined to obtain a basic standard for financial reporting.

To achieve these objectives, this Standard sets out the financial elements for the presentation of financial reports prepared under the cash basis of accounting. It also requires that the selection of accounting policy should ensure certain qualitative characteristics in the information being presented. Desirable attributes of financial reporting are required to heighten their value to the users.

General Purpose Financial Statements (GPFS) essentially consists of Finance Accounts and Appropriation Accounts. The Financial Statements referred to in this standard are the General Purpose Financial Reports (GPFR).

Or,

(b) (i) List the sources of Government revenue? [6]

Answer:

Sources of Revenue

- Revenue Receipts
- Tax Revenue
  - Sharable with the States
  - Non sharable
- Non-Tax Revenue
  - Interest
  - Dividends
  - Receipts of Commercial Departments
- External Grants
- Capital Receipts
- Miscellaneous Capital Receipts
  - Disposal of Capital Assets
  - Divestment of SOE Shares
- Repayment of Loans.

(ii) Discuss the role of Comptroller and Auditor General. [9]

Answer:

Under section 10 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (56 of 1971), the Comptroller and Auditor General shall be responsible-
(a) for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and
(b) for keeping such accounts in relation to any of the matters specified in clause (a) as may be necessary;
Provided that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-
(i) the said accounts of the Union (either at once or gradually by the issue of several orders); or
(ii) the accounts of any particular services or departments of the Union;
Provided further that the Governor of a State with the previous approval of the President and after consultation with Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-
(i) the said accounts of the State (either at once or gradually by the issue of several orders); or
(ii) the accounts of any particular services or departments of the State;
Provided also that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for keeping the accounts of any particular class or character.
(2) Where, under any arrangement, a person other than the Comptroller and Auditor General has, before the commencement of this Act, been responsible-
(i) for compiling the accounts of any particular service or department of the Union or of a State, or

(ii) for keeping the accounts of any particular class or character, such arrangement shall, notwithstanding anything contained in subsection (1), continue to be in force unless, after consultation with the Comptroller and Auditor General, it is revoked in the case referred to in clause (i), by an order of the President or the Governor of the State, as the case may be, and in the case referred to in clause (ii) by an order of the President.

Section 11—Comptroller and Auditor General to prepare and submit accounts to the President, Governors of State and Administrators of Union Territories having Legislative Assemblies:

The Comptroller and Auditor General shall, from the accounts compiled by him or by the Government or any other person responsible in that behalf prepare in each year accounts (including, in the case of accounts compiled by him, appropriation accounts) showing under the respective heads the annual receipts and disbursements for the purpose of the Union, of each State and of each Union territory having a Legislative Assembly, and shall submit those accounts to the President or the Governor of a State or Administrators of the Union Territory having a Legislative Assembly, as the case may be, on or before such dates, as he may, with the concurrence of the Government concerned, determine.
Provided that the President may, by order, relieve him from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursements.
Provided further that the Governor of a State may, with the previous approval of the President and after consultation with the Comptroller and Auditor General, by order relieve him from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursements for the purpose of the State.
The Comptroller and Auditor General of India play a key role in the functioning of the financial committees of Parliament and the State Legislatures. His Reports generally form the basis of the Committees' working, although they are not precluded from examining issues not brought out in his Reports. He scrutinises the notes which the Ministries submit to the Committees and helps the Committees to check the correctness submit to the Committees and helps the Committees to check the correctness of facts and figures in their draft reports.