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.

(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.

(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.

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 Comapny as on 31st March, 2012.

Balance Sheet as on 31st March, 2012

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

(including Directors' remuneration ₹ 20,000)			
	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 utili sed 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]**

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 divisionwise 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]**

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 take over investments 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]**

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]**

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 ₹ 1160 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]**

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]**

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.
(vii) 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]**

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]**

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

(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]**

Or,

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

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

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]**

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

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

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]**

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

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

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

Or,

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

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