PAPER – 18 - CORPORATE FINANCIAL REPORTING

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL C	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identity	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
		Decide	To solve or conclude
	EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify
		Evaluate	Appraise or asses the value of
		Recommend	Propose a course of action

Paper – 18 - Corporate Financial Reporting

This paper contains 5 questions, divided in sub-questions. Each question represents the specified weightage in sections as prescribed syllabus for this paper. Answers must be given against all questions. However, students are requested to read the instructions against each individual question also. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

Question No. 1 is compulsory.

(a) Sunrise Ltd. has 60% shares in joint venture with Night Ltd. Sunrise Ltd. sold a plant WDV of ₹240 lakhs for ₹300 lakhs. Calculate how much profit the Sunrise Ltd. should recognize in its book in case joint venture is

- **Jointly controlled operation**
- **Jointly controlled asset**
- **Jointly controlled entity** **[5]**

(b) Discuss about the recognition of Share Based Payment as per IFRS-2. **[5]**

Question No. 2 : Answer to Question No. 2(a) is Compulsory. Answer any two from the remaining sub-questions.

(a) Y Ltd. decides to absorb X Ltd. The draft Balance Sheet of X Ltd. is as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
3,000 Equity Shares of ₹100 each (fully paid)	3,00,000	Fixed Assets	2,50,000
Preference Shares @ ₹100 each	60,000	Sundry Debtors	1,00,000
Sundry Creditors	60,000	Profit & Loss Account	70,000
	4,20,000		4,20,000

Y Ltd. agrees to take over X Ltd. for this purpose an Equity Share of X Ltd. will be valued at ₹70 . Y Ltd. agrees to pay ₹60,000 in cash for payment to preference shareholders. Equity Shares will be issued at value of ₹120 each.

Calculate the Purchase Consideration. **[5]**

(b) The following are the summarized Balance Sheets (as at 31.03.2015) of A Ltd. and B Ltd.

Liabilities	A Ltd.(₹)	B Ltd.(₹)	Assets	A Ltd.(₹)	B Ltd.(₹)
Shareholders' Funds			Non-Current assets		
Share Capital:			Fixed Assets	50,00,000	30,00,000
Equity Shares of ₹10 each	36,00,000	18,00,000	Investments	5,00,000	5,00,000

10% Preference shares of ₹100 each	12,00,000		Current Assets		
12% Preference shares of ₹100 each	-	6,00,000	Inventory	18,00,000	12,00,000
Reserves and Surplus:			Trade receivables	15,50,000	12,10,000
Statutory Reserve	1,00,000	1,00,000	Cash at Bank	1,50,000	90,000
General Reserve	25,00,000	17,00,000			
Non-current Liabilities					
15% Debentures	5,00,000	-			
12% Debentures	-	5,00,000			
Current Liabilities					
Trade payables	11,00,000	13,00,000			
	90,00,000	60,00,000		90,00,000	60,00,000

Contingent liabilities for bills receivables discounted ₹20,000.

(A) The following additional information is provided to you:

	A Ltd. (₹).	B Ltd.(₹)
Profit before Interest and Tax	14,75,000	7,80,000
Rate of Income-tax	40%	40%
Preference dividend	1,20,000	72,000
Equity dividend	3,60,000	2,70,000
Balance profit transferred to Reserve account		

(B) The equity shares of both the companies are quoted on the Mumbai Stock Exchange. Both the companies are carrying on similar manufacturing operations.

(C) A Ltd proposes to absorb business of B Ltd. as on 31.03.2015. The agreed terms for absorption are:

(i) 12% Preference shareholders of B Ltd. will receive 10% Preference shares of A Ltd. sufficient to increase their present income by 20%.

(ii) The Equity shareholders of B Ltd. will receive equity shares of A Ltd. on the following terms:

(a) The Equity shares of B Ltd. will be valued by applying to the earnings per share of B Ltd. 60 per cent of price earnings ratio of A Ltd. based on the results of 2014-15 of both the companies.

(b) The market price of equity shares of A Ltd. is ₹40 per share.

(c) The number of shares to be issued to Equity shareholders of B Ltd. will be based on the 80% of market price.

(d) In addition to equity shares,10% Preference shares of A Ltd. will be issued to the equity shareholders of B Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2014-15.

(iii) 12% debenture holders of B Ltd. are to be paid at 8% premium by 15% debentures in A Ltd. issued at a discount of 10%.

(iv) Details of Trade payables and Trade receivables:

	A Ltd. (₹).	B Ltd.(₹)
Trade payables		
Bills payable	20,000	20,000
Sundry creditors	10,80,000	12,80,000
	11,00,000	13,00,000
Trade receivables		
Debtors	15,00,000	12,00,000
Bills Receivables	50,000	10,000
	15,50,000	12,10,000

(v) ₹16,000 is to be paid by A Ltd. to B Ltd. for liquidation expenses. Sundry creditors of B Ltd. include ₹20,000 due to A Ltd. Bills receivable discounted by A Ltd. were all accepted by B Ltd.
(vi) Fixed assets of both the companies are to be revalued at 20% above book value. Inventory in trade is taken over at 10% less than their book value.
(vii) Statutory reserve has to be maintained for two more years.
(viii) For the next two years no increase in the rate of equity dividend is anticipated.
(ix) Liquidation expense is to be considered as part of purchase consideration.

You are required to find out the purchase consideration. [10]

(c) The following is the Balance Sheet of Winners Ltd as on 30th June-

Equity and Liabilities	₹
(1) Shareholders' Funds:	
(a) Share Capital – 20,000 Shares of ₹ 10 each	2,00,000
(b) Reserves & Surplus – General Reserve	20,000
(2) Non-Current Liabilities:	
Long Term Borrowings (i) 10% Debentures	1,00,000
(ii) Loan from bank	40,000
(3) Current Liabilities:	
Trade Payables – Sundry Creditors	80,000
Total	4,40,000
Assets	
(1) Non-Current Assets:	
(a) Fixed Assets: (i) Tangible Assets	
- Land & Building	1,00,000
- Plant & Machinery	1,45,000
(ii) Intangible Assets – Goodwill	25,000
(b) Other Non-Current Assets	
- Preliminary expenses	16,000
(2) Current Assets:	
(a) Inventories	55,000
(b) Trade Receivables	65,000
(c) Cash & Cash Equivalents	34,000
Total	4,40,000

The balance of Winners Ltd is taken over by Superb Ltd as on that date on the following terms:

(i) All Assets except Cash and Bank are taken over at Book Value less 10% subject to (b) below.
(ii) Goodwill is to be valued at 4 years' Purchase of the excess of average (five years) Profits over 8% of the combined account of Share Capital and General Reserve.
(iii) Trade Creditors are to be taken over subject to a discount of 5%.
(iv) Loan from Bank is to be repaid by Winners Ltd.
(v) The Purchase Consideration is to be discharged in Cash to the extent of ₹ 1,50,000 and the balance is fully paid Equity Shares of ₹ 10 each valued at ₹ 12.50 per share.

The average of the five years profit is ₹ 30,100. The expenses of Liquidation amount to ₹ 2,000. Prior to 30th June, Winners Ltd sold goods costing ₹ 30,000 to Superb Ltd for ₹ 40,000. Debtors include ₹ 20,000 still due from Superb Ltd. on the date of absorption, ₹ 25,000 worth of Goods were still in Stock of Superb Ltd.

Show the:

A. Realisation Account, Bank Account, Sundry Shareholders Account and Shares in Superb Ltd. [10]

(d) The following are the Balance sheets of Big Ltd. and Small Ltd. as at 31.03.2015

	Big Ltd.	Small Ltd.		Big Ltd.	Small Ltd.
	(₹)	(₹)		(₹)	(₹)
Share Capital	40	15	Sundry Assets	56	20
Profit & Loss A/c	7.5	-	(including cost of share)		
Sundry Creditors	12.5	12.5	Goodwill	4	5
			Profit and Loss A/c	-	2.5
	60.0	27.5		60.0	27.5

Additional Information:

(i) The two companies agree to amalgamate and form a new company, Medium Ltd.

(ii) Big Ltd. holds 10,000 shares in Small Ltd. acquired at a cost of ₹2,50,000 and Small Ltd. holds 5,000 shares in Big Ltd. acquired at a cost of ₹7,00,000.

(iii) The shares of Big Ltd. are of ₹100 and are fully paid and the shares of Small Ltd. are of ₹50 each on which ₹30 has been paid-up.

(iv) It is agreed that the goodwill of Big Ltd. would be valued at ₹1,50,000 and that of Small Ltd. at ₹2,50,000.

(v) The shares which each company holds in the other are to be valued at book value having regard to the goodwill valuation decided as given in (iv).

(vi) The new shares are to be of a nominal value of ₹50 each credited as ₹25 paid.

You are required to prepare a statement showing the shareholdings in the new company attributable to the shareholders of the merged companies. [10]

Question No. 3: Answer to question No. 3(a) is Compulsory. Also answer any one from the remaining sub-questions

(a) Following are the Balance Sheets of Mumbai Limited, Delhi Limited, Amritsar Limited and Kanpur Limited as at 31st December, 2014:

			₹	
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**

Compute the Minority Interest. [10]

(b) (i) Mayukh Ltd. wanted to buy 30% equity shares of Omkar Ltd. with an intention to establish an associate relationship between the two on 01.04.2013 Mayukh Ltd. purchased such percentage of equity shares at a cost of ₹15 Lakhs. On that date the balance sheet of Omkar Ltd. Was as under:

Name of the Company: Omkar Ltd.
Balance Sheet as at: 1st April, 2013

(₹ in lakh)

Ref No.		Note No.	As at 1st April, 2013	As at 1st April, 2012
	EQUITY AND LIABILITIES			
	Shareholder's Fund			
	(a) Share capital	1	30.00	
	(b) Reserves and surplus	2	9.00	
	Current Liabilities			
	(a) Short-term borrowings	3	1.00	
	(b) Trade payables	4	3.00	
	Total		43.00	
	ASSETS			
	Non-current assets			
	(a) Fixed assets			

	(i) Tangible assets	5	36.00	
	Current assets			
	(b) Inventories	6	3.00	
	(c) Trade receivables	7	3.00	
	(d) Cash and cash equivalents	8	1.00	
	Total (1+2)		43.00	

(₹ in lakh)

Note 1. Share Capital	As at 1st April, 2013	As at 1st April, 2012
Authorized, Issued, Subscribed and paid-up Share capital:		
30,000 Equity share of ₹ 100 each	30.00	
Note 2. Reserve & Surplus		
Reserves & Surplus	9.00	
Note 3. Short term borrowings		
Bank Overdraft	1.00	
Note 4. Trade Payables		
Sundry Creditors	3.00	
Note 5. Tangible Assets		
Tangible Assets	36.00	
Note 6. Inventories		
Stock in trade	3.00	
Note 7. Trade Receivables		
Sundry debtors	3.00	
Note 8. Cash and cash equivalents		
Balance at Bank	1.00	

During the year 2013-14 Omkar Ltd. earned a profit of ₹15 lakhs and on 2014 – 15 it suffered a loss of ₹90 lakhs. Mayukh Ltd. did not have any subsidiary during 2013-14 but on 01.04.2014 it purchase 60% equity shares of Umang Ltd. for ₹160 lakhs.

Discuss the impact of the associate relationship on the balance sheet of 2013-14 & 2014-15 of Mayukh Ltd. [10]

(ii) "The Holding company may revalue the assets and liabilities of the subsidiary company at the time of acquisition of shares in terms of market prices" – Justify. [5]

(c) A Limited is a holding company and B Limited and C Limited are subsidiaries of A Limited. Their Trial Balance (Extract) as on 31.12.2014 are given below:

Particulars	A Ltd.		B Ltd.		C Ltd.	
	Debit (₹)	Credit (₹)	Debit (₹)	Credit (₹)	Debit (₹)	Credit (₹)
Share Capital	-	3,00,000	-	3,00,000	-	1,80,000
Reserves	-	1,44,000	-	30,000	-	27,000
Profit and Loss A/c	-	48,000	-	36,000	-	27,000
C Ltd. Balance	-	9,000	-	-	-	-
Sundry Creditors	-	21,000	-	15,000	-	-
A Ltd.	-	-	-	21,000	-	-
Fixed Assets	60,000	-	1,80,000	-	1,29,000	-
Investments:						
Shares in B Ltd.	2,85,000	-	-	-	-	-
Shares in C Ltd.	39,000	-	1,59,000	-	-	-
Stock in Trade (Opening)	36,000	-	-	-	-	-
B Ltd. Balance	24,000	-	-	-	-	-
Sundry Debtors	78,000	-	63,000	-	96,000	-
A Ltd. Balance	-	-	-	-	9,000	-
Total	5,22,000	5,22,000	4,02,000	4,02,000	2,34,000	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 30.6.2014.

(v) On 31.12.2013, 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 30.6.2014 (₹ 12,000) was later sold to A Ltd. for ₹13,200 and remained unsold by A Ltd. as on 31.12.2014.

(viii) Cash-in-transit from B Ltd. to A Ltd. was ₹ 3,000 as at the close of business.

(ix) Closing Stock of A Ltd. is also ₹36,000.

You are required to Prepare the Consolidated Balance Sheet of the group as on 31st December,2014. [15]

Question No. 4: Answer to Question No. 4(a) is Compulsory. Also answer any two from the remaining sub-questions.

(a)) State the internal and external benefits of sustainability reporting. [5]

(b) 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.	₹1,40,000	₹1,00,000
(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

[10]

(c)

Compute EVA of Santhi Ltd. for 3 years from the information given - (in ₹ Lakhs)

Year	1	2	3
Average Capital Employed	3,000.00	3,500.00	4,000.00
Operating Profit before Interest (adjusted for Tax Effect)	850.00	1250.00	1600.00
Corporate Income Taxes	80.00	70.00	120.00
Average Debt + Total Capital Employed (in %)	40.00	35.00	13.00
Beta Variant	1.10	1.20	1.30
Risk Free Rate (%)	12.50	12.50	12.50
Equity Risk Premium (%)	10.00	10.00	10.00
Cost of Debt (Post Tax) (%)	19.00	19.00	20.00

[10]

(d) C Ltd. grants 100 stock options to each of its 1,000 employees on 01.4.2012 for ₹20, depending upon the employees at the time of vesting of options. The market price of the share is ₹50. These options will vest at the end of year 1 if the earning of C Ltd. is 16%, or it will vest at the end of the year 2 if the average earning of two years is 13%, or lastly it will vest at the end of the third year if the average earning of 3 years will be 10%. 5000 unvested options lapsed on 31.03.2013. 4000 unvested options lapsed on 31.03.2014 and finally 3500 unvested options lapsed on 31.03.2015.

Following is the earning of C Ltd.

Year ended on	Earnings (in %)
31.03.2013	14%
31.03.2014	10%
31.03.2015	7%

850 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal entries for the above. [10]

Question No. 5 (Answer any three):

(a) Discuss the structure of Indian Government Accounting Standards Advisory Board. [5]

(b) State the objective and scope of Indian Government Accounting Standard 1 (Guarantees given by Governments: Disclosure Requirements) [5]

(c) State the benefits of Cash Flow Information as per Indian Government Accounting Standard 3 (Cash Flow Statements) [5]

(d) Discuss about 'Voted & Charged Expenditure'. [5]