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) On January 2, 2014 ADS Corp. bought a trademark from Toyland Corp. for ₹5,00,000. ADS retained an independent consultant, who estimated the trademark's remaining life to be 20 years. Its unamortized cost on Toyland Corp. accounting records was ₹3,80,000. ADS decided to amortize the trademark over the maximum period allowed. In ADS's December 31, 2014 balance sheet, what amount should be reported as accumulated amortization? [4]

(b) State the classification criteria of IFRS 5 (Non-current assets held for sale and discontinued operations) [6]

Answer:

(a)

As per para 23 of AS-26 intangible assets should be measured initially at cost therefore, ADS should amortize the trademark at its cost of ₹5,00,000. The unamortized cost on the seller's books of ₹3,80,000 is irrelevant to the buyer. Although the trademark has a remaining useful life of 20 years, intangible assets are generally amortized over a maximum period of 10 years as per AS-26. Therefore, for 2014 amortization expense and accumulated amortization is ₹50,000 (₹5,00,000/10 years)

(b) Classification criteria of IFRS 5 (Non- current assets held for sale and discontinued operations)

- management is committed to a plan to sell
- the asset is available for immediate sale
- an active programme to locate a buyer is initiated
- the sale is highly probable, within one year of classification as held for sale (subject to exceptions stated in Para 9, IFRS-5)
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

The criteria 'sale is highly probable within one year of classification as held for sale' needs is not evidenced when the management is indecisive whether the particular asset will be sold or leased out.

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

(a) XX Ltd agreed to absorb YY Ltd on 31st March whose Balance Sheet stood as follows:

I. Equity and Liabilities	₹
Shareholders' Funds:	
(a) Share Capital (80000 shares of ₹10 fully paid)	8,00,000
(b) Reserve and Surplus -general reserve	1,00,000
Non-Current Liabilities:	
Long Term Borrowings	
-Secured Loans	-
-Unsecured Loans	-
Current Liabilities:	
Trade Payables -Sundry Creditors	1,00,000
Total	10,00,000
II. Assets	₹
Non-Current Assets:	
(a) Fixed Assets	7,00,000
(b)Non-Current Investments	-
Current Assets:	
(a)Inventories	1,00,000
(b)Trade Receivables -Debtors	2,00,000
Total	10,00,000

The consideration was agreed to be paid as follows-

(i) **A payment of ₹5 per share in YY Ltd, and**
(ii) **The issue of ₹10 each in XX Ltd. on the basis of 2 Equity Shares (valued at ₹15) and one 10% Cumulative Preference Share (Valued at ₹10) for every 5 shares held in YY Ltd.**
The whole of the Share Capital consists of shareholding in exact multiple of five except the following holding-
(iii) **P-116 share, (ii)Q-76 shares, (ii)R-72 shares, (iv)S-28 shares, (v)Other Individuals-8 shares (eight members holding one share each).Total of such fractional holding =300 shares.**

It was agreed that XX Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in YY Ltd. i.e. ₹65 for 5 shares of ₹50 paid.
Prepare a statement showing the purchase consideration receivable in shares and cash.

[5]

Answer:

Analysis of fractional holdings and Exchange of shares

Name of shareholder	Shares Held	Exchangeable in multiples of five	Exchange in equity shares	Exchange in preference shares	Non-exchangeable
P	116	115	(115 × 2/5) =46	(115 × 1/5) =23	1
Q	76	75	(75 × 2/5) =30	(75 × 1/5) =15	1
R	72	70	(70 × 2/5) =28	(70 × 1/5) =14	2

S	28	25	(25 × 2/5) =5	(25 × 1/5) =5	3
Others	8	-	-	-	8
Total	300	285	114	57	15

Computation of Shares Exchangeable

Particulars	Shares in YY Ltd	Equity Shares of XX Ltd.	Pref. Shares of XX Ltd.
Fractional Holdings(as above)	300	114	57
Other holdings	(80,000 – 300) =79,700	79,700 x 2/5 =31,880	79,700 x 1/5 =15,940
	80,000	31,994	15,997

There are 15 shares in YY Ltd. which are not capable of exchange into equity & preference shares of XX Ltd. Hence they will be paid cash as 15 shares x ₹10 paid up value x 65/50 = ₹195

Settlement of Purchase Consideration

Particulars	₹
31,994 equity shares at ₹15 each(face value of ₹10 each)	4,79,910
15,997 Preference shares at ₹10 each	1,59,970
Cash for (80000 – 15)=79,985 shares at ₹5 each	3,99,925
Total	10,39,805
Add: Cash for 15 shares (fractional holding non-exchangeable)	195
Total Purchase Consideration	10,40,000

(b) The Balance Sheet as at 31st March of Maharishi Ltd. was as under (₹000's) -

Equity and Liabilities	₹	Assets		₹
(1) Shareholders' Funds:		**(1) Non- Current Assets:**		
(a) Share Capital		**(a) Fixed Assets**		
- 8,000 Equity Sh of ₹100 each, ₹50 per Sh pd up	**4,00**	**- Tangible**	**850**	
		- Intangible Assets		
- 4,000 11% Cum Pref. Shares ₹100 each, fully pd.	**4,00**	**(Goodwill at cost)**	**40**	
		Less:Depreciation	**(2,70)**	**6,20**
(b) Reserves & Surplus		**(b) Non –current Investments**		**25**
(i) General Reserve	**60**	**(2)Current Assets:**		
(ii) Securities Premium (received on Pref. Shares)	**40**	**(a) Inventories**		**2,10**
(2)Current Liabilities:	**3,10**	**(b) Trade receivables – Sundry Debtors**		**2,55**
		(c) Cash & cash Equivalents		**1,00**
Total	**1,210**	**Total**		**1,210**

Note: Preference Dividends are in arrears for three years including the year ended 31st March as above.

The funds of the Company are sufficient to discharge its Liabilities including Preference Dividends in arrears. However, the Company does not want to deplete its resources. It would also like to reflect the values of some of its Assets in a realistic manner. The Board of Directors of the Company decided and proposed the following scheme of rehabilitation / reconstruction to be effective from 1st April:

(i) The Cumulative Preference Shareholders are to be issued, in exchange of their holdings 13% Debentures of the Face Value of ₹100 each at a Premium of 10%. Fractional holdings are to be paid off in Cash.

(ii) Arrears in Preference Dividends to be converted into Equity Shares of ₹100, ₹50 per Share paid up.

(iii) After the issue of the Equity Shares mentioned in (2) above, the Paid Up Value of all the Equity Shares is to be reduced to ₹ 25 each.

(iv) Face Value of all Equity Shares to be reduced to ₹50 each and the balance of the unpaid portion is to be called up fully.

(v) Goodwill has lost its value and has to be written off. Market Value of other Fixed Assets is determined, as at 31st March, at ₹ 5,00,000.

(vi) Investments have no Market Value and have to be written off.

(vii) Stock In Trade is to be valued at 110% of its Book Value and Sundry Debtors are to be discounted by 5%.

The scheme as approved by the Directors, is duly accepted by all authorities and put into effect.

During the working for the half ended 30th September it is noticed that the trading for the period has resulted in an increase of Bank balances by ₹55,100, Sundry Debtors by ₹40,000, Trade Creditors by ₹26,000 and a decrease in Stock by ₹8,000. Depreciation for the half year on Fixed Assets at 10% per annum is to be provided. The increase in the Bank Balances was prior to the Company paying the half yearly Interest on Debentures and redeeming one half of the Debentures on 30th September.

From the above information, you are required to prepare Journal Entries, Ledger Accounts. All working notes are to form part of your answer. [10]

Answer:

1. Computation of Debentures to be issued to Preference Shareholders w. e. f. 1st April

$$\frac{₹4,00,000}{₹100 + ₹10 \text{ Premium}} = 3,636.36 \text{ Debentures of ₹100 each at 10\% Premium.}$$

Hence, 13% Debentures issued	3,636 Debentures at ₹100	= ₹3,63,600
Premium on issue of Debentures	3,636 Debentures at ₹10	= ₹ 36,360
Cash paid for fractional holding	(balancing figure)	= ₹ 40

Total Due to Preference Shareholders = ₹ 4,00,000

2. Journal Entries

	Particulars	Debit	Credit
1.	11% Preference Share Capital A/c Dr. To 13% Debentures A/c To Premium on Issue of Debentures A/c To Cash and Bank A/c (Being Issue of 3,636 13% debentures of ₹100 each at a Premium of ₹ 10 to cancel 4,000 11% Cumulative Preferences Shares of ₹100 each, fraction ₹ 40 was paid in cash under to the scheme of reconstruction vide Board Resolution dated………)	4,00,000	 3,63,600 36,360 40
2.	Capital Reduction A/c Dr. To Equity Share Capital A/c (Being issue of 2,640 Equity Shares of ₹100 each ₹50 paid-up for Arrears of Preference Dividend = ₹4,00,000 × 11% × 3 years)	1,32,000	 1,32,000
3.	Equity Share Capital A/c Dr. To Capital Reduction A/c (Being reduction of paid up value of 10,640 Equity Shares of ₹100 each, ₹50 paid up to Shares of ₹50 each, ₹25 paid up) (50% of 5,32,000)	2,66,000	 2,66,000
4.	Bank A/c Dr. To Equity Share Capital A/c (Being Call money received on 10,640 Equity Shares at ₹25 to make the Equity Shares fully paid up)	2,66,000	 2,66,000
5.	Capital Reduction A/c Dr. To Goodwill A/c To Investment A/c To Fixed Assets A/c (8,50,000 - 2,70,000) - 5,00,000 To Sundry Debtors A/c (Being value of Sundry Assets written down owing to the scheme of	1,57,750	 40,000 25,000 80,000 12,750

	reconstruction vide Board resolution dated...)		
6.	Stock A/c Dr. To Capital Reduction A/c (Value of stock written up under scheme of reconstruction vide Board resolution dated...)	21,000	21,000
7.	General Reserve A/c Dr. To Capital Reduction A/c (Being shortfall in Capital Reduction transferred from General Reserve)	2,750	2,750

3. Capital Reduction A/c

Particulars	₹	Particulars	₹
To Equity Share Capital A/c	1,32,000	By Equity Share Capital A/c	2,66,000
To Goodwill A/c	40,000	By Stock	21,000
To Investment A/c	25,000	By General Reserve (bal. figure)	2,750
To Fixed Assets A/c	80,000		
To Sundry Debtors A/c	12,750		
Total	2,89,750	Total	2,89,750

(c) Rama Ltd and Radha Ltd are to be amalgamated into Rama Radha Ltd. (RRL). The new company is to take over all the assets and liabilities of the amalgamating companies. The new company is to take over all the assets and liabilities of the amalgamating companies.
Assets and Liabilities of Rama Ltd are to be taken over at book values in exchange of shares in RRL. Three shares in the new company are to be issued at a premium of 20% for two shares of Rama Ltd.
The scheme for Radha Ltd is as follows:

- **10% preference shareholders are to be allowed two 15% preference shares of ₹100 each in RRL for three preference shares held in Radha Ltd.**
- **The debentures of Radha Ltd are to be paid off at 5% discount by the issue of Debentures at par.**
- **The equity shareholders of Radha Ltd. are to be allowed as many shares at par in RRL as will cover the balance on their account and for this purpose, Plant and Machinery is to be valued**

less by 15% and obsolete stock forming 10% of the overall stock value is to be treated as worthless.

Show the Journal Entries in the Amalgamating Companies.

The Balance Sheets of the two companies Rama Ltd and Radha Ltd prior to amalgamation are as under

Equity and Liabilities	Rama	Radha	Assets	Rama	Radha
(1)Shareholders' Funds			(1) Non-Current Assets:		
(a) Share Capital			Fixed Assets		
(i) Equity Capital (shares of ₹10)	6,40,000	12,50,000	- Tangible Assets (P&M)	12,80,000	20,00,000
(ii) 10% Preference shares of ₹100	-	7,50,000	(2)Current assets:		
(b) Reserves & Surplus			(a)Inventories	1,00,000	1,50,000
(i) General Reserve	8,80,000	-	(b)Trade receivables - Drs	1,52,000	1,25,000
(ii) Profit & Loss Account	-	(3,50,000)	(c)Cash & cash equivalents	1,08,000	1,00,000
(2)Non-current Liabilities					
Long term borrowings					
-Secured Debentures	-	5,00,000			
(3)Current Liabilities:					
Trade Payables – Sundry Creditors	1,20,000	2,25,000			
Total	16,40,000	23,75,000	Total	16,40,000	23,75,000

[10]

Answer:

1. Basic Information

Selling Co: Rama Ltd., Radha Ltd.	Nature of amalgamation
Buying Co: Rama Radha Ltd.	For Rama Ltd= Merger (all conditions satisfied)
	For Radha Ltd = Purchase (since all assets are not taken over at BV)

2. Computation of Purchase Consideration

A. For Rama Ltd, the payment method is applied for determining the Purchase Consideration. Hence, the amalgamation is accounted under Pooling of Interest method.
Number of shares to be issued by RRL for Rama Ltd's Shareholders = 64,000 × 3/2 =96,000 shares
Since the Issue Price is ₹12 per share, the purchase consideration is 96,000 × 12 = ₹11,52,000

B. For Radha Ltd, the net assets method is applied for determining the purchase consideration. Since the assets are not taken over at book value, the amalgamation is accounted under Purchase method.

Particulars	₹
Assets taken over: Plant & Machinery (20,00,000 less 15%)	17,00,000
Debtors	1,25,000
Inventory (1,50,000 less10%)	1,35,000
Cash	1,00,000
Total Assets	**20,60,000**
Less: Liabilities Creditors	2,25,000
Secured Debentures (5,00,000 Less 5%)	4,75,000
Net Purchase Consideration	**13,60,000**
Discharge: Preference Shareholders: 7,50,000 × 2/3	5,00,000
Equity shareholders (balancing figure) = 13,60,000 -5,00,000	8,60,000

3. Journal Entries in the books of Purchasing Company RRL

A. Amalgamation of Rama Ltd

Particulars		₹	₹
Business Purchase A/c	Dr.	11,52,000	
To Liquidators of Rama Ltd.			11,52,000
(Being purchase of business of Rama Ltd, recognition of liability due)			
Plant & Machinery A/c	Dr.	12,80,000	
Sundry Debtors	Dr.	1,52,000	
Inventories	Dr.	1,00,000	
Cash and Bank Balance	Dr.	1,08,000	
To Creditors			1,20,000
To General Reserve (Balancing Figure)			3,68,000
To Business Purchase			11,52,000
(Being assets and liabilities of Rama Ltd. taken over, excess of purchase consideration over share capital i.e. ₹11,52,000 - ₹6,40,000 adjusted in reserves ₹5,12,000, balance of reserves recorded = ₹3,68,000)			
Liquidator of Rama Ltd.	Dr.	11,52,000	
To Equity Share Capital (96,000 × ₹10)			9,60,000
To Securities Premium (96,000 × ₹2)			1,92,000
(Being issue of equity shares towards discharge of Purchase consideration)			

B. Amalgamation of Radha Ltd

Particulars		₹	₹
Business Purchase A/c	Dr.	13,60,000	
To Liquidators of Radha Ltd.			13,60,000
(Being purchase of business of Radha Ltd, recognition of liability due)			
Plant & Machinery A/c	Dr.	17,00,000	
Sundry Debtors	Dr.	1,25,000	
Inventories	Dr.	1,35,000	
Cash and Bank Balance	Dr.	1,00,000	
To Debentureholders (5,00,000 – 5%)			4,75,000

To Creditors		2,25,000
To Business Purchase		13,60,000
(Being assets and liabilities of Radha Ltd. taken over)		
Liquidator of Radha Ltd. Dr.	13,60,000	
To Equity Share Capital		8,60,000
To 15% Preference Share Capital		5,00,000
(Being issue of shares towards discharge of Purchase consideration)		
Debentureholders Dr.	4,75,000	
To debentures of RRL		4,75,000
(Being fresh issue of debentures for settlement of debentureholders)		

(d) Rajesh Ltd carried on Manufacturing Business. Its products were sold to wholesalers and the Company had its own Retail Shop.

Sujesh Ltd carried on similar Manufacturing Business, but all Goods produced were sold through the Company's own Retail Shop.

The summarized Balance Sheet of the two Companies as at 31st March were as follows

Equity and Liabilities	Rajesh	Sujesh	Assets	Rajesh	Sujesh
Shareholders' Funds:			**Non- Current Assets:**		
Authorised: Eq. Shares of ₹10	**40,00,000**	**6,00,000**	**Fixed Assets (i) Tangible**		
Share Capital (issued & paid up)			**Freehold Properties (as cost)**	**10,00,000**	**2,50,000**
Equity Shares of ₹10	**25,00,000**	**6,00,000**	**Plant & Machinery (Net Block)**	**13,00,000**	**1,00,000**
Reserves & Surplus			**Current Assets:**		
– Profit & Loss Account	**3,40,000**	**90,000**			
Current Liabilities:			**Inventories**	**4,80,000**	**1,20,000**
Trade Payables - Creditors	**4,20,000**	**70,000**	**Trade receivables – Drs**	**2,30,000**	**80,000**
			Cash & cash Equivalents	**2,50,000**	**2,10,000**
Total	**32,60,000**	**7,60,000**		**32,60,000**	**7,60,000**

Original Cost of Plant & Machinery was as follows: Rajesh Ltd – ₹26,00,000, and Sujesh Ltd ₹ 2,00,000.

The following arrangements were made and carried out on April:

Rajesh Ltd purchased from the Shareholders of Sujesh Ltd all the issued Shares @ ₹ 14 per Share.

Shareholders of Sujesh Ltd took over Freehold Properties of the Company for ₹60,000 at the Book Value of the same. It was agreed that the amount should be set off against the amount due to them under (1) above and the balance due to them to be satisfied by the issue of an appropriate number of Equity Shares in Rajesh Ltd at ₹ 19.50 per share.

The necessary transfer in regard to the setting off the Price of the Property taken over by the Shareholders against the amount due to them from Rajesh Ltd were made in the books of the two Companies.

All the manufacturing was to be carried on by Rajesh Ltd and all retail Business is to be carried on by Sujesh Ltd In this connection.

Rajesh Ltd purchased the whole of Sujesh Ltd's Plant and Machinery for ₹1,50,000 and certain of their Freehold Property (Cost ₹1,00,000) at ₹1,20,000.

Sujesh Ltd purchased Rajesh Ltd's Freehold Retail Shop Buildings (Cost to Rajesh Ltd ₹75,000) at ₹ 60,000 and took over the retail stock at ₹80,000 at the Book Value.

Rajesh Ltd drew cheque in favour of Sujesh Ltd for the net amount due, taking into account all the matters mentioned above.

Immediately after the transfer of Shares as in (1) above, Sujesh Ltd declared and paid Dividend of ₹ 60,000 (Ignore Income Tax)

Prepare the Balance Sheet of Rajesh Ltd. immediately after the completion of the above transaction. **[10]**

Answer:

1. Computation of purchase consideration

Particulars	₹
Total Consideration - 60,000 Shares of Sujesh Ltd at ₹14 per share	8,40,000
Less: Freehold Property taken over by the shareholders	60,000
Value of Shares to be issued by Rajesh Ltd - Cost of Investment	7,80,000
Issue Price Per Share of Face Value ₹ 10	19.50
Total Number of Shares to be issued $\left(\frac{₹7,80,000}{₹19.50 \text{ per share}}\right)$	40,000 Shares
Amount to be credited to Share Capital Account (40,000 Shares × ₹10.00)	4,00,000
Amount to be credited to Securities Premium (40,000 Shares × 9.50)	3,80,000

2. Computation of amount payable by Rajesh Ltd. to Sujesh Ltd.

Particulars	₹
Assets purchased from Sujesh Ltd (Freehold Property 1,20,000 + P& M 1,50,000)	2,70,000
Less: Assets sold to Sujesh Ltd. (Building 60,000 + Stock 80,000)	1,40,000
Balance Amount due to Sujesh Ltd. paid through Cheque	1,30,000

3. Cash and Bank Balance of Rajesh Ltd. and Sujesh Ltd.

Particulars	Rajesh	Sujesh
Balance as per Balance Sheet before reorganization exercise	2,50,000	2,10,000
Dividend from Sujesh Ltd to Rajesh Ltd	60,000	(60,000)
Paid to Sujesh Ltd (See Working Note 2 above)	(1,30,000)	1,30,000
Balance as per Balance Sheet after reorgnisation exercise	1,80,000	2,80,000

4. Balance in Profit & Loss Account

Particulars	Rajesh	Sujesh

Profit & Loss Account (given)	3,40,000	90,000
Write off of Freehold Property to Shareholders	-	(60,000)
Profit on Sale of Machinery by Sujesh to Rajesh (1,50,000 - 1,00,000)	-	50,000
Profit on Sale of Properties by Sujesh to Rajesh (1,20,000 - 1,00,000)	-	20,000
Loss on Sale of Properties by Rajesh to Sujesh (60,000 - 75,000)	(15,000)	-
Dividend from Sujesh Ltd to Rajesh Ltd	60,000	(60,000)
Profit & Loss Account for Balance Sheet	3,85,000	40,000

5. Balance Sheet of Rajesh Ltd. as on 31st March

	Particulars as at 31st March		Note	This Year	Prev. Yr
I	EQUITY AND LIABILITIES				
(1)	Shareholders' Funds:				
	(a) Share Capital		1	29,00,000	
	(b) Reserves & Surplus		2	7,65,000	
(2)	Current Liabilities:	Trade Payables (Creditors)		4,20,000	
	Total			40,85,000	
II	ASSETS				
(1)	Non-Current Assets				
	(a) Fixed Assets:	- Tangible Assets	3	24,95,000	
	(b) Non-Current Investments	- Shares in Sujesh Ltd		7,80,000	
(2)	Current Assets				
	(a) Inventories	- (4,80,000 - 80,000)		4,00,000	
	(b) Trade Receivables (c) Cash & Cash Equivalents	- Debtors		2,30,000 1,80,000	
	Total			40,85,000	

Notes to the Balance Sheet:

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: 4,00,000 Equity Shares of ₹10 each	40,00,000	
Issued, Subscribed & Paid up: 2,90,000 Equity Shares of ₹10 each (the above includes 40,000 Shares issued for consideration other than cash)	29,00,000	

Note: 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Securities Premium A/c (b) Surplus (Balance in P & L A/c)	3,80,000 3,85,000	
Total	7,65,000	

Note 3: Tangible Assets

Particulars		This Year	Prev. Year
(a) Properties	(10,00,000 + 1,20,000 - 75,000)	10,45,000	
(b) Plant & Machinery	(13,00,000 + 1,50,000)	14,50,000	
Total		24,95,000	

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

(a) From the following information determine the amount of unrealized profits to be eliminated and the apportionment of the same, if S Ltd. Holds 75% of the equity shares of T Ltd.

(i) Sales by S Ltd to T Ltd-

- **Goods costing ₹50,000 at a profit of 20% on sale price. Entire stock was lying unsold as on the Balance Sheet date.**
- **Goods costing ₹70,000 at a profit of 25% on cost price. 40% of the goods were included in closing stock of T Ltd.**

(ii) Sales by T Ltd. to S Ltd.

- **Goods sold for ₹75,000 on which T made profit of 25% on cost. Entire stock was at S's godown as on the Balance Sheet date.**
- **Goods sold for ₹90,000 on which T made profit of 15% on sale price. 70% of the values of goods were included in closing stock of S. [10]**

Answer:

Transaction	**Sale by S Ltd.(Holding) to T Ltd.(Subsidiary)**	
Nature of transaction	Downstream Transaction	
Profit on transfer	Cost ₹50,000 × Profit on sale 20% / Cost on sale 80%=₹12,500	Cost ₹ 70,000 × Profit on cost 25% = ₹17,500
% of stock included in closing stock	100%	40%
Unrealized Profits to be eliminated(transferred to Stock Reserve)	₹12,500 × 100% = ₹12,500	₹17,500 × 40% = ₹7,000
Share of Majority- reduced from Group Reserves	100% × ₹12,500 = ₹12,500	100% × ₹7,000 = ₹7,000
Share of Minority	Unrealized profit on downstream transactions is fully adjusted against group reserves. Minority Interest is not relevant.	

Transaction	**Sale by T Ltd.(Subsidiary) to S Ltd.(Holding)**	
Nature of transaction	Upstream Transaction	
Profit on transfer	Sale ₹75000 × Profit on cost 25%/ sale to cost 125%= ₹15000	Sale ₹90,000 × profit on cost 15%= ₹13500
% of stock included in closing stock	100%	70%
Unrealized Profits to be eliminated(reduced from closing stock)	₹15,000 × 100% = ₹15,000	₹13,500 × 70% =₹9450
Share of Majority- reduced from Group Reserves	Share of Majority 75% × Unrealized Profit ₹15,000= ₹11,250	Share of Majority 75% × Unrealized Profit ₹9,450= ₹7,088
Share of Minority- reduced from Minority Interest.	Share of Minority 25% × Unrealized Profit ₹15,000= ₹3,750	Share of Minority 25% × Unrealized Profit ₹9,450= ₹2,362

(b) The summarized Balance Sheets of Kush Ltd and Shuk Ltd as at 31st March 2015 are as follows:

(₹ lakhs)

Equity and Liabilities	**Kush**	**Shuk**	**Assets**	**Kush**	**Shuk**
(1) Shareholders' Funds:			**(1) Non-Current Assets:**		
(a) Share Capital			**(a) Fixed Assets – (i) Tangible**		
- Equity Shares of ₹10 each	**216.0**	**108.0**	**- Plant at cost Less: Depreciation**	**86.4**	**72.9**
(a) Reserves & Surplus			**- Furniture, Fixtures & Fittings**	**23.4**	**7.2**
(i) Share Premium	**32.4**	**---**	**(ii)Intangible –Goodwill**	**45.0**	**13.6**
(ii) Capital Reserve – on 01.04.2014	**---**	**7.2**	**(b)Non-Current Investments 8.64 lakh Shares of Shuk at Cost**	**97.2**	**---**
(iii) General Reserve – on 01.04.2014	**13.5**	**9.0**	**(2)Current Assets:**		
(iv) Profit & Loss Account	**70.2**	**21.6**	**(a)Current Investments**	**---**	**2.7**
(2) Current Liabilities:			**(b)Inventories**	**18.0**	**13.5**
Trade Payables – Sundry Crs.	**29.7**	**19.7**	**(c)trade Receivables – Drs**	**73.8**	**47.6**

			(d)Cash & Cash Equivalents	18.0	8.0
Total	**361.8**	**165.5**	**Total**	**361.8**	**165.5**

Additional Information –

(i) On 1st April, 2014 Kush Ltd. acquired from the Shareholders of Shuk Ltd. 8.64 lakhs Shares of ₹ 10 each. In Shuk Ltd. and allotted in consideration thereof 6.48 lakhs of its own Shares of ₹ 10 each at a premium of ₹ 5 per share.

(ii) The Consideration for the Shares of Shuk Ltd was arrived at inter-alia by valuing certain Assets of Shuk Ltd on 1st April, 2014 as under –

(a) Plant at ₹ 90 lakhs.

(b) Furniture, Fixtures, and fittings at ₹ 8 lakhs.

(c) No. of value of trade Investment and Goodwill.

No adjustments were made in the books of account of Shuk Ltd. in respect of the above valuation. During 2014-2015 there was no Purchase or Sale of these Assets. It is desired that such adjustments should however be made in the Consolidated Accounts.

(iii) The figures of Plant and Furniture, Fixtures and Fittings at 31.03.2015 shown in the Balance Sheet are after providing depreciation for 2014-2015 at the rate of 10% p.a. and 20% p.a. respectively, on the Book values as at 01.04.2014.

(iv) The Profit and Loss Account of Shuk Ltd. showed a Credit balance of ₹ 27 lakhs on 01.04.14. A dividend of 10% was paid in January, 2015 for the year 2013-2014. This dividend was credited to Profit and Loss A/c of Kush Ltd.

(v) The following point was not considered in making out the accounts:
In the year expenses at ₹ 4,500 per month were incurred by Kush ltd on behalf of Shuk Ltd. it was by mistake debited to Profit and Loss Account of Kush Ltd and nothing has been done in the accounts of Shuk Ltd.

(vi) The Stock of Shuk Ltd included ₹ 4.5 lakhs of Goods received from Kush Ltd invoiced at cost plus 25%.

(vii) Debtors of Shuk Ltd. include ₹ 3.5 lakhs due from Kush Ltd were as Creditors of Kush Ltd include ₹ 3.1 lakhs due to Shuk Ltd the difference being represented by a cheque in transit.

You are requested to show the analysis of Reserves and Surplus and Minority Interest as at 31st March, 2015. [15]

Answer:

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = Kush	Acquisition: 01.04.2014	Holding Company = 80%
Subsidiary = Shuk	Consolidation: 31.03.2015	Minority Interest = 20%

Note: 8.64 Lakhs Shares out of 10.80 Lakhs Shares = 80%

2. Analysis of Reserves and Surplus of Shuk Ltd.

(a) Capital Reserve (₹ lakhs)

Balance as on date of Consolidation 7.20

As on 01.04.2014 ₹ 7.2 lakhs (Pre Acqn.)

Transfer during 2014-2015 ₹ NIL (Post Acqn.)

Group Interest – Pre
= 7.2 × 80% = 5.76

Minority Interest
= 7.2 × 20% = 1.44

(b) General Reserve (₹ lakhs)

Balance as on date of Consolidation ₹ 9.00 lakhs

As on 01.04.2014 ₹ 9.00 lakhs (Pre Acqn.)

Transfer during 2014-2015 ₹ NIL (Post Acqn.)

Group Interest – Pre
= 9.00 × 80% = 7.20

Minority Interest
= 9.00 × 20% = 1.80

(c) Profit and Loss Account (₹ lakhs)

Balance as on date of Consolidation ₹ 9.00 lakhs	₹ 21.60	
Less: Expenses incurred by Kush on Shuk's behalf	(₹ 0.54)	₹ 4,500 × 12)
Closing Balance	₹ 21.06	

Closing Balance as above ₹ 21.06

As on 01.04.2014	27.00
Less: Dividend at 10% for FY 2013-14	(10.80)
(108.00 lakhs × 10%) Pre Acqn.	16.20

Profit for 2014-15 ₹ 4.86 lakhs
Post Acquisition

Group Interest – Pre
= 16.20 × 80% = 12.96

Minority Interest
= 16.20 × 20% = 3.24

Group Interest – Post
= 4.86 × 80% = 3.888

Minority Interest
= 4.86 × 20% = 0.972

(d) Gain/Loss on Revaluation of Assets (₹ Lakhs)

Particulars	Plant	Furniture	Trade Invst.	Goodwill	Total
Book Value as at 31.03.2015	72.90	7.20	2.70	13.60	
Add: Depreciation for FY 2014-15	8.10= $\frac{10}{90}$ ×72.9	1.80= $\frac{20}{80}$ ×7.2	NIL	NIL	
Book Value as at 01.04.2014	81.00	9.00	2.70	13.60	
Revalued Amount	90.00	9.00	₹ NIL	₹ NIL	
Revaluation Gain / (Loss)	9.00	(1.00)	(2.70)	(13.60)	
Additional Depreciation on Revaluation	(0.90)	0.20	NIL	NIL	(8.30) Pre Acqn.
Gain/(Reversal on Revaluation Loss)	(9.00 × 10%)	(1.00 × 20%)			(0.70) Post Acqn.

3. Consolidation of Balances

Particulars	Total	Minority Interest	Pre -Acqn.	Post Acquisition	
Shuk Ltd (Holding 80%, Minority 20%)				Gen. Res.	P&L
Equity Capital	108.00	21.60	86.40	---	---
Capital Reserve	7.20	1.44	5.76	---	---
General Reserve	9.00	1.80	7.20	---	---
Profit and Loss A/c	21.06	4.212	12.96	---	3.888
		(1.66)	(6.64)	---	---
Revaluation Gain / (Loss)	(8.30)	(8.30×20%)	(8.30×80%)	---	
		(0.14)	---	---	(0.56)
Depreciation Gain/(Loss)	(0.70)	(0.70 ×20%		---	(0.70×80%)
Minority Interest		27.252	105.68	---	3.328
Cost of Investment [Dr.]			(97.20)		

Parent's Balances (Note 1)				13.50	70.20
Pre Acquisition Dividend Rectification (8.64 lakhs Shares × ₹ 10 × 10%)			8.64		(8.64)
Reversal of Expenditure of Shuk debited to P&L of Kush					0.54
Unrealized Pft. on Downstream Transaction 4.50 × 25/125					(0.90)
For Consolidated Balance Sheet		27.252	17.12	13.50	64.528
		Min. Int.	Cap. Res.	Gen. Res.	P&L

(c) Following are the Balance Sheets of Pandava Ltd and Kaurava Ltd as at 31.03.2015

Equity & Liabilities	Pandava	Kaurava	Assets	Pandava	Kaurava
(1) Shareholders' Funds:			**(1) Non-Current Assets:**		
(a) Share Capital			**(a) Fixed Assets** **- (i) Tangible**		
- Equity Shares of ₹10 each fully paid	**6,00,000**	**1,00,000**	**- Land & Buildings**	**2,00,000**	**1,00,000**
(b) Reserves & Surplus			**- Machinery**	**2,80,000**	**50,000**
(i) General Reserve	**50,000**	**30,000**	**(b) Non-Current Investments**		
(ii)Profit & Loss Account	**80,000**	**40,000**	**- 7,000 Shares in Kaurava**	**1,00,000**	**-**
(2) Current Liabilities:			**(2) Current Assets:**		
Trade Payables – **(a) Sundry Creditors**	**1,00,000**	**40,000**	**(a) Inventories**	**70,000**	**40,000**
(b) Bills Payable	**10,000**	**15,000**	**(b) Trade Receivables**		
			(i) Debtors	**1,50,000**	**20,000**
			(ii) Bills Receivable	**10,000**	**-**
			(c) Cash & Cash Equivalents	**30,000**	**15,000**
Total	**8,40,000**	**2,25,000**	**Total**	**8,40,000**	**2,25,000**

Prepare Consolidated Balance Sheet as at 31st March 2015 from the following additional Information -

(i) All the Bills Receivable of Pandava Ltd including those discounted were accepted by Kaurava

Ltd.

(ii) When Pandava Ltd had acquired 6,000 Shares in Kaurava Ltd, the latter had ₹20,000 in General Reserve and ₹5,000 Credit Balance in Profit and Loss Account.

(iii) At the time of acquisition of further 1,000 Shares by Kaurava Ltd, the latter had ₹25,000 General Reserve and ₹28,000 Credit Balance in Profit and Loss Account, from which 20% dividend was paid by Kaurava Ltd.

(iv) The dividends received by Pandava Ltd on these shares were credited to Profit & Loss Account.

(v) Stock of Kaurava includes goods valued at ₹ 20,000 purchased from Pandava Ltd which has made 25% Profit on Cost.

(vi) For the Financial Year ending 31.03.2015, Pandava Ltd had proposed a dividend of 10% and Kaurava Ltd has proposed a dividend of 15%, but no effect has yet been given in the above Balance Sheets. [15]

Answer:

1.Basic Information

Company Status	Date of Acquisition	Holding Status
Holding Company = Pandava Subsidiary = Kaurava	Lot 1 = 6,000 Shares = DOA - 1 Lot 2 = 1,000 Shares = DOA - 2	Holding Company = 70% Minority Interest = 30%

Date of Consolidation = 31.03.2015 (DOC)

2.Analysis of reserves & Surplus of kaurava Ltd

(a)General Reserve

Amount as per Balance Sheet 30,000

As on DOA 1 (Lot 1 date)	DOA 1 to DOA 2	DOA 2 to DOC
20,000	25,000 – 20,000 = 5,000	5,000 (bal. Figure)

Apportionment				Total
Minority Interest (30%)	30% × 20,000 = 6,000	30% × 5,000 = 1,500	30% × 5,000 = 1,500	9,000
Group Interest (70%)				
Pre Acqn.	70% × 20,000 = 14,000	10% × 5,000 = 500	-	14,500
Post Acqn.	-	60% × 5,000 = 3,000	70% × 5,000 = 3,500	6,500

(b)Profit & Loss Account

Amount as per Balance Sheet	40,000
Less: Proposed Dividend (1,00,000 × 15%)	(15,000)
Corrected Balance	25,000

As on DOA (Lot 1 date)	DOA 1 to DOA 2	DOC 2 to DOC
5,000	28,000 – 5,000 = 23,000	17,000 (bal. Figure)
	Less: Dividends from this = 20,000	
	Net Balance 3,000	

Apportionment				Total
Minority Interest (30%)	30% × 5,000 = 1,500	30% × 3,000 = 900	30% × 17,000 = 5,100	7,500
Group Interest (70%)				

Pre Acqn.	70% × 5,000 = 3,500	10% × 3,000 = 300	-	3,800
Post Acqn.	-	60% × 3,000 = 1,800	70% × 17,000 = 11,900	13,700

3.Consolidation of balances

Particulars	Total	Minority Interest	Pre-Acqn.	Post Acquisition	
Kaurava Ltd (Holding 70%, Minority 30%)				Gen. Res.	P&L A/c
Equity Capital	1,00,000	30,000	70,000		
General Reserves	30,000	9,000	14,500	6,500	
Profit and Loss A/c	25,000	7,500	3,800		13,700
Share of Proposed Dividend	15,000	4,500			10,500
Minority Interest		51,000			
Total [Cr.]			88,300		
Cost of Investment [Dr.] (Note 1)			(98,000)		
Parent's Balances (Note 1)				50,000	18,000
Unrealised Profits on Closing Stock $\left[20{,}000 \times \frac{25}{125}\right]$					(4,000)
For Consolidated Balance Sheet		51,000 Minority Int.	(9,700) (Goodwill)	56,500	38,200

Note:

Parent's P&L A/c balance and Cost of Investment

Particulars	Invsmt.	P&L A/c
Balance as per Balance Sheet	1,00,000	80,000
Less: Dividend from Pre-acquisition profits (Only for Lot 2 - 1,000 Shares) = (10,000 × 20%)	(2,000)	(2,000)
Proposed Dividend of Pandava (6,00,000 × 10%)		(60,000)
For Consolidation of Balances	98,000	18,000

Unrealised Profits: Stock Reserve, i.e. Unrealized Profits on Closing Stock have been eliminated in full from Group Reserves as it relates to Downstream Transaction.

Consolidated Balance Sheet of Pandava Ltd and its Subsidiary Kaurava Ltd as at 31.03.2015

	Particulars as at 31st March	Note	This Year	Prev. Yr
I	EQUITY AND LIABILITIES			
(1)	Shareholders' Funds:			
	(a) Share Capital	1	6,00,000	
	(b) Reserves & Surplus	2	94,700	
(2)	Minority Interest		51,000	
(3)	Current Liabilities			
	(a) Trade Payables (b) Short Term Provisions - Proposed Dividend (Pandava Ltd)	3	1,55,000 60,000	
	Total		9,60,700	
II	ASSETS			
(1)	Non-Current Assets			
	Fixed Assets: (i) Tangible Assets (ii) Intangible Assets' - Goodwill on Consolidation	4	6,30,000 9,700	

(2)	Current Assets (a) Inventories = 70,000 + 40,000 - 4,000 Stock Reserve (b) Trade Receivables (c) Cash and Cash Equivalents = 30,000 + 15,000	 5 	 1,06,000 1,70,000 45,000	
	Total		9,60,700	

Notes to the Balance sheet:

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: .... Equity Shares of ₹10 each		
Issued, Subscribed & Paid up: 60,000 Equity Shares of ₹10 each	6,00,000	

Note: 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Other Reserves - General Reserve (b) Surplus (Balance in P & L A/c)	56,500 38,200	
Total	94,700	

Note 3: Trade payables

Particulars	This Year	Prev. Year
(a) Sundry Creditors = 1,00,000 +40,000 (b) Bills payable = 10,000 + 15,000 – 10,000 Mutual Owings	1,40,000 15,000	
Total	1,55,000	

Note 4: Tangible assets

Particulars	This Year	Prev. Year
(a) Land & Buildings = 2,00,000 +1,00,000 (b) Plant & Machinery = 2,80,000 + 50,000	3,00,000 3,30,000	
Total	6,30,000	

Note 5: Trade receivables

Particulars	This Year	Prev. Year
(a) Trade Debtors = 1,50,000 +20,000 (b) Bills Receivables = 10,000 – 10,000 Mutual Owings	1,70,000 Nil	
Total	1,70,000	

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

(a) List the benefits derived by Investment analysts and advisers by using XBRL. [5]

Answer:

By using XBRL, investment analysts and advisers can benefit from:

- Much greater transparency, clarity and consistency in company financial data.
- The ability to handle and compare a broader range of companies and deeper set of information.
- More powerful software tools for analysis, comparison and benchmarking.
- Far more efficient means of finding specific company data.
- The ability to select data from a variety of companies within seconds for comparison and analysis.

In short, XBRL can help the analyst community provide quicker and better quality investment advice and decisions.

(b) (i) Mr. S buys the following equity Stock Options and seller/writer of the options is Mr. T.

Date of purchase	Type of option	Expiry date	Market Lot	Premium per unit	Strike Price (₹)
29.06.2014	ACD LTD. CALL OPTION	30.08.2014	100	15	230
29.06.2014	NXD LTD. PUT OPTION	30.08.2014	200	20	275

Prepare Journal Entries. Assume price of ACD LTD. on 30.08.2014 is ₹240 and NXD LTD. is ₹290. **[6]**

(ii) Discuss National Level Environmental Accounting. **[4]**

Answer:

(i)

In the books of the buyer/holder i.e. Mr. S

Date	Particulars	Debit (₹)	Credit (₹)
29.06.2014	Option Premium A/c Dr.	5,500	
	To Bank A/c		5,500
	[Being call option exercised, shares acquired, option premium paid]		
30.08.2014	Bank A/c Dr.	1,000	
	To profit on derivatives		1,000
	[Being profit recognized,(240-230)× 100]		
	[Put not exercised]		
	Profit & Loss A/c Dr.	5,500	
	To Option Premium A/c		5,500
	[Being option written off]		

In the books of the writer i.e. Mr. T

Date	Particulars	Debit (₹)	Credit (₹)
29.06.2014	Bank A/c Dr.	5,500	
	To Option Premium A/c		5,500
	[Being option premium received]		
30.08.2014	Loss on derivatives A/c Dr.	1,000	
	To Bank A/c		1,000
	[Being loss recognized]		
	Option premium A/c Dr.	5,500	
	To Profit & Loss A/c		5,500
	[Being premium transferred to income]		

(ii) National Level environmental Accounting

(i) Rational Level Environmental Accounting, denotes a set of aggregate national data linking the environment to the economy which will have a long-term impact on the economic and environmental policy making.

(ii) This requires necessary amendments to the System of National Accounts (SNA) to incorporate the use or depletion of national resources. SNA is a set of accounts which every national Government compiles routinely to track the activities of the economy.

(iii) SNA data are used to calculate major economic indicators including GDP, GNP, Savings Rate and Balance Of Trade figures. The accounts are prepared by all countries in a standardised form, using a framework developed by the United Nations Statistical Division. It helps international comparison and thus allows to place individual countries in the context of world trends.

(c) (i) G Ltd. provides you the following data to calculate Economic Value Added (EVA):

Particulars	
60 crores Equity Shares of ₹10 each	
2 crores, 15% Preference Shares of ₹100 each	
16 crores, 15% Debentures of ₹100 each	
Tax Rate	**30%**
Beta Factor	**1.5**
Market Rate of Return	**15.5%**
Equity Market Risk Premium	**9%**
Financial Leverage	**1.5 times**
Immovable Property (held as Investment)	**₹200 crores**

[7]

(ii) List the advantages of " Jaggi & Lau Model". [3]

Answer:

(i)

Particulars	**₹ in crores**
Net Operating Profit after Tax (NOPAT)	504
Less: Cost of Operating Capital Employed (COCE) [13.25% of ₹2,200]	291.50
Economic Value Added (EVA)	212.50

Working Notes:

A. Cost of Debt = Interest Rate (1- Tax Rate) = 15% (1-30) = 10.50%

B. Cost of Preference Share = 15%

C. Cost of Equity = Risk Free Rate + (Beta × Equity Market Risk Premium)
= (15.5% - 9%) + (1.5 × 9) = 20%

D. Total Capital Employed = 1,600 + 200 + 600 = 2,400 crores

E. WACC —

$$\left(\frac{1,600}{2,400}\times 10.50\%\right)+\left(\frac{200}{2,400}\times 15\%\right)+\left(\frac{600}{2,400}\times 20\%\right)$$

$$= 7\% + 1.25\% + 5\% = 13.25\%$$

F. Financial Leverage —

$$= \frac{\text{EBIT}}{\text{EBIT - Interest}} = \frac{\text{EBIT}}{\text{EBIT - 240}} = 1.5$$

EBIT = (240×1.5)/0.5 = 720

G. Net Operating Profit after Tax = 720 – 30% 720 = 504

H. Operating Capital Employed = Total Capital Employed – Non-Operating Capital Employed = 2,400 - 200 = 2,200

(ii) Advantages: The appreciation for Jaggi & Lau model stems from the following -

(a) It recognises the Group concept since an organisation consists of people working together.

(b) It is easier to estimate the percentage of people in a group likely to continue or leave the organisation, rather than on an individual basis.

(c) Having the group of employees as a valuation base simplifies the process of valuing human resources.

(d) (i) List the characteristics Triple Bottom Line (TBL) reports should possess. [6]

(ii) On April 1, 2015, a company SB Ltd. offered 100 shares to each of its 1,500 employees at ₹40 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant date is ₹50 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹48 per share.
On April 30,2015, 1,200 employees accepted the offer and paid ₹40 per share purchased. Nominal value of each share is ₹10.
Record the issue of shares in book of the SB Ltd. under the aforesaid plan. [4]

Answer:

(i)

TBL reports usually contain both qualitative and quantitative information. In order for all reported information to be credible, regardless of whether the information is qualitative or quantitative, it is suggested that it should possess the following characteristics. These include:

- Reliability - information should be accurate, and provide a true reflection of the activities and performance of the company.

- Usefulness - the information must be relevant to both internal and external stakeholders, and be relevant to their decision-making processes.
- Consistency of presentation - throughout the report there should be consistency of presentation of data and information. This includes consistency in aspects such as format, timeframes, graphics, and metrics.
- Full disclosure - reported information should provide an open explanation of specific actions undertaken and performance outcomes.
- Reproducible - information is likely to be published on an ongoing basis, and companies must ensure that they have the capacity to reproduce data and information in future reporting periods.
- Auditability - alignment with the trend towards external verification requires that all statements and data within the report be able to be readily substantiated.

Where the reported information possesses these characteristics, the reporting company is able to present objective, balanced and credible information that delivers benefits to both the reporting company and its stakeholders, while also minimizing any potential reputation risk associated with the publication of TBL reporting.

(ii) Fair value of ESPP per share = ₹48 - ₹40 =₹8
Number of share issued = 1,200 × 100 = 1,20,000
Fair value of ESPP = 1,20,000 × ₹8 = ₹9,60,000
Vesting period = one month
Expense recognized in 2015-16 = ₹9,60,000

Date	Particulars	₹	₹
30.04.2015	Bank A/c (1,20,000 × 40) Dr.	48,00,000	
	Employees' Compensation A/c (1,20,000 × 8)	9,60,000	
	To Share Capital (1,20,000 × 10)		12,00,000
	To Securities premium (1,20,000 × 38)		45,60,000

Question No. 5 (Answer any three):

(a) State the general principles of Government Accounting. [5]
(b) Discuss the working of the Public Accounts Committee. [5]
(c) State the objective and scope of IGAS 8 on Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements. [5]
(d) List the organizations subject to the audit of the Comptroller and auditor General of India. [5]

Answer:

(a) The general principles of Government Accounting are as follows:

1. The Government Expenditure are classified under Sectors, major heads, minor heads, subheads and detailed heads of account, the accounting is more elaborate that that followed in commercial accounts. The method of budgeting and accounting under the service heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates.

2. In its Budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the later. Similarly, in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts, Government determines (a) whether it will be justified in curtailing or expanding its activities (b) whether it can and should increase or decrease taxation accordingly.

3. In the field of Government accounting, the end products are the monthly accounts and the annual accounts. The monthly accounts serve the needs of the day-to-day administration, while the annual accounts present a fair and correct view of the financial stewardship of the Government during the year.

(b) Working of the Public Accounts Committee

The representatives of the Ministries appear before the Committee when examining the Accounts and audit Reports relating to their Ministries. The Committee proceeds by way of integration of witnesses. The Comptroller and Auditor General is the "friend, philosopher and guide" of the Committee. He attends the sittings of the Committee and assists it in its deliberations.
The Committee may appoint one or more Sub-Committees / Sub Groups to examine any particular matter. At the beginning of its term, the committee appoints a few Working Groups/Sub Committees to facilitate the examination of the various accounts and audit reports and sub-committee to consider the action taken by the Government on the recommendations made by the committee in its earlier reports. If it appears to the Committee that it is necessary for the purpose of its examination that an on the spot study should be made, the committee may either in its entirety or by dividing itself into Study groups decide to undertake tours to make an on the spot study of any project or establishment. All discussion held during tour by the Committee/Study Groups with the representatives of the establishment, Ministries/Departments,non-official organizations, Labour Unions etc. are treated as confidential and no one having access to the discussion, directly or indirectly is to communicate to the press or any unauthorized person, any information about matters taken up during discussions.

(c) Objective

The objective of the proposed IGAS on the subject is to lay down the principles for disclosure requirements of Contingent Liabilities (other than guarantees) and Continent Assets of both the Union and the State Governments including Union Territories with Legislatures, in their respective Financial Statements in order to ensure uniform and appropriate disclosure of such liabilities and assets. It also ensures consistency with international best practices leading to transparency and improved quality of disclosure in the financial reports of Governments for the benefit of various stakeholders. An important objective of the proposed IGAS is to ensure that Governments portray the risks associated with contingent liabilities and contingent assets in a transparent manner.

Scope

The proposed IGAS shall apply to both the Union and the State Governments including Union Territories with Legislatures in preparation of their financial reports. The IGAS shall not include in its ambit guarantees (including letters of comfort) for which IGAS 1 would apply. The standard also excludes treatment of off budget borrowings, for which a separate statement may be developed, when found necessary.

(d) The organisations subject to the audit of the Comptroller and Auditor General of India are:

- All the Union and State Government departments and offices including the Indian Railways and Posts and Telecommunications.
- About 1200 public commercial enterprises controlled by the Union and State governments, i.e. government companies and corporations.
- Around 400 non-commercial autonomous bodies and authorities owned or controlled by the Union or the States.

Over 4400 authorities and bodies substantially financed from Union or State revenues.