Paper – 18: Corporate Financial Reporting

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Question No.1 which is compulsory and carries 20 Marks and answer any 5 Question from Q. No 2 to Q No 8

1. Answer any four questions from the following. [4×5= 20]

1. (a) No, the Co's strategic plan was no final approval from the board through a resolution and no specific time bound activities like shifting of asset and employee's and above all the new segment commercial vehicle production line and factors has started.

No, the resolution is silent about stoppage of the car segment is definite time period. Though same assets sales and transfer proposal was passed through a resolution to the new factory. Closure road map and new segment starting road map is missing. AS-24 is not applicable. Yes, phased and time bound programme resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and clear road map. This action will attract AS-24.

Gradual phasing out of the product on class of service shifting of same production on marketing activities for a particular line of business flow one location to another. Closing of a factory to achieve productivity improvement on other cost savings.

(b) As per AS-26 the depreciable amount of an intangible asset should be allocated on a systematic basis over the estimated useful life.

Himalaya ltd has been following the policy of amortization of the ITA over a period of 12yrs on SLM. The period of year is move than the max period of 10 years under AS-26.

Co. would be required to restate the carrying amount of ITA as on 1/04/2007 at ₹96 lakhs less ₹28.8 lakhs (9.6 lakhs × 3yrs) = ₹67.2 lakhs.

If amortization is as per AS-26 the carrying amount is 67.2 lakhs. The diff of ₹ 4.8 lakhs i.e. ₹ (72 lakhs – 67.2 lakhs)is to be adjusted against the opening balance of revenue reserve. The carrying amount of ₹67.2 lakhs will be amortized over 7 years (10-3) years is future.

(c) Procedure of Appointment of Chairman of the Public Accounts Committee:

The Chairman of the Committee is appointed by the Speaker from amongst the members of Lok Sabha elected to the Committee. As a convention, starting from the Public 'Accounts Committee of 1967-68, a member of the Committee belonging to the main opposition party/group in the House is appointed as the Chairman of the Committee.

(d) Computation of Amount of Provision:

Particulars	Loan (₹ lakhs)	Provision (%)	Provision (₹ lakhs)
Standard Asset	16,800	0.25	42
Sub-Standard Asset	1,340	10	134
Secured Portion of Doubtful debts			
• Upto one year	320	20	64
• One year to 3 years	90	30	27
• More than 3 years	30	50	15
Unsecured portion	97	100	97
Loss Assets	72	100	72
Total			451

(e) Basic EPS for Financial Year 2012-2013

Net Profit for the year	1,00,25,000
Weighted Average Shares Outstanding for FY 2012-2013 [50,00,250 + (50,00,250 × ½)]	75,00,375
Basic EPS	1,337

Diluted EPS for Financial Year 2012-2013

Net Profit for the year	1,00,25,000
After Tax Interest for FY 2012-2013 [1,00,000 Debentures × ₹100 Face Value × 12% × 3/12 × 0.70]	75,00,375
Adjusted Equity Earnings for the year	1,02,35,000
Weighted Average Shares Outstanding for Basic EPS	75,00,375
Add: Potential Equity Shares (to be computed only from the date of issue) (1,00,000 Debentures × Conversion Ratio 10 × 3/12)	2,50,000
Adjusted Weighted Average Number of Equity Shares	75,50,357
Diluted EPS	1.32

Adjusted EPS for Financial Year 2011-2012

Net Profit for the year	75,50,000
Adjusted Average Share Outstanding for FY 2011-2012	75,00,375
Adjusted EPS	1.01

2. Calculation of EPS × PE ratio:

Particulars	**M Ltd.**	**B Ltd.**
Profit before interest & tax	7,37,500	3,90,000
Less: Interest on debentures [2,50,000 × 15%, 2,50,000 × 12%)	37,500	30,000
Profit before tax	7,00,000	3,60,000
Less: Tax @ 40%	2,80,000	1,44,000
Profit after tax	4,20,000	2,16,000
Pref. dividend 6,00,000 × 10% ; 3,00,000 × 12%	60,000	36,000
Profit available to Equity Share holders	3,60,000	1,80,000
No. of Equity Share	180000	90000
EPS	$\frac{3,60,000}{180000} = 2$	$\frac{1,80,000}{90000} = 2$
Market Price per Share	40	-
PE ratio = $\frac{\text{Market Price}}{\text{EPS}}$	$\frac{40}{2} = 20$	-

Calculation of Purchase Consideration:

Present income to B Ltd Pref. Share holders 3,00,000 × 12% Add: 20% increase	36,000 7,200
	43,200

For 10% Pref. Dividend =43,200
For 100% Pref. Share Capital = 4,32,000

Value of Equity Share in B Ltd.

No. of Equity Share × Value per share (EPS of B ltd. × 60% of PE ratio of M ltd.)

90000 × 2 (60% of 20)

90000 × 2 × 12 = 2160000 Equity Share

No. of Equity share to be issued = 80% of the Market Value
4 × 80% = 32
2160000 ÷ 32 = 67500 Equity Share

Equity Share Capital = 67500 Equity Share @ 10	675000
Securities Premium = 67500 Equity Share @ 22	14,85,000
	21,60,000

Loss is increased:

Present equity dividend to B ltd.	135000
Expected equity dividend from M ltd.	67500
Loss is increased	67500

For 10% Equity Share dividend = 67,500
For 100% Pref. Share dividend = 67,500

Total Purchase Consideration

Pref. Share Capital (432000 + 675000	11,07,000
Equity Share Capital + Securities Premium	21,60,000
Bank (Liquidation exp)	8,000
	32,75,000

Value of debentures in B ltd.	₹250000
Add: 8% premium	₹20000
	₹270000

For 90% debt = ₹2,70,000
For 100% debt = ₹3,00,000

Journal Entries in the books of M ltd.

Date	Particulars	Dr ₹	Cr ₹
	Fixed Asset A/c Dr To Revaluation Reserve A/c (Being the Fixed Asset are increased by 20%)	5,00,000	 5,00,000
	Fixed Asset A/c (1500000 + 20%) Dr Investment A/c Dr Stock A/c (6,00,000 – 10%) Dr Debtors A/c Dr Bill Receivable A/c Dr Cash/Bank A/c Dr Goodwill A/c Dr To 12% debentures A/c To Creditors A/c To Business Purchase A/c To Bills Payable A/c (Being the assets & liabilities are taken over)	18,00,000 2,50,000 5,40,000 6,00,000 5,000 45,000 9,55,000	 2,70,000 6,40,000 32,75,000 10,000
	Business Purchase A/c Dr To B ltd. A/c (Being the purchase consideration due)	32,75,000	 32,75,000

	B ltd. A/c Dr To Pref. Share Capital A/c To Equity Share Capital A/c To Securities Premium A/c To Bank (exp) (Being the Purchase consideration discharged)	32,75,000	 11,07,000 6,75,000 14,85,000 8,000
	12% debentures A/c Dr Dis. On issue of debentures A/c Dr To 15% debentures A/c (Being the debited issued at discount)	2,70,000 30,000	 3,00,000
	Creditors A/c Dr To Debtors A/c (Being the elimination of inter co. owings)	10,000	 10,000
	Amalgamation Adjusted A/c Dr To Statutory Reserve A/c (Being the Statutory Reserve transferred to Amalgamation Adjustment A/c)	50,000	 50,000
	Securities Premium A/c Dr To Dis. on issue of debentures A/c (Being the discount on issue of deb. Adj to Securities Premium A/c)	30,000	 30,000

Balance Sheet of M ltd as at 31/12/2015

Particulars	Note No.	Amount (₹)
Equity & Liabilities:		
Share Capital	1	41,82,000
Reserve & Surplus	2	33,05,000
Long term borrowings	3	5,50,000
Trade Payable	4	11,90,000
		92,27,000
Assets:		
Fixed Assets	5	48,00,000
Intangible Assets	6	9,55,000
Non-current Investment	7	5,00,000
Other Non-current assets	11	50,000
Inventory	8	14,40,000
Trade receivables	9	13,70,000
Cash & Cash equivalent	10	1,12,000
		92,27,000

Working Notes:

1. **Securities Premium:**

Equity Share Capital	18,00,000 + 6,75,000 =	24,75,000	
Pref. Share Capital	6,00,000 + 11,07,000 =	17,07,000	41,82,000

2. **Reserve & Surplus**

Securities Premium	14,85,000	
Less: dis. On issue of debt	30,000	
	14,55,000	
Statutory Reserve (50,000 + 50,000)	1,00,000	
General Reserve	12,50,000	
Revaluation Reserve	5,00,000	33,05,000

3.	**Long term borrowing**		
	15% Debentures (2,50,000 + 3,00,000)		5,50,000
4.	**Trade Payables**		
	Creditors	5,40,000 + 6,40,000	
	Bills payable	10,000 + 10,000	
	Less: Inter co. owing	10,000	11,90,000
5.	**Fixed Assets**		
	Fixed Assets	30,00,000 + 18,00,000	48,00,000
6.	**Intangible Assets**		
	Goodwill		9,55,000
7.	**Non-current Investments**	2,50,000 + 2,50,000	5,00,000
8.	**Inventory**	9,00,000 + 5,40,000	14,40,000
9.	**Trade Receivable**		
	Debtors	7,50,000 + 6,00,000 – 10,000	
	Bills Receivable	25,000 + 5,000	13,70,000
10.	**Cash & Cash equivalent**	75,000 + 45,000 – 8,000	1,12,000
11.	**Other Non-current Assets**		
	Amalgamation Adj A/c		50,000

3. Consolidated Balance Sheet of Major Ltd., and its subsidiary Minor Ltd. as on 31st December, 2015

Particulars	Notes No.	Amount (₹)
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	6,20,000
(b) Reserve and Surplus	2	1,69,610
(2) Minority Interest	3	2,05,090
(3) Current Liabilities		
(a) Trade Payables (1,06,000 + 1,22,000)		2,28,000
(b) Other current liabilities (Preference dividend of Major Ltd.)		22,500
Total		**12,45,200**
II. Assets		
(1) Non-current assets		
(a) Fixed Assets		
Tangible assets	4	5,51,200
(2) Current assets		
(a) Inventories ₹ (96,000 + 2,28,000)		3,24,000
(b) Trade receivable ₹ (1,40,000 + 1,70,000)		3,10,000
(c) Cash & Cash equivalents ₹ (34,000 + 26,000)		60,000
Total		**12,45,200**

Notes to Accounts

		Amount(₹)	Amount(₹)
1.	**Share Capital**		
	36,000 Equity Shares of ₹ 10 each of Major Ltd.	3,60,000	
	Less: Shares held by Minor Ltd.	(40,000)	
		3,20,000	
	30,000, 7.5% Preference shares of ₹ 10 each fully paid of Major Ltd.	3,00,000	6,20,000
2.	**Reserves and Surplus**		
(a)	Reserves 52,000		
	Less: Share of Minor Ltd. (17,042)	34,958	
(b)	Profit & Loss Account 1,20,000		
	Less: Preference dividend (22,500)		
	97,500		
	Less: Share of Minor Ltd. (12,659)		
	84,841		
	Add: Share of revenue profit of Minor Ltd 16,433	1,01,274	
(c)	Capital Reserve of Major Ltd. 41,378		
	Less: Goodwill of Minor Ltd. (8,000)	33,378	1,69,610
3.	**Minority Interest**		
	Preference shares of Minor Ltd.	1,60,000	
	Preference dividend paid by Minor Ltd.	12,000	
	Equity shares (10%)	20,000	
	Capital profit (W.N. iv)	11,264	
	Revenue profit (W.N. v)	1,826	2,05,090
4.	**Tangible Assets**		
	Plant and Machinery		
	Major Ltd. 4,14,000		
	Minor Ltd. (1,00,800 + 13,600 – 400) 1,14,000	5,28,000	
	Furniture (14,000 + 9,200)	23,200	5,51,200

Working Notes:

(i) (a) Analysis of profits of Minor Ltd. (Pre-allocation of inter-company's share)

	Capital Profit (₹)	Revenue Profit (₹)
Reserves	60,000	
Profit and Loss as on 1.1.2015	16,000	
Profit for the year (40,000 – 16,000) 24,000 Less: Pref. dividend (as per para 27 of AS 21) (12,000) 12,000	6,000	6,000
Profit on upward revaluation (W.N. vii)	13,600	
Additional depreciation on upward revaluation (W.N. viii)		(400)
	95,600	5,600

(b) Analysis of profits of Major Ltd.

		Capital Profit (₹)	Revenue Profit (₹)
Reserves during the year		26,000	26,000
Profit and loss as on 1.1.2015		(45,500)	
Profits for the year (1,20,000 + 45,500)	1,65,500		
Less: Pref. dividend	(22,500)		
	1,43,000	71,500	71,500
		52,000	97,500

(ii) Capital profits of Major Ltd. and Minor Ltd. (post allocation of inter-company's share)

Suppose capital profits of Major Ltd. = a
and capital profits of Minor Ltd. = b

Total Capital profits of Major Ltd. = 52,000 + $\frac{9}{10}b$ (1)

Total Capital profits Major Ltd. =95,600 + $\frac{1}{9}a$ (2)

Putting values of equation (2) in (1), we get

$$a = 52,000 + \frac{9}{10}\left[95,600 + \frac{1}{9}a\right]$$

$$a = 52,000 + \frac{9}{10} \times \frac{8,60,400 + a}{9}$$

$$a = 52,000 + 86,040 + \frac{a}{10}$$

$$a - \frac{a}{10} = 1,38,040$$

$$9a = 13,80,400$$

$$a = \frac{13,80,400}{9}$$

$$a = 1,53,378$$

$$b = 95,600 + \frac{1}{9}(1,53,378)$$

$$b = 1,12,642$$

(iii) Revenue profits of Major Ltd. and Minor Ltd. (post allocation of inter-company's share)

Suppose revenue profits of Major Ltd. = x
and revenue profits of Minor Ltd. = y

Total Revenue profits of Major Ltd. = 97,500 + $\frac{9}{10}y$ (3)

Total Revenue profits of Minor Ltd. = 5,600 + $\frac{1}{9}x$ (4)

By solving the above equations (3) and (4) in line with the equations (1) and (2) of capital profit, we will get

X = 1,13,933 and y = 18,259

		Major Ltd. ₹	Minor Ltd. ₹
(iv)	**Capital Profits**		
	As per W.N. (ia) & (ib) Adjustment as per W.N. (ii) (1,53,378/9)	52,000 (17,042)	95,600 17,042
		34,958	1,12,642
	Minority Interest (10%)		(11,264)
	Share of Major Ltd.		1,01,378
(v)	**Revenue Profits**		
	As per W.N. (ia) & (ib) Adjustment as per W.N. (iii)	97,500 (12,659)	5,600 12,659
		84,841	18,259
	Minority interest of Minor Ltd.	-	(1,826)
	Share of Major Ltd. in Minor Ltd.	16,433	16,433
		1,01,274	
(vi)	**Cost of Control**		
(a)	Cost of investment of Major Ltd. in Minor Ltd. Less: Paid up value of shares (18,000 × ₹ 10) Capital Profit Capital Reserve	 1,80,000 1,01,378	2,40,000 (2,81,378) 41,378
(b)	Cost of investment of Minor Ltd. in Major Ltd. Less: Paid up value of shares held Goodwill		48,000 40,000 8,000
(Vii)	**Plant and Machinery as on 1.1.2015**		1,12,000
	Less : Depreciation upto 30th June, 2015 (1,12,000 × 10% × 6/12)		 5,600
	Value as on 1.7.2012 Revaluation of Plant and Machinery on 1.07.15		1,06,400 1,20,000
	Profit on upward revaluation		13,600
(viii)	**Additional depreciation on upward Revaluation of Plant and Machinery**		
	Depreciation for remaining 6 months (1,20,000 × 10% × 6/12) Less: Depreciation already charged (1,12,000 × 10% × 6/12)		 6,000 5,600
			400

4. (a) Value Added Statement of Better & Best Ltd for year ended 31st March 2014:

Particulars	(₹ '000)	(₹ '000)
Sales		727
Less: Excise duty		62
		665
Less: Materials Other expenses Short term Interest	530 35 3	 568
Value Added from own operations		97
Add: Other income		13
Total Value Added		110

Value Applied

1. To employees: Salaries, wages & Benefits		28
2. To Government: Income Tax		31
3. To Finance Providers: Interest on long term loans Dividend on Equity	4 5	 9
4. To Equity Needs: Loss on sale of fixed asset Preliminary Expenses written off Depreciation Transfer to Reserve (DRR & GR)	3 5 5 29	 42
Total Application		110

4. (b) Valuation of Employees as per Lev and Schwartz Method:

$$V = \sum_{t=r}^{t} \frac{I(t)}{(1+r)^{t-n}}$$

Where,

V = the human capital value of a person n year old

I(t) = the person's estimated annual earnings up to retirement

r = a discount rate specific to the person.

t = retirement age of the person.

Value of Skilled Employees:

$$= \frac{50,000}{(1+0.15)^{65-62}} + \frac{50,000}{(1+0.15)^{65-63}} + \frac{50,000}{(1+0.15)^{65-64}}$$

$$= \frac{50,000}{(1+0.15)^{3}} + \frac{50,000}{(1+0.15)^{2}} + \frac{50,000}{(1+0.15)^{1}}$$

= ₹ $(32,875.81 + 37,807.18 + 43,478.26)$ = ₹ 1,14,161.25.

Total value of skilled employees is ₹ 1,14,161.25 × 20 employees = ₹ 22,83,225.

Value of Unskilled Employees:

$$= \frac{30,000}{(1+0.15)^{62-60}} + \frac{30,000}{(1+0.15)^{62-61}}$$

$$= \frac{30,000}{(1+0.15)^{2}} + \frac{30,000}{(1+0.15)^{1}}$$

= ₹ $(22,684.31 + 26,086.96)$ = ₹ 48,771.27

Total value of Unskilled employees is ₹ 48,771.27 × 25 employees = ₹ 12,19,282.

Total value of human resources (Skilled and Unskilled)

= ₹(22,83,225 + 12,19,282)= ₹ 35,02,507.

5. (a) Total loss borne by Equity & Pref. Share holders:

Particulars	Amount (₹)
Plant	15,00,000
Stock	3,00,000
Debtors	4,00,000
Cash	1,50,000
	23,50,000
Less: Sundry Creditors (7,00,000×50%) Bank Overdraft	3,50,000 3,00,000
Net asset available to Equity & Pref. Share holders	17,00,000
Less: Equity and Preference share capital (20,00,000+10,00,000)	30,00,000
Loss to Equity share holders	13,00,000

Share of loss to the individual class of share holders:

Particulars	Amount (₹)
Net asset available to Equity and Preference Share holders	17,00,000
Less: Preference Share Capital	10,00,000
Net asset available to Equity Share holders	7,00,000
Less: Equity Share Capital	20,00,000
Loss to Equity share holders	13,00,000

% of Loss

20,00,000	=	13,00,000
100%	=	65%

Loss to Equity Share holder if exceeds 50% of Equity Share Capital, Preference Share Holders will forego 20% of their claim.

10,00,000 × 20% = 2,00,000

Equity Share holder actual loss = 13,00,000 – 2,00,000 = 11,00,000

Loss per Equity Share = $\frac{11,00,000}{20,000}$ =55

After reorganization share capital structure

20000 Equity Share @ ₹ 45	9,00,000
10000 9% Preference Share @ ₹ 82	8,00,000
	17,00,000

Working Capital of reorganized company

Particulars	Amount (₹)	Amount (₹)
Stock	3,00,000	
Debtors	4,00,000	
Cash	1,50,000	
Total Current Assets		8,50,000
Less: Creditors Bank OD	3,50,000 75,000	 4,25,000
Working Capital		4,25,000

Calculation of Bank Overdraft:

Particulars	Amount (₹)
Total Current Asset	8,50,000
Less: Current Liabilities to be maintained	4,25,000
	4,25,000

Less: Sundry Creditors	3,50,000
Bank Overdraft	75,000

Balance Sheet after Reconstruction

Particulars	Note No.	Amount (₹)
Equity & Liabilities:		
Share Capital		17,00,000
Long term borrowings		2,25,000
Trade Payable		3,50,000
Other Current liabilities		75,000
		23,50,000
Assets:		
Fixed Assets		15,00,000
Inventory		3,00,000
Debtors		4,00,000
Cash & Cash equivalent		1,50,000
		23,50,000

5. (b) **Carrying amount of Investment in separate Financial Statement of Bright ltd. as on 31/03/2015**

Particulars	Amount (₹)
Amount paid for investment in associates 1/06/2014	2,00,000
Less: Pre acquisition dividend	15,0000
Carrying amount as on 31/03/2015	1,85,000

Consolidated Financial Statement of Bright ltd. as on 31/03/2015:

Particulars	Amount (₹)
Carrying amount as on 31/03/2015	1,85,000
Add: Profit from investment in associates (3,00,000×30%)	90,000
Carrying amount as on 31/03/2015	2,75,000

Carrying amount of Investment in Consolidated Financial Statement of Bright ltd. as on 30/06/2015:

Particulars	Amount (₹)
Carrying amount as on 31/03/2015	2,75,000
Less: dividend received (60,000×30%)	18,000
Carrying amount as on 30/06/2015	2,57,000

6. (a) **Statement showing compensation expenses to the recognized:**

Particulars	Year – 1 31-03-2010	Year – 2 31-03-2011	Year – 3 31-03-2012
Expected Vesting period (at the end of the year)	2nd year	3rd Year	3rd year
No. of options expected to vest	95,000	91,000	87,500
Total compensation expenses accrued @ ₹30 (50 – 20)	₹28,50,000	₹27,30,000	₹26,25,000
Compensation expenses of the year	₹14,25,000	₹18,20,000	₹26,25,000
Compensation Expenses Recognised previously	Nil	₹14,25,000	₹18,20,000
Compensation Expensed to be recognized for the year	₹14,25,000	₹3,95,000	₹8,05,000

Journal Entries **Dr** **Cr**

Date	Particulars	₹	₹
31.03.10	Employees compensation expense A/c Dr To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP i.e., 100 options each granted to 1000 employees at a discount of ₹30 each, amortized on straight line basis over the vesting years)	14,25,000	 14,25,000
31.03.10	Profit and Loss A/c Dr To Employee Compensation Expense A/c (Being Employee compensation expense charged to profit and loss a/c)	14,25,000	 14,25,000
31.03.11	Employees Compensation Expenses A/c Dr To ESOS outstanding A/c (Being compensation expense recognized in respect of ESOP)	3,95,000	 3,95,000
31.03.11	Profit and Loss A/c Dr To Employee Compensation Expense A/c (Being Employee compensation expense charged to profit and loss a/c)	3,95,000	 3,95,000
31.03.12	Employees Compensation Expenses A/c Dr To ESOS outstanding A/c (Being compensation expense recognized in respect of ESOP)	8,05,000	 8,05,000
31.03.12	Bank A/c (850×100×20) Dr ESOS Outstanding A/c Dr (26,25,000/87,500)×85,000 To Equity Share Capital A/c (85,000×10) To Securities Premium A/c (85,000×40) (Being 85000 options excercised at an exercise price of ₹ 50 each)	17,00,000 25,50,000	 8,50,000 34,00,000
31.03.12	Profit and Loss A/c Dr To Employee Compensation Expense A/c (Being Employee compensation expense charged to profit and loss a/c)	8,05,000	 8,05,000
31.03.12	ESOS Outstanding A/c Dr To General Reserve A/c (Being ESOS outstanding A/c on lapse of 2500 options at the end of exercise of option period transferred to general reserve)	75,000	 75,000

6. (b) Journal Entries in the books of seller **Dr** **Cr**

Date	Particulars	₹	₹
	Case-I		
30.08.06	Bank A/c Dr To Initial Margin A/c (Being margin received)	6,000	 6,000

30.08.06	Bank A/c Dr To Option Premium A/c (Being Premium Account received)	1,000	 1,000
30.09.06	Investment A/c Dr To Bank A/c (Being Investment purchased)	16,000	 16,000
30.09.06	Bank A/c Dr Loss on Sale A/c Dr To Investment A/c (Being investment sold)	15,000 1,000	 16,000
	Case-II		
30.09.06	Loss on sale A/c Dr To Bank A/c (Being amount paid)	1,000	 1,000
30.09.06	Bank A/c Dr To Initial Margin A/c (Being amount refunded)	6,000	 6,000
Year end	Option premium A/c Dr To Profit & Loss A/c (Being amount transferred)	1,000	 1,000
Year end	Profit & Loss A/c Dr To Loss on sale A/c (Being amount transferred)	1,000	 1,000

7. (a) EVA Statement of Vikram Ltd.

Particulars	**Year 1**	**Year 2**	**Year 3**
(i) Cost of Equity (K_e) = Risk Free Rate + (Beta x Equity Risk Premium)	12.5 + (1.1 x 10) = 23.50%	12.5 + (1.2 x 10) = 24.50%	12.5 + (1.3 x 10) = 25.50%
(ii) Cost of Debt (K_d) (given)	19.00%	19.00%	20.00%
(iii) Debt-Equity Ratio (Debt=given, Equity is bal. fig)	40% & 60%	35% & 65%	13% & 87%
(iv) WACC = [(K_d) x Debt% +(K_e) x Equity%]	**21.70%** (19 x 40% + 23.50 x 60%)	**22.58%** (19 x 35% + 24.50 x 65%)	**24.79%** (20 x 13% + 25.50 x 87%)
(v) Average Capital Employed (given)	3,000.00	3,500.00	4,000.00
(vi) Capital Charge (Fair Return to Providers of Capital i.e. Average Capital Employed x WACC) (iv × v)	₹3,000 x 21.70% = ₹651.00	₹3,500 x 22.58% = ₹790.30	₹4,000 x 24.79% =₹ 991.60
(vii) Operating Profit before Taxes & Interest	**₹850.00**	**₹1,250.00**	**₹1,600.00**
(viii) **Less:** Taxes Paid	₹80.00	₹70.00	₹120.00

(ix)	Operating Profit after Taxes (This is the return to the Providers of Capital i.e. Debt and Equity)	₹770.00	₹1,180.00	₹1,480.00
(x)	Capital Charge (computed in vi above)	₹651.00	₹790.30	₹991.60
(xi)	Economic Value Added (ix) – (x)	**₹119.00**	**₹389.70**	**₹488.40**
(xii)	EVA as a % of Average Capital Employed	**3.96%**	**11.13%**	**12.21%**

7. (b) As per Para 27 of AS-17 'Segment Reporting', a segment shall be identified as reportable segment if its segment assets are 10% (or) more of the total assets of all segments. Here segment assets do not include income tax assets i.e., deferred tax assets.

So for the purpose of AS-17 the following information is relevant:

Assets of segment × (Total 2 crores – 0.5 crores as deferred tax assets)	1.5
Assets of segment × (Total 3 crores – 0.4 crores as DTA)	2.6
Assets of segment × (Total 5 crores – 0.3 crores as DTA)	4.7
Total Assets (received)	8.8

Since all the three segments hold more than 10% of total assets, so all segments are reportable segment.

8. (a) Scope of Government Accounting Standard 3 (Cash Flow Statements)

The cash flow statement should be presented as an integral part of Financial Statements of the Union and State Governments for each period for which such Financial Statements are presented. It should be prepared in accordance with the requirements of this Standard. The Financial Statements should not be described as complying with this Standard unless they comply with all its requirements. The transactions that do not require the use of cash or cash equivalents (non-cash transactions) should be excluded from a cash flow statement. Information about cash flows may be useful to users of the Government Financial Statements in assessing its cash flows and assessing compliance with legislation and regulations (including authorized budgets where appropriate). Accordingly this Standard requires Governments to present a cash flow statement.

Some activities undertaken by Government do not have direct impact on their current cash flows. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions include accounting for interest payable on provident fund deposits of employees, conversion of debt into equity of an entity. Summary and impact of such non-cash transactions should be disclosed in the notes to Cash Flow Statement forming pad of the Financial Statements in a way that provides all the relevant information about these activities.

8. (b) The Committee on Public Undertakings exercises the same financial control on the public sector undertakings as the Public Accounts Committee exercises over the functioning of the Government Departments.

The functions of the Committee are:

(i) to examine the reports and accounts of public undertakings.

(ii) to examine the reports of the Comptroller & Auditor General on public undertakings.

(iii) to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business' principles end prudent commercial practices.

The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves o thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.

The objective of the Financial Committees, in doing so, is not to focus only on the individual irregularity, but on the defects in the system which led to such irregularity, and the need for correction of such systems and procedures.