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]

(a) Interest paid for 2009 – 10 (11% of ₹150 Crores) ₹16.50 Crores

(-) Interest as temporary investment for Specific Borrowing ₹3.50 Crores

Borrowing cost to be capitalized during 2009 – 10 ₹13.00 Crores

In the given case the amount of ₹150 Crores was specifically borrowed for construction of boiler plant. Treatment of account of Rainbow Ltd. Is not correct and the amount of borrowing cost to be capitalized for the financial year 2009 – 10 is ₹13 Crores.

(b) Calculation of Profit or Loss on disposal of Investment in subsidiary:

Particulars	₹
Proceeds from the sale of Investment	30,00,000
(-) A Ltd. Share in Net Asset of B Ltd.	28,00,000
	2,00,000
(+) Capital Reserve at the time of acquisition of share in B Ltd.	2,60,000
Profit on slae of Investment	4,60,000

Working Note:

	Particulars	₹
(i)	A Ltd.'s share in Net Asset of B Ltd.	
	Net Asset of B Ltd. On the date of disposal	35,00,000
	(-) Minority Interest (₹35 lakhs × 20%)	7,00,000
		28,00,000
(ii)	Capital Reserve at the time of acquisition of share	
	A Ltd.'s share in Net Asset of B Ltd. On the date of acquisition (₹22 lakhs × 80%)	17,60,000
	(-) Cost of Investment	15,00,000
		2,60,000

(c) Following are the organisations that subject to the audit of the Comptroller and Auditor General of India :

(i) All the Union and State government Departments and offices including Indian Railways, Posts and Telecommunications.

(ii) About 1200 public commercial enterprises controlled by the Union and State governments, i.e. Government companies and corporations.

(iii) Around 400 non-commercial autonomous bodies and authorities owned or controlled by the union or the States.

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

(d)

Vesting Period	4 years
Total number of options granted(690 employees × options per employee 180)	1,24,200
Fair value per option (given)	₹15

Annual forfeiture expected	30%
Total number of options expected to vest [1,24,200 × 70%]	86,940
Value of options expected to vest at the end of vesting period [Options expected to vest × fair value per option]	₹13,04,100
Amount to be expensed in year 1 = ¼ of Total Value of Options	₹3,26,025

(e) Calculation of provision on advances as on 31.12.2015

Particulars	Amount (₹ in Lakhs)	Provision (%)	Provision (₹ in Lakhs)
Standard Assets	10,000	0.25	25
Sub Standard Assets	1,000	10	100
Secured portion of doubtful debts			
Upto one year	160	20	32
One year to three years	70	30	21
More than three years	20	50	10
Unsecured portion of doubtful debts	90	100	90
Loss Assets	30	100	30
Total Provision			308

2.

Balance sheet of Lazy Ltd and reduced as at 31-3-2015 (after reconstruction)

Particulars	**Note No.**	**31.03.2012 (₹)**	**31.03.2011 (₹)**
(I) <u>Equity & Liabilities</u>			
Share capital Reserves & Surplus	1 2	300 800	300 750
Long term Borrowings	3	300	250
Short term borrowing Other current liabilities	4 5	15 1,250	- 1,300
Total		2,665	2,600
(II) <u>Assets</u>			
Fixed assets — Tangible Assets	6	765	600
Other Current Assets	7	1,900	2,000
Total		2,665	2,600

Notes to Balance Sheet of Lazy Ltd.

Particulars	**31.03.2015 (₹)**	**31.03.2014 (₹)**	**31.03.2015 (₹)**	**31.03.2014 (₹)**
W.N. 1				
Share Capital			**300**	**300**
W.N. 2				
Reserve and Surplus				
Capital Reserves (40+35+15)	90	40		
Revenue Reserves	700	700		
Surplus	10	10	**800**	**750**
W.N. 3				
Long term borrowing				
Loans	250	250		

(-) Transferred	200	-		
(+) Taken over	250	-	**300**	**250**
W.N. 4				
Short term borrowing				
15% Loans (Yummy Ltd.) (140-125)			**15**	
W.N. 5				
Other current liabilities				
Current liabilities	1,300	1,300		
(-) Transferred	750	-		
(-) Taken over	700	-	**1,250**	**1,300**
W.N. 6				
Tangible Assets				
Tangible Assets	600	600		
(-) Transferred	160	-		
(+)Taken over	325	-	**765**	**600**
W.N. 7				
Other current assets				
Current Assets	2,000	2,000		
(-) Transferred	900	-		
(+) Taken over	800	-	**1,900**	**2,000**

Balance sheet of Yummy Ltd and reduced as at 31-3-2015 (after reconstruction)

Particulars	Note No.	31.03.2015 (₹)	31.03.2014 (₹)
(I) Equity & Liabilities			
Share capital Reserves & Surplus	1 2	200 465	200 450
Long term Borrowings	3	300	350
Other current liabilities	4	950	900
Total		1,915	1,900
(II) Assets			
Fixed assets — Tangible Assets	5	300	400
Short term loans and advances	6	15	-
Other Current Assets	7	1,600	1,500
Total		1,915	1,900

Notes to Balance Sheet of Yummy Ltd.

Particulars	31.03.2012 (₹)	31.03.2011 (₹)	31.03.2012 (₹)	31.03.2011 (₹)
W.N. 1				
Share Capital			**200**	**200**
W.N. 2				
Reserve and Surplus				
Capital Reserves (20+25-10)	35	20		
Revenue Reserves	425	425		
Surplus	5	5	**465**	**450**
W.N. 3				
Long term borrowing				
Loans	350	350		
(-) Transferred	250	-		
(+) Taken over	200	-	**300**	**350**

W.N. 4				
Other current liabilities				
Current liabilities	900	900		
(-) Transferred	700	-		
(-) Taken over	750	-	**950**	**900**
W.N. 5				
Tangible Assets				
Tangible Assets	400	400		
(-) Transferred	300	-		
(+)Taken over	200	-	**300**	**400**
W.N. 6				
Short term loans advances				
15% Loan (140-125)			**15**	
W.N. 7				
Other current assets				
Current Assets	1,500	1,500		
(-) Transferred	800	-		
(+) Taken over	900	-	**1,600**	**1,500**

Particulars	**Lazy Ltd.**		**Yummy Ltd.**	
	Before reconstruction	**After reconstruction**	**Before reconstruction**	**After reconstruction**
Total Assets	1,300	1,415	1,000	965
(-) Outside liabilities	250	315	350	300
Net Assets	1,050	1,100	650	665
No. of equity shares $\frac{300}{100}, \frac{200}{100}$	3	3	2	2
Intrinsic Value per share	350	367	325	332.50
No. of equity share held by	5,000	5,000	3,000	3,000
Value of his share (5,000×350), (5,000×367) (3,000×325),(3,000×332.50)	17.5 Lakhs	18.35 Lakhs	9.75 Lakhs	9.975 Lakhs
Value increased due to demerger	₹85,000		₹22,5000	
Total	₹1,07,500			

3. Consolidated Balance sheet of CAT Ltd. & it's subsidiary as on 31st March 2013

Capital & Liability		₹
1. Shareholders fund		
Share Capital : Equity	24,00,000	
Reserve & Surplus : Consolidated P&L	28,22,865	52,22,865
Minority Interest		1,37,160
2. Non Current Liability		
Long term borrowing : Debenture		6,50,000
3. Current Liability		
Trade Payable	15,40,400	
Short term provisions	2,40,000	17,80,400
Total		77,90,425
Assets		

1. Non Current Asset Fixed Asset: Tangible Intangible : Goodwill	 56,11,650 1,31,275	 57,42,925
2. Current Asset Current Asset		 20,47,500
		77,90,425

1. CAT is holding Co. & RAT is subsidiary Co.
2. Total No. of Shares of RAT = 225000/10 = 22,500
   No. of Bonus Shares included in it = 22,500 / 5 × 1 = 4,500 Because Bonus issue was 1:4
   No. of Shares prior to bonus = 22,500 - 4,500 = 18,000
   CAT acquired 9000 shares on 1.04.12 out of 18000 shares of RAT i.e. 9000 / 18000 × 100 = 50%
   ∴ Bonus shares received by CAT = 4500 × 50% = 2250
   CAT acquired 4950 shares on 1.8.12 ex. Bonus i.e. afte bonus i.e. 4950 / 22500 × 100 = 22%
   Hence total holding of CAT = 9000 + 2250 + 4950 = 16,200
   i.e. 16,200 / 22,500 × 100 = 72%
3. Dividend paid by RAT on 1.8.12 is assumed to be for the year 2011-12 i.e. pre-acquisition dividend for CAT.
   Amount of Dividend paid by RAT= 1,80,000 × 12% = 21,600
   Dividend received by CAT 50% of this i.e. 10,800 & is wrongly credited to P&L a/c hence following rectification entry will be required by CAT

   Profit & Loss A/c Dr. 10,800
   To Investment in Equity of RAT 10,800

   Special Note:

   Without paying preference dividend for 2011-12, RAT has paid Equity Dividend, this is against the provisions of Company Law.
4. CATs is formed on 1.4.12 i.e. 2012-13 is the 1st financial year. Balance sheet is showing P&L balance of ₹ 29,10,000 whereas in point no. 3 it is mentioned that current year's profit of CAT is 3,75,000. Balance profit is unexplained although analysis of profit of CAT is not required for consolidation.
5. Loss of stock by fire on 30.6.12 is included (i.e. debited) in P&L of RAT for 2012-13. Cost of Stock 1,09,000 - Claim received 61,000 = Loss 48,000
   ∴ Profit before loss = 1,92,000 + 48,000 = 2,40,000
6. Arrears of preference dividend on the preference share capital of ₹ 25,000 held outside the group will have to be provided as per AS-21
   Dividend = 25,000 x 9% = 2,250 p.a for 2011-12 & 2012-13

Analysis of P&L of RAT

Particulars	Up to 31.3.12 ₹	1.4. to 31.7.12 ₹	1.8. to 31.3.13 ₹
Profit up to 31.3.12 (after dividend paid on 1.08.12) = 2,60,000 - 1,92,000 Profit of 2012-13 = 1,92,000 + 48,000 = 2,40,000 Arrears of Preference Dividend Expense paid by CAT Loss of stock by fire 30.6.12	 68,000 (2,250)	 - 80,000 (750) (32,000) (48,000)	 - 1,60,000 (1,500) (64,000)
Total	65,750	(750)	94,500
Share of CAT 50% 22%	Pre. 32,875 Pre. 14,465	Post (375) Pre. (165)	Post 47,250 Post 20,790

Minority 28% Total 44,660	18,410	(210)	26,460

Pre means pre-acquisition profit & post means Post Acquisition Profit

8. Goodwill (cost of control)/ Capital reserve

Equity Share Capital held 2,25,000 × 72%			₹1,62,000
Preference Share Capital held 20,000 × 100			₹20,00,000
+ Pre Acquisition Profit 32,875 + 14,465 – 165			₹ 47,175
Intrinsic Value of shares held on acquisition			₹22,09,175
Cost of Investment			
Investment in Equity	9,000 × 13 = 1,17,000		
(-) Pre-acquisition dividend	(-) 10,800	1,06,200	
	4,950 × 15	74,250	
Investment in Preference Share Capital		21,60,000	₹23,40,450
		Goodwill	₹1,31,275

9. Minority Interest

Equity Share Capital held	₹2,25,000 × 28% =	₹63,000
Preference Share Capital held		₹25,000
Arrears of Preference Dividend	₹2,250 X 2=	₹4,500
Share in Profits		₹44,660
		₹1,37,160

10. Consolidated Profit and Loss A/c

Profit and Loss A/c of CAT	₹29,10,000	
+ Expenses for to RAT 8,000 × 12	₹96,000	
(-) Pre-acquisition Dividend transferred to investment a/c	₹10,800	
(-) Proposed Dividend ₹24,00,000 × 10%	₹2,40,000	₹27,55,200
Share in Post Acquisition Profit ₹(47,250 + 20,790 – 375)		₹67,665
		₹28,22,865

4. (a) Value Added Statement of Cream Co. Ltd.

Particulars	₹	₹
Sales		28,525
Less: Cost of Material & Services		
Operating Cost (25,658 – 10,247)	15,411	
Excise duty	1,718	
Interest on Overdraft (see Note 1.)	93	17,222
		11,303
Add: Other Income		756
Total Value Added		12,059

Application of Total Value Added

Particulars	₹	₹
1. To employees: Wages & Salary		10,247
2. To Government: Corporation Tax		230
3. To pay providers of capital: Interest on 10% Debentures	1,157	
Dividend	45	1,202
4. To provide for Maintenance and		

Expansion of company		
Depreciation	255	
Replacement reserve	25	
Deferred tax (see Note 2.)	45	
Retained Profit	55	380
Total Application		12,059

Note:

1. Bank overdraft is temporary source of finance. It has been considered as provision of a banking service rather than provision of capital. Hence interest on Bank O/d has been shown as deduction from sales and as part of " Cost of Boought out materials and services".
2. Deferred transaction can also be shown as " To pay Government".

4. (b) Total value of Human Capital

Age group	W.N.	₹
30 — 39	(a)	14,72,940
40 — 49	(b)	4,84,320
50 — 54	(c)	1,67,6000
Total value of Human Capital		21,24,860

Working Note:

(a) Age group of 30 — 39 (assuming that all 70 employees are just 30 years old)

Average Annual Earning (₹)	Years	Discounting Factor @ 15%	Present Value (₹)
3,000	10 years	5.019	15,057
4,000	11 to 20 years	1.24	4,960
5,000	21 to 25 years	0.205	1,025
Total average earning of each employee			21,042

Total average earning of 70 employees = 70 × ₹21,042 = ₹14,72,940.

(b) Age group of 40 — 49 (assuming that all 20 employees are just 40 years old)

Average Annual Earning (₹)	Years	Discounting Factor @ 15%	Present Value (₹)
4,000	10 years	5.019	20,076
5,000	11 to 15 years	0.828	4,140
Total average earning of each employee			24,216

Total average earning of 20 employees = 20 ×₹24,216 = ₹4,84,320.

(c) Age group of 50 — 54 (assuming that all 10 employees are just 50 years old)

Average Annual Earning (₹)	Years	Discounting Factor @ 15%	Present Value (₹)
5,000	5 years	3.352	16,760

Total average earning of 10 employees = 10 × ₹16,760 = ₹1,67,600.

5. (a)

Journal Entries in the books of G Ltd.

Date	Particulars	Dr. (₹)	Cr.(₹)
(a)	Restructure of A's liability		
	I st on Debenture A/c Dr. II nd Debenture A/c Dr. Unsecured Creditors A/c Dr. To, A's A/c (Being the amount due to A)	3,00,000 3,00,000 90,000	 6,90,000
	A's A/c Dr. To, Capital Reduction A/c (Being the amount foregone by A)	2,10,000	 2,10,000
	Bank A/c Dr. To, A's A/c (Being A's liability is converted into debentures)	30,000	 30,000
(b)	Restructure of B's liability		
	II nd Debentures A/c Dr. Unsecured creditors A/c Dr. To, Bank A/c To, Capital Reduction A/c (Being the B's liability is settled)	3,00,000 60,000	 90,000 2,70,000
(c)	Other Entries		
	Unsecured Creditors A/c Dr. To, Equity Share Capital A/c To, Loan A/c To, Capital Reduction A/c (Being the restructure of other unsecured creditors)	3,00,000	 1,12,500 75,000 1,12,500
	Share Call A/c Dr. To, Share Capital A/c (Being final call money due)	1,80,000	 1,80,000
	Bank A/c Dr. To, Share Call A/c (Being the call money received)	1,80,000	 1,80,000
	Equity Share Capital A/c (@₹60) Dr. To, Equity Share Capital A/c (face Value ₹7.5) To, Capital Reduction A/c	3,60,000	 45,000 3,15,000
(d)	Entry for Capital Reduction		
	Capital Reduction A/c Dr. To, Profit and Loss A/c (Being the Capital Reduction balance is used to write off loss in P/L A/c)	8,70,000	 8,70,000

Settlement of claim of remaining unsecured creditors	₹
75% of ₹3,00,000 Considering their claim for share of ₹60 each ₹2,25,000/₹60 = 3,750 shares Less: Number of shares to be issued 3,750 × 4 = 15,000 shares of ₹7.5 each Total value = 15,000 × ₹7.5 Transferred to Capital reduction A/c	2,25,000 (1,12,500)
	1,12,500

Calculation of Profit and Loss (Dr. balance)

Particulars	Amount (₹)	Particulars	Amount (₹)
Share Capital 3,60,000 ×(60/30)	1,80,000	Fixed assts	3,90,000
I st on Debentures	3,00,000	Cash	2,70,000
II nd Debentures	6,00,000	Profit and Loss A/c (balancing Figure)	8,70,000
Unsecured Creditors	4,50,000		
	15,30,000		15,30,000

Balance Sheet of G Ltd. and reduced

Particulars	Note No.	Amount (₹)
(I) <u>Equity & Liabilities</u>		
Share capital Reserves & Surplus	1 2	1,95,000 -
Long term Borrowings	3	5,85,000
Total		7,80,000
(II) <u>Assets</u>		
Fixed assets	4	3,90,000
Cash and Cash equivalents	5	3,90,000
Total		7,80,000

Notes to Balance Sheet:

W.N. 1. Share Capital		**Amount (₹)**
Equity Share Capital	₹1,50,000	
6,000 Equity Share Capital @ ₹7.5	<u>₹ 45,000</u>	1,95,000
W.N. 2. Reserves and Surplus		-
W.N. 3 Long-term Borrowing		
I st Debentures	₹5,10,000	
Unsecured Loans	<u>₹ 75,000</u>	5,85,000
W.N. 4 Fixed Assets		3,90,000
W.N. 5 Cash and Cash equivalents		3,90,000

5. **(b) Calculation of cost of control:**

Particulars	Cum-dividend		Ex-dividend	
	P& L	Investment	P& L	Investment

	A/c ₹	A/c ₹	A/c ₹	A/c ₹
Cost of Investment				
Equity Share Capital	1,50,000	1,50,000	1,50,000	1,50,000
Preference Share Capital	30,000	30,000	30,000	30,000
Total Cost of Investment	1,80,000	1,80,000	1,80,000	1,80,000
Adjustment of dividend out of Pre-acquisition Profit (-) Cum-dividend purchase: Pre-div. = 20,000×12% = ₹2,4000 Eq-div. = 60,000 × 20% = ₹12,000	(14,400)	-	-	-
	1,65,600	1,80,000	1,80,000	1,80,000
(+) Ex-div purchase: Pre-div 2,400 Eq-div 12,000	-	-	-	14,400
Corrected cost of Investment	1,65,600	1,80,000	1,80,000	1,94,400
(-) Nominal value of Eq share 6,000 @₹100 (-) Nominal value of Pref. Share 200@₹10 (-) Share in capital profit 96,000	1,76,000	1,76,000	1,76,000	1,76,000
Capital Reserve	10,400	-	-	-
Goodwill	-	4,000	4,000	18,400

6. (a) **Journal Entries in the books of ABC Ltd.**

Date	Particulars	Dr. (₹)	Cr.(₹)
31.03.2009	Employees Compensation Expenses A/c Dr. To, Employee Stock Option outstanding A/c (Being compensation expenses recorded i.e. 1,000 options granted to employees at a discount of ₹120 each, amortized on straight line basis over 2½ years)	48,000	48,000
31.03.2009	Profit and Loss A/c Dr. To, Employees Compensation Expenses A/c (Being expenses transferred to Profit And Loss Account at the end of the year)	48,000	48,000
31.03.2010	Employee Compensation Expenses A/c Dr. To, Employee Stock Option Outstanding A/c (Being compensation recorded i.e., 1,000 options granted to employees at a discount of ₹120 each, amortized on straight line basis over 2½ years)	48,000	48,000
31.03.2010	Profit and Loss A/c Dr. To, Employee Compensation Expenses A/c (Being expenses transferred to Profit and Loss Account at the end of the year)	48,000	48,000
31.03.2011	Employee Stock Option Outstanding A/c Dr. To, General Reserve A/c (W.N. 1) (being excess of employees compensation expenses transferred to general reserve account)	12,000	12,000

30.06.2011	Bank A/c Dr. Employee Stock Option Outstanding A/c Dr. To, Employee Share Capital A/c To, Securities Premium A/c (Being employees stock option outstanding account transferred to general reserve account on lapse of 100 options at the end of excise of option period)	24,000 72,000	 6,000 90,000
01.10.2012	Employee Stock Option Outstanding A/c Dr. To, General Reserve A/c (being excess of employees compensation expenses transferred to general reserve account on lapse of 100 options)	12,000	 12,000

Working Note: 1

As on 31.03.2011 the actual forfeitures of ABC Ltd. and adjustment regarding it, are as follows, as 700 employees stock option have been completed 2.5 years, vesting period. The recognized expenses during the year is negative i.e.;

No. of option vested (700 × ₹120)	₹84,000
Less: Expenses recorded (₹48,000 +₹48,000)	₹96,000
Excess of expenses being Transferred to general reserve	₹12,000

6. (b)

In the given case, the probability of winning first 10 cases is 60% and for remaining five cases is 50%. In other words, probability of losing 10 cases and 5 cases is 40% and 50% respectively. According to AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where it is not probable that a present obligation exists, an enterprise discloses a contingent liability. Since in the given case, chances of winning the case is more and losing the case is less, no provision will be recognized.

The amount of contingent loss may be calculated as under:

Expected contingent loss in first ten cases = [₹ 90,000 × 0.3 + ₹ 1,60,000 × 0.1] × 10 cases = [₹ 27,000 + ₹ 16,000] × 10 cases = ₹ 43,000 × 10 cases = ₹ 4,30,000

Expected contingent loss in remaining five cases = [₹ 60,000 × 0.3 + ₹ 95,000 × 0.2] × 5 cases = [₹ 18,000 + ₹ 19,000] × 5 cases

Total contingent liability = ₹ 4,30,000 + ₹ 1,85,000 = ₹ 6,15,000.

An enterprise should not recognise a contingent liability. For each class of contingent loss/liability at the balance sheet date, an enterprise should disclose, by way of a note, a brief description of the nature of the contingent liability.

7. (a)

1. Expected Return:

Percentage of expected return as given in the question = 10.25% p.a. at simple interest. Alternative it can be considered as 10% p.a. return compounded on half yearly basis. Amount of expected return is computed as follows:

Particulars	Amount (₹)
Return at 10.25% on opening investment [₹2,00,000 × 10.25%]	20,500
Return at 5% on Incremental Investment [₹30,000 × 10% × 6/12]	1,500
Total Expected Return	22,000

Note: Incremental Investment = Additional Contribution ₹55,000
(-) Plan payouts ₹25,000
₹30,000

2. Actual Return:

Particulars	Amount (₹)
Fair Value of plan asset at year – end	3,00,000
Less: Fair Value of plan asset at year begning	(2,00,000)
Less: Contributions received	(55,000)
Add: Benefits paid during the year	25,000
Actual return on plan asset	70,000

7. (b) Cost of equity (K_e) = (Risk free rate + Beta × Market risk premium)
= 9 + (1.05 × 10) = 19.5%

Cost of debt K_d = Interest × (100% - tax rate) = 12% × 70% = 8.40%
Debt – equity ratio (as given in question) = 20% & 80%

WACC = (K_d) × Debt % + (K_e) × Equity %
= [(8.4 × 20%) + (19.50 × 80%)]
= 17.28%

Operating profit after tax = ₹2,100

Capital charge = Capital employed × WACC = ₹ 1,728

Economic Value Added — (₹2,100 - ₹1,728) = ₹372.

8. (a)

Responsibilities of the Board

1. To establish and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
2. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
3. To keep the standards current and reflect change in the Governmental environment;
4. To provide guidance on implementation of standards.

8. (b) The source of Government Revenue are enumerated below:

- Revenue Receipts

- Tax Revenue
  - Shareable with the states
  - Non-shareable
- Non-tax revenue
  - Interest
  - Dividends
  - Receipts of Commercial Departments
- External Grants
- Capital Receipts
- Miscellaneous Capital Receipts
  - Disposal of Capital Assets
  - Divestment of SOE Shares
- Repayment of Loans.