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) Rainbow Limited borrowed an amount of `150 crores on 01.04.2009 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. The weighted average cost of capital is 13% p.a. The accountant of Rainbow Ltd., capitalized interest of `19.50 crores for the accounting period ending on 31.03.2010.

Due to surplus fund out of `150 crores, an income of `3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

(b) A Ltd. had acquired 80% shares in the B Ltd. for `15 lakhs. The net assets of B Ltd. on that day are `22 lakhs. During the year, A Ltd. sold the investment for `30 lakhs and net assets of B Ltd. on the date of disposal were `35 lakhs. Calculate the profit or loss on disposal of this investment to be recognized in the Financial Statements of A Ltd.

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

(d) A Limited grants 180 share options to each of its 690 employees. Each grant containing condition on the employees working for A Limited over the next 4 years. A Limited has estimated that the fair value option is `15. A Limited also estimated that 30% of employees will leave during four year period and hence forfeit their rights to the share option. If the above expectations are correct, what amount of expenses to be recognized during vesting period?

(e) While closing its books of account as on 31.12.2015 a non-banking finance company (NBFC) has its advances classified as under:

	` in lakhs
Standard Assets	10,000
Sub-standard portion of doubtful debts	1,000
Secured portions of doubtful debts:	
- Upto one year	160
- One year to three years	70
- More than three years	20
Unsecured portions of doubtful debts	90
Loss assets	30

Calculate the provision to be made against advance by NBFC as per prudential norms

2. Lazy Ltd. and Yummy Ltd. are two companies. On 31st March, 2015 their Balance Sheets were as under: (` In crores)

	Lazy Ltd.		Yummy Ltd.	
Sources of funds				
Share Capital				
Authorised:		500		500
Issued: Equity shares of ` 100 each fully paid up		300		200

Reserves and Surplus.				
Capital Reserves	40		20	
Revenue Reserves	700		425	
Surplus	10	750	5	450
Owner's funds		1,050		650
Loan		250		350
Total		1,300		1,000
Funds employed in:				
Fixed assets (Tangible):				
Cost	1,000		700	
Less: Depreciation	(400)	600	(300)	400
Net current assets:				
Current assets	2,000		1,500	
Less: Current Liabilities	(1,300)	700	(900)	600
		700		1,000

Lazy Ltd. has 2 divisions - very profitable division A and loss making division B. Yummy Ltd. similarly has 2 divisions-very profitable .division B and loss making division A.
The two companies decided to reorganise. Necessary approval's from creditors and members and sanction by High Court have been obtained to the following scheme.

1. **Division B of Lazy Ltd. which has Fixed assets costing `400 crores (written down value `160 crores). Current assets `900 crores, Current liabilities `750 crores and loan funds of `200 crores is to be transferred at `125 crores to Yummy Ltd.**
2. **Division A of Yummy Ltd. which has Fixed assets costing `500 crores (depreciation ` 200 crores), Current assets `800 crores Current liabilities `700 crores and loan funds `250 crores is to be transferred at `140 crores to Lazy Ltd.**
3. **The difference in the two consideration is to be treated as loan carrying interest at 15% per annum.**
4. **The directors of each of the companies revalued the Fixed assets taken over as follows:**
   i. **Division A of Yummy Ltd. taken over: `325 crores.**
   ii. **Division B of Lazy Ltd. taken over: `200 crores.**

All the other assets and liabilities are recorded at the Balance sheet values.

(a) The directors of both the companies ask you to prepare the Balance Sheets after reconstruction (showing the corresponding figures before reconstruction).

(b) Mr. Pravin, who owns 5,000 equity shares of Lazy Ltd. and 3,000 equity shares of Yummy Ltd. wants to know whether he has gained or lost in terms of net asset value of equity shares on the above recognisation. 16

3. From the Balance Sheets of CAT Ltd. and RAT Ltd. as on 31-03-2013 furnished below, read with supplementary information hereunder you are required to prepare Consolidated Balance Sheet of CAT Ltd. as at 31st March, 2013.

Liabilities	Cat `	Rat `	Assets	Cat `	Rat `
Equity shares (` 100)	24,00,000	2,25,000	Fixed Assets (Tangible)	38,61,650	17,50,000
9% Cumulative Preference			Investments in	23,51,250	--
	--	20,25,000	RAT Ltd.		
Shares (` 100)	29,10,000	2,60,000	Current Assets	1,87,500	18,60,000
Profit & Loss Account	--	6,50,000			

12% Secured Debentures Creditors (Trade)	10,90,400	4,50,000			
	64,00,400	36,10,000		64,00,400	36,10,000

Supplementary Information:

(1) CAT Ltd. was formed on the First of April, 2012 with an Authorized Capital of 3,00,000 Equity Shares of ` 10 each. On 1st April, 2012 it acquired from the open market 9,000 equity shares in RAT Ltd at ` 13 per share. On 1st of August 2012 CAT Ltd. made a further acquisition of 4,950 Equity Shares in RAT Ltd. @ `15 per share and 20,000, 9% Cumulative Preference Shares for `21,60,000 from the existing shareholders of RAT Ltd. The shares acquired on 1st of August, 2012 were Ex-Bonus and Ex-Dividend.

(2) On 1st August 2012 CAT Ltd received Bonus entitlements from RAT Ltd @ 1:4 held, together with 12% equity Dividend from RAT Ltd. The equity dividend received was credited to Profit and Loss A/c by CAT Ltd. Both the bonus issue and the dividend payment have been considered in the Profit & Loss Account of RAT Ltd. on 1st August, 2012 itself.

(3) The Profit and Loss Account of CAT Ltd. included Current Year Profits amounting to ` 3,75,000 earned after debiting a monthly sum of 8,000 in its P & L Account being expenditure incurred on behalf of RAT Ltd. The entry to record the amount due from RAT Ltd. was not passed neither in the books of CAT Ltd. nor in the books of RAT Ltd.

(4) RAT Ltd earned a profit of ` 1,92,000 for the year ended March 2013 which included ` 61,000 towards insurance claim received for loss of stock by a fire accident on 30th June 2012. The cost of such stock which is part of the opening stock of the company as on 1st April, 2012 was ` 1,09,000.

(5) RAT Ltd. has discharged its obligations towards Preference Dividend only upto 31st March, 2011.

(6) A 10% equity dividend has been proposed by CAT Ltd which is not provided for as yet. 16

4. (a) Given below is the Profit and Loss Account of Cream Co. Ltd.

Particulars	Notes	Amount (` '000)
Income		
Sales	1	28,525
Other Income		756
		29,281
Expenditure:		
Operating cost	2	25,658
Excise duty		1,718
Interest on bank overdraft	3	93
Interest on 10% debentures		1,157
		28,626
Profit before depreciation		655
Less: Depreciation		255
Profit before tax		400
Less:Provision for tax	4	275
Profit after tax		125
Less: Transfer to fixed asset replacement reserve		25
		100
Less: Dividend paid and payable		45

Retained profit		55

Notes:

i) This represents the invoice value of goods supplied after deducting discounts, returns and sales tax.

ii) Operating Cost includes `('000) 10,247 as wages, salaries and other benefits to employees.

iii) The bank overdraft is treated as a temporary source of finance.

iv) The charge for taxation includes a transfer of `('000) 45 to the credit of deferred tax account.

You are required to:

a. Prepare a Value Added Statement for the year ended 31st March 2015. 8

4. (b) From the following details, compute according to Lev and Schwartz (1971) model, the total value of human resources of the unskilled employees with different age groups.

Age Group	Unskilled Employees	
Age	No of Employees	Average annual earnings
30 Years – 39 Years	70	3,000
40 Years – 49 Years	20	4,000
50 Years – 54 Years	10	5,000

Retirement age: 54 and apply the discount rate 15% 8

5. (a) G Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 2012:

Liabilities	`	Assets	`
6,000 Share of ` 60 each, ` 30 paid up		Property, machinery and plant etc. (Cost `3,90,000) Estimated at	1,50,000
First debentures	3,00,000	Cash in hand of the receiver	2,70,000
Second debentures	6,00,000	Charged under debentures	4,20,000
Unsecured creditors	4,50,000	Uncalled capital	1,80,000
			6,00,000
		Deficiency	7,50,000
	13,50,000		13,50,000

A holds the first debentures for ` 3,00,000 and second debentures for ` 3,00,000. He is also an unsecured creditor for ` 90,000. B holds second debentures for ` 3,00,000 and is an unsecured creditor for ` 60,000.

The following scheme of reconstruction is proposed:

1. A is to cancel ` 2,10,000 of the total debt owing to him, to advance 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for ` 5,10,000 in satisfaction of all his claims.
2. B is to accept ` 90,000 in cash in satisfaction of all claims by him.
3. Unsecured creditors (other than A and B) are to accept four shares of `7.50 each, fully paid in satisfaction of 75% of every `60 of their claim. The balance of 25% is to be postponed and to be payable at the end of three years from the

date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.

4. Uncalled capital is to be called up in full and ` 52.50 per share cancelled, thus making the shares of ` 7.50 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries and the balance sheet of the company after the scheme has been carried into effect. 10

5. (b) D ltd. has made the following investments in S Ltd. a few years before –

(1) 6,000 Equity Shares of `10 each at `1,50,000.

(2) 200 12% Preference Shares of ` 100 each at `30,000.

(3) 500 10% Debentures at `95 per Debenture.

The Capital Profits of S Ltd. have been ascertained at `96,000.

Determine the cost of control, under the following situations –

1. Shares were purchased Cum-Dividend and Equity Dividend was declared at 20% and the dividends were

(a) Credited to Profit and Loss Account

(b) Credited to Investment Account 6

6. (a) ABC Ltd. grants 1,000 employees stock options on 01.04.2008 at `40, when the market price is `160. The vesting period is 2 ½ years and the maximum exercise period is one year 300 unvested options lapse on 01.05.2010. 600 options are exercised on 30.6.2011. 100 vested options lapse at the end of the exercise period. Pass Journal Entries giving suitable narrations. 8

6. (b) Vishnu Company has at its financial year ended 31st March, 2015, fifteen law suits outstanding none of which has been settled by the time the accounts are approved by the directors. The directors have estimated the possible outcomes as below:

Result	Probability	Amount of loss
For first ten cases:		
Win	0.6	
Loss-low damages	0.3	90,000
Loss-high damages	0.1	1,60,000
For remaining five cases:		
Win	0.5	
Loss-low damages	0.3	60,000
Loss-high damages	0.2	95,000

The directors believe that the outcome of each is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss. 8

7. (a) The fair value of plan assets of Anupam Ltd. was `2,00,000 in respect of employee benefit pension plan as on 1st April, 2009. On 30th September 2009, the plan paid out benefits of `25,000 and received inward contributions of `55,000. On 31st March, 2010 the fair value of plan assets was `3,00,000. On 1st April 2009 the company made the following estimates, based on its market studies and prevailing prices.

	%
Interest and dividend income (after tax) payable by fund	10.25

Realized gains on plan assets (after tax)	3.00
Fund administrative costs	(3.00)
Expected rate of return	10.25

Calculate the expected and actual return on plan assets as on 31st March, 2010 as per AS15. 8

7. (b) The following information is available for a concern, calculate EVA

Particulars	`
Deb capital 12%	2,000 crores
Equity capital	500 crores
Reserves and surplus	7,500 crores
Capital employed	10,000 crrores
Risk free rate	9%
Beta factor	1.05
Market rate of return	19%
Equity (market) risk premium	10%
Operating profit after tax	`2,100 crores
Tax rate	30%

8

8. (a) List the responsibilities of Government Accounting Standards Advisory Board. 8

8. (b) State the sources of Government Revenue. 8