Paper – 18: Corporate Financial Reporting

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Full Marks : 100 **Time allowed: 3 hours**

Answer Question No. 1 (carrying 20 marks) which is compulsory and also answer any five questions (carrying 16 marks each) from Question No. 2 to Question No. 8.

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

(a) A firm of contractors obtained a contract for construction of bridges across a river. The following details are available in the records kept for the year ended 31st March, 2016.

	₹ In lakhs
Total contract price	2,000
Work certified	1,000
Work not certified	210
Estimated further cost to completion	990
Progress payment received	800
To be received	280

Determine the amount of

- **Contract work-in-progress;**
- **Amount due from/to customer.**

Answer:

Contract Work-in-Progress:
= Work certified + Work not certified = ₹ (1,000+210) lakhs = ₹ 1,210 lakhs

Amount due from/ to customer:
= Contract costs incurred + Recognised profits - Recognised losses – (Progress payments received + Progress payments to be received)

= ₹1,210 lakhs + NIL - ₹200 lakhs – ₹(800 + 280)lakhs = (₹70)lakhs i.e., amount due to the customer is ₹70 lakhs.

(b) While closing its books of accounts on 31st March, a NBFC has its advances classified as follows –

Particulars	₹ Lakhs	Particulars	₹Lakhs
Standard Assets	8,400	Unsecured Portion of Doubtful Debts	87
Sub-Standard Assets	910	Loss Assets	24
Secured Portions of Doubtful Debts:			
- Up to one year	160		
- One year to three years	70		
- more than three years	20		

Calculate the amount of provision which must be made against the advances.

Answer:

Particulars	**Loan (₹ Lakhs)**	**Provision (%)**	**Provision (₹Lakhs)**
Standard Assets	8,400	35%	2,940
Sub- Standard Assets	910	10%	91
Secured Portions of Doubtful Debts:			

- Up to one year	160	20%	32
- 1 year to 3 years	70	30%	21
- more than three years	20	50%	10
Unsecured Portions of Doubtful Assets	87	100%	87
Loss Assets	24	100%	24
Total			3,205

(c) Who appoints the Public Accounts Committee Chairman? What is the Procedure of Appointment of Chairman of the Public Accounts Committee?

Answer:

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) Venus Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2015 at ₹ 1,000 lakhs. As at that date the value in use is ₹ 800 lakhs and the net selling price is ₹ 750 lakhs.

From the above data:

(i) Calculate impairment loss.

(ii) Give journal entries for adjustment of impairment loss.

Answer:

Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Thus, Impairment loss = Carrying amount – Recoverable amount*****
= ₹1000 lakhs – ₹ 800 lakhs = ₹ 200 lakhs

*****Recoverable amount is higher of asset's net selling price ₹ 750 lakhs and its value in use ₹800 lakhs.

∴ Recoverable amount = ₹ 800 lakhs

Journals

(ii)	**Particulars**	**Debit Amount (₹ in lakhs)**	**Credit Amount (₹ in lakhs)**
(a)	Impairment loss A/c Dr. To Asset A/c (Being the entry for accounting impairment loss)	200	 200
(b)	Profit and loss A/c Dr. To Impairment loss A/c (Being the entry to transfer impairment loss to profit and loss account)	200	 200

(e) M Ltd., has equity capital of ₹ 40,00,000 consisting of fully paid equity shares of ₹ 10 each. The net profit for the year 2015-16 was ₹ 60,00,000. It has also issued 36,000, 10% convertible debentures of ₹ 50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. Compute the diluted earnings.

Answer:

Computation of Diluted Earnings:

Interest on Debentures @ 10% for the year	$36,000 \times ₹50 \times \frac{10}{100}$
	=₹1,80,000
Tax on interest @ 30%	= ₹54,000
Diluted Earnings (adjusted net profit)	= (₹60,00,000 + ₹1,80,000 - ₹54,000)
	= ₹61,26,000

2. Red Ltd. and Blue Ltd. propose to amalgamate. Their balance sheets as at 31st March, 2016 were as follows:

Equity and Liabilities	Note	Red Ltd. (₹)	Blue Ltd. (₹)
Share holders' funds			
Share Capital			
Equity Share Capital (in shares of ₹ 10 each)		**15,00,000**	**6,00,000**
Reserves and Surplus	**1**	**9,00,000**	**1,50,000**
Current liabilities:			
Trade Payables – creditors		**3,00,000**	**1,50,000**
Total		**27,00,000**	**9,00,000**
Assets			
Non-current Assets:			
Fixed Assets (less depreciation)		**12,00,000**	**3,00,000**
Investments (face value of ₹ 3 lakhs, 6% tax free G.P notes)		**3,00,000**	
Current Assets:			
Inventories		**6,00,000**	**3,90,000**
Trade Receivables – debtors		**5,10,000**	**1,80,000**
Cash and cash equivalents		**90,000**	**30,000**
Total		**27,00,000**	**9,00,000**

Note 1: Reserves and Surplus	Red Ltd. (₹)	Blue Ltd. (₹)
General Reserves	**6,00,000**	**60,00,000**
Profit and Loss Account	**3,00,000**	**90,000**

Their Net Profit (after taxation) were as follows:

Year	Red Ltd.	Blue Ltd.
2013-14	**₹ 3,90,000**	**₹ 1,35,000**
2014-15	**₹ 3,75,000**	**₹ 1,20,000**
2015-16	**₹ 4,50,000**	**₹ 1,68,000**

Normal trading profit may be considered as 15% on closing capital invested. Goodwill may be taken as 4 years purchase of average super profit. The stock of Red Ltd. and Blue Ltd. are to be taken at ₹ 6,12,000 and ₹4,26,000 respectively for the purpose of amalgamation. Green Ltd. is formed for the purpose of amalgamation of two companies. Assume Tax Rate 40%.

(i) Ascertain the number of shares to be issued by Green Ltd. in the form of equity shares of ₹ 10 each.

(ii) Draft opening balance sheet of Green Ltd. after amalgamation. [16]

Answer:

(i) Computation of shares to be issued by Green Ltd.

Computation of Net Assets of amalgamating companies

	Red Ltd. (₹)	Blue Ltd. (₹)
Goodwill (W.N 2) Fixed Assets 6% investments (Non- trade) Inventories Debtors Cash and cash equivalents	3,19,200 12,00,000 3,00,000 6,12,000 5,10,000 90,000	1,21,200 3,00,000 ---- 4,26,000 1,80,000 30,000
	30,31,200	10,57,200
Less: Creditors	3,00,000	1,50,000
Net Assets	27,31,200	9,07,200
No. of Equity Shares	1,50,000	60,000
Intrinsic value of a share	₹18.208	₹15.12
No of shares to be issued by Green Ltd. to		
Red Ltd. 1,50,000 X 18.208/10	2,73,120 shares	
Blue Ltd. 60,000 X 15.12/10		90,720 shares

In total 2,73,120+ 90,720 i.e. 3,63,840 shares will be issued by Green Ltd.
Ratio of exchange of shares will be as follows:
A. Holders of 1,50,000 equity shares of Red Ltd. will get 2,73,120 shares in Green Ltd.
B. Similarly, holders of 60,000 equity shares of Blue Ltd. will get 90,720 shares in Green Ltd.

(ii)

Green Ltd. (Opening Balance Sheet)
as on 01.04.2014

Equity and Liabilities	Note	Current Year	Previous Year
Shareholders' funds			
Share Capital			
Equity share capital (in shares of ₹10 each)		36,38,400	
Current Liabilities:			
Trade Payables-Creditors(3,00,000+1,50,000)		4,50,000	
Total		40,88,400	
Assets			
Non-current Assets:			
Fixed Assets (less depreciation)			
Tangible assets(12,00,000+ 3,00,000)		15,00,000	
Intangible assets(3,19,200 + 1,21,200)		4,40,400	
Investments (Face value of ₹ 3 lakhs, 6% Tax free G.P notes		3,00,000	
Current Assets:			
Inventories(6,12,000+4,26,000)		10,38,000	
Trade receivables-debtors(5,10,000+ 1,80,000)		6,90,000	
Cash and cash equivalents(90,000+30,000)		1,20,000	
Total		40,88,400	

Working Notes:

A. Calculation of Closing trading capital employed on the basis of net assets

	Red Ltd. (₹)	Blue Ltd. (₹)
Fixed Assets Inventories Debtors Cash and cash equivalents	12,00,000 6,12,000 5,10,000 90,000	3,00,000 4,26,000 1,80,000 30,000
	24,12,000	9,36,000
Less: Creditors	3,00,000	1,50,000
Net Assets	21,12,000	7,86,000

B. Calculation of value of Goodwill

Average trading profit

	Red Ltd. (₹)	Blue Ltd. (₹)
2011-12 2012-13 2013-14	3,90,000 3,75,000 4,50,000	1,35,000 1,20,000 1,68,000
Profit after tax	12,15,000	4,23,000
Profit before tax Add: Under valuation of closing stock	20,25,000 12,000	7,05,000 36,000
	20,37,000	7,41,000
Average of 3 years' profit before tax	6,79,000	2,47,000
Less: Income from non-trade investments (3,00,000 × 6%)	18,000	--
Average profit before tax Less: 40% tax	6,61,000 2,64,400	2,47,000 98,800
Average profit after tax	3,96,600	1,48,200

Super Profits

	Red Ltd. (₹)	Blue Ltd. (₹)
Average trading profit Less: Normal Profit Red Ltd. ₹21,12,000 × 15% Blue Ltd. ₹ 7,86,000 × 15%	3,96,600 3,16,800 --	1,48,200 -- 1,17,900
	79,800	**30,300**

Value of Goodwill

	Red Ltd. (₹)	Blue Ltd. (₹)
Value of Goodwill at 4 years' purchase of super profits	3,19,200	1,21,200

3. **The balance sheet of Golden and Silver Limited as on 31.3.2014 are given below:**

Equity and Liabilities	Note	Golden Ltd. (₹)	Silver Ltd. (₹)
Share holders' funds			
Share Capitals			
Equity Share Capital		**2,40,000**	**2,40,000**
Reserves and Surplus	**1**	**64,000**	**71,000**
Current Liabilities:			
Trade Payables – creditors		**8,000**	**15,000**
Other current liabilities		**4,000**	**10,000**
Total		**3,16,000**	**3,36,000**
Assets			

Non- current Assets:			
Fixed Assets		**88,000**	**1,68,000**
Investment		**1,80,000**	**10,000**
Current Assets:			
Inventories		**20,000**	**80,000**
Trade Receivables – debtors		**12,0000**	**30,000**
Cash and cash equivalents		**8,000**	**16,000**
Other current assets		**8,000**	**32,000**
Total		**3,16,000**	**3,36,000**

Note: 1 Reserves and surplus	**Golden Ltd. (₹)**	**Silver Ltd. (₹)**
General Reserves	**40,000**	**32,000**
Profit and Loss Account	**24,000**	**39,000**
	64,000	**71,000**

Additional Information:

(i) On 1.10.2011, Golden Ltd. acquired 16,000 shares of ₹ 10 each at the rate of ₹ 11 per share.
(ii) Balance to General Reserve and Profit and Loss Account of Silver Ltd. stood on 1.4.2011 at ₹ 60,000 and ₹ 32,000 respectively.
(iii) All the dividends declared and paid relating to the past years had been properly adjusted for to arrive at the profit and loss account balance.
(iv) On 1.3.2014, bonus shares were issued by Silver Ltd. at the rate of one fully paid share for every five held and effect has been given to that in the above accounts. The bonus was declared from general reserves from out of profits earned prior to 1.4.2011.
(v) On 1.10.2011, Fixed assets was revalued at ₹ 2,16,000 but no adjustment had been made in the books.
(vi) Depreciation had been charged @ 10% p.a on the book value as on 1.4.2011 (on straight line method), there being no addition or sale since then.
(vii) Out of current profits ₹ 4,000 have been transferred to general reserve every year.
(viii) Bills receivable of Golden Ltd. include ₹ 4,000 bills accepted by Silver Ltd. Bills discounted by Golden Ltd., but not yet matured include ₹ 3,000 accepted by Silver Ltd.
(ix) Sundry creditors of Golden Ltd. include ₹ 4,000 due to Silver Ltd. sundry debtors of Silver Ltd. include ₹ 8,000 due from Golden Ltd.
(x) It is found that Golden Ltd. has remitted a cheque of ₹ 4,000 which has not yet been received by Silver Ltd.

Show the analysis of pre and post acquisition profit and reserves as on 31.03.2014 for the purpose of consolidation. [16]

Answer:

Interest of Golden Ltd in Silver Ltd.	₹
Share capital of Silver Ltd. on 31.3.2014 Less: Issue of Bonus Shares $\frac{1}{6} \times ₹2,40,000$	2,40,000 40,000
Share capital before Bonus issue	2,00,000
No. of Equity Shares before Bonus issue $\frac{2,00,000}{10}$ No. of shares held by Golden Ltd.	20,000 16,000
Interest of Golden Ltd. in Silver Ltd $\frac{16,000}{20,000} \times 100$	80%
Minority shareholders' Interest	20%

Analysis of Profit of Silver Ltd.

		Capital Profit (₹)	Revenue Reserve (₹)	Revenue Profit (₹)
General Reserve on 31.3.2014 (After Bonus issue)	32,000			
Add: Bonus issue	40,000			
Balance (before bonus issue) ₹ 1,80,000 – (16,000 shares x ₹ 11)	72,000			
General Reserve on 1.4.2011	60,000			
Less: Bonus issue	40,000	20,000		
Increase in General Reserve (Transfer of ₹4000 p.a. for 3 years) (72,000 – 60,000)	12,000	2,000	10,000	
Profit and Loss Account (39,000 – 12,000)	27,000	4,500		22,500
Additional depreciation written back due to revaluation of fixed assets $12,000 \times \frac{10}{100} \times 2.5$				3,000
		26,500	10,000	25,500
Share of Golden Ltd. (80%)		21,200	8,000	20,400
Share of Minority Shareholders (20%)		5,300	2,000	5,100
		26,500	10,000	25,500

Loss on Revaluation has been calculated as follows:	
Value of Assets on 1.4.2011 (1,68,000 X $\frac{100}{70}$)	2,40,000
Less : Depreciation for 6 months (2,40,000 x$10\% \times \frac{1}{2}$)	12,000
Valuation of Assets on 1.10.2011	2,28,000
Less: Re-valued value of Assets	2,16,000
Loss on Revaluation	12,000
It has been assumed that Profit of ₹27,000 for the year 2012-2013, has been earned evenly in 3 years, (year 2011-12, 2012-13 and 2013-14) hence profit per year would be $\frac{27,000}{3}$ = ₹9000.Half of the profit of ₹9,000 for the year 2011-12 would be pre-acquisition (Capital Profit) and Remaining half i.e. ₹4500 would be post-acquisition profit (Revenue profit).	

4. (a) From the following information determine the amount of unrealized profit to be eliminated and the apportionment of the same. Om Ltd. holds 80% Equity shares of Shanti Ltd.

i. Again, Om Ltd. sold goods costing ₹54,00,000 on which it made a profit of 25% on Sale Price. 60% of the value of goods were included in closing stock of Shanti Ltd.

ii. Shanti Ltd. sold goods to Om Ltd. for ₹96,00,000 on which it made a profit of 20% on Cost.
40% of the value of goods were included in the closing stock of Om Ltd. [8]

Answer:

Situation I

Transaction	**Sale by Om Ltd. to Shanti Ltd.** **[Holding ⟶ Subsidiary]**
Nature of Transfer	**Downstream Transaction**
Profit on Transfer	Cost ₹54,00,000 × Profit on Sale Price i.e.25% ÷ Cost on Sale i.e. 75% = ₹18,00,000

% of Stock included in Closing Stock	60%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 18,00,000 × 60% = ₹10,80,000
Share of Majority – Reduced from Group Reserve	100% × ₹10,80,000 = ₹10,80,000
Share of Minority	Unrealised Profit in case of a Downstream Transaction is fully adjusted against Group Reserves. Minority Interest is not relevant here.

Situation II

Transaction	**Sale by Shanti Ltd. to Om Ltd. [Subsidiary ⟶ Holding]**
Nature of Transfer	**Upstream Transaction**
Profit on Transfer	Sale ₹96,00,000 × Profit on Cost 20% ÷Sale to Cost 120% =₹16,00,000
% of Stock included in Closing Stock	40%
Unlealised Profit to be eliminated i.e to be reduced from Closing Stock	₹ 16,00,000 × 40% = ₹6,40,000
Share of Majority – Reduced from Group Reserve	Share of Majority i.e. 80% × Unrealised Profit ₹6,40,000 = ₹5,12,000
Share of Minority – Reduced from Minority Interest	Share of Majority i.e. 20% × Unrealised Profit ₹6,40,000 = ₹1,28,000

(b) Himalaya Ltd. announced a Stock Appreciation Right (SAR) on 01.04.2011 for each of its 400 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31.03.2014, but before 30.06.2014. The fair value of SAR was ₹21 in 2011-12, ₹ 23 in 2012-13 and ₹24 in 2013-14. In 2011-12, the company estimates that 2% of employees shall leave the company annually. This was revised to 3% in 2012-13. Actually, 10 employees left the company in 2011-12,5 left in 2012-13 and 3 left in 2013-14. The SAR therefore actually vested to 382 employees. On 30.06.2014, when the SAR was exercised, the intrinsic value was ₹ 25 per share.

Show the Stock Appreciation Right Account by fair value method. [8]

Answer:

Provision for SAR's Account

Dr. **Cr.**

Year	**Particulars**	**₹**	**Year**	**Particulars**	**₹**
2011-12	To, Balance c/d	2,63,200	2011-12	By, Employees Compensation Expenses	2,63,200
		2,63,200			2,63,200
2012-13	To, Balance c/d	5,62,733	2012-13	By, Balance b/d By, Employees Compensation Expenses	2,63,200 2,99,533
		5,62,733			5,62,733
2013-14	To, Balance c/d	9,16,800	2013-14	By, Balance b/d By, Employees Compensation Expenses	5,62,733 3,54,067

		9,16,800			9,16,800
2014-15	To, Balance c/d	9,55,000	2014-15	By, Balance b/d By, Employees Expenses	9,16,800 38,200
		9,55,000			9,55,000

The provision for SAR is a liability, as settlement of SAR is through cash payment equivalent to an excess of market price of company's share on exercise date over the exercise price.

Working Notes:

Year 2011- 12:

1. No. Of employees to whom SAR's were announced (382+10+5+3)= 400 employees.
2. Total number of employees after 3 years, on the basis of estimation in 2011-12 = (400 × 0.98 × 0.98 × 0.98) = 376 employees.
3. No of SAR's expected to vest = 376×100 = 37,600 SAR.
4. Fair value of SAR's = 37,600 × ₹21 = ₹7,89,600.
5. Recognised as expense in 2011-12 = ₹ 7, 89,600 / 3 years = ₹2,63,200

Year 2012- 13:

1. Total number of employees after 3 years, on the basis of estimation in 2012-13 = (400 - 10) ×0.97× 0.97 = 367 employees.
2. No of SAR's expected to vest = 367 × 100 = 36,700 SAR.
3. Fair value of SAR's = 36,700×₹23 = ₹8,44,100.
4. Cumulative value of SAR's to be recognised as an expense = ₹ 8, 44,100 ×2/3 = ₹5,62,733.
5. SAR's recognise as expense in 2012-13 = ₹5,62,733 – ₹ 2,63,200 = ₹ 2,99,533.

Year 2013-14:

1. Fair value of SAR's = ₹24.
2. SAR actually vested = 382 ×100 = 38,200 SAR
3. Fair Value = 38,200 × ₹24 = ₹9,16,800.
4. Cumulative value of SAR's to be recognised = ₹9,16,800.
5. Value of SAR's to be recognised as an expense = ₹9,16,800 – ₹5,62,733 = ₹3,54,067.

Year 2014-15:

1. Cash payment of SAR's = 38,200 SAR's × ₹25 = ₹9,55,000.
2. Value of SAR's to be recognised as an expense in 2014-15 = ₹9,55,000 – ₹9,16,800 = ₹38.200.

5. (a) Amro Ltd. furnishes the following profit and loss Account –

Particulars	Notes	₹ (000)
INCOME:		
Turnover	**1**	**29,872**
Other income		**1,042**
Sub-total		**30,914**
EXPENDITURE:		
Operating expenses	**2**	**26,741**
Interest on 8% debentures		**987**
Interest on cash credit	**3**	**151**
Excise duty		**1,952**
Sub-total		**29,831**
Profit before depreciation		**1,083**
Less: Depreciation		**(342)**
Profit before tax		**741**
Less: Provision for tax		**(376)**
Profit after tax		**365**
Less: Transfer to fixed assets replacement reserve		**(65)**

Profit available for distribution		**300**
Less: dividend paid		**(125)**
Retained profit		**175**

Notes:

1. **Turnover is based on invoice value and net of sales tax.**
2. **Salaries, wages and other employee benefits amounting to ₹ 14,761(000) are included in operating expenses.**
3. **Cash credit represents a temporary sources of finance. It has not been considered as a part of capital.**
4. **Transfer of ₹54 (000) to the credit of deferred tax account is included in provision for tax.**

Prepare value added statement for the year ended 31st March 2016 and reconcile total value added with profit before taxation. [10]

Answer:

Value Added Statement of Amro Ltd.

Particulars	**₹(000)**	**₹(000)**	**₹(000)**
Turnover			29,872
Less: Operating Expenses [Total ₹26,741 – salaries ₹14,761]			(11,980)
Value added by Trading Activities			17,892
Less: Interest on Cash Credit			(151)
Add: Other Income			1042
Total value Added			18,783
Applied as follows-			
1. To Employees Salaries, Wages etc.		14,761	78.6%
2. To Government Excise Duty	1,952		
Income tax (376-54)	322	2274	12.1%
3. To Financiers Interest on Debentures		987	5.3%
4. To Shareholders Dividends		125	0.7%
5. To Earnings retained for expansion and replacement			
Retained Profit	175		
Depreciation	342		
Deferred tax credit	54		
Fixed Asset Replacement Reserve	65	636	3.3%
Total Application		18,783	100%

Reconciliation of Total Value Added with Profit before taxation

Particulars	**₹(000)**	**₹(000)**
Profit before taxation		741
Add: Depreciation	342	
Interest on Borrowings	987	
Excise Duty paid to Government	1,952	
Salaries and Wages to Employees	14,761	18,042
Total Value Added		18,783

(b) A Factory started activities on 1st April. From the following data, obtain the Value of Closing Stock on 30th April.

- **Raw Materials purchased during April = 80,000 kg at `12 (out of which Excise Duty = `2 per kg). Stock on hand as on 30th April = 5,000 kg.**
- **Production during April = 14,000 units (of which 10,000 units were sold). In addition to the production, 1,000 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).**
- **Wages and Production Overheads =`30 per completed unit.**
- **Selling Price=`110 per unit (of which Excise Duty is `10 per unit).**

[6]

Answer:

Particulars	Computation	₹
1. Raw Material Valuation (net of Input Excise Duty)	5,000 kg x ₹10 per kg.	50,000
2. WIP Valuation (net of RM input duty)	(₹50 + 60% of ₹30) x 1,000 units	68,000
3. Finished Goods Valuation (including ED on SP)	(RM 50 + Lab & OH 30 + ED 10) =	
	₹90 × (14,000 units - 10,000 units)	3,60,000
Total		**4,78,000**

Computation of Cost per unit of production:

- Raw Materials: (80,000 - 5,000) = 75,000 kg for 15,000 units total = 5 kg x ₹10 (net of ED)=₹50
- Wages and Production Overhead =₹30 per completed unit (given)

6. (a) From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz (1971) model:

	Skilled	Unskilled
(i) Annual average earning of an employee till the retirement age.	**₹70,000**	**₹50,000**
(ii) Age of retirement	**65 years**	**62 years**
(iii) Discount rate	**15%**	**15%**
(iv) No. of employees in the group	**30**	**40**
(v) Average age	**62 years**	**60 years**

[8]

Answer:

Valuation of Employees as per Lev and Schwartz method:

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

Where,
V = the human capital value of a person
I(t) = the person's annual earnings up to retirement.
r = a discount rate specific to the person.
t = retirement age.

Value of Skilled Employees:

$$= \frac{70,000}{(1+0.15)^{65-62}} + \frac{70,000}{(1+0.15)^{65-63}} + \frac{70,000}{(1+0.15)^{65-64}}$$

$$= \frac{70,000}{(1+0.15)^{3}} + \frac{70,000}{(1+0.15)^{2}} + \frac{70,000}{(1+0.15)^{1}}$$

= ₹ $(46,026.14 + 52,930.06 + 60,869.57)$ = ₹ 1,59,825.77.

Total value of skilled employees is
₹ 1,59,825.77× 30 employees = ₹ 47,94,773.

Value of Unskilled Employees:

$$= \frac{50{,}000}{(1+0.15)^{62-60}} + \frac{50{,}000}{(1+0.15)^{62-61}}$$

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

= ₹ $(37{,}807.18 + 43{,}478.26) =$ ₹ 81,285.44

Total value of Unskilled employees is

=₹ 81,285.44 × 40 employees = ₹ 32,51,417.6.

Total value of human resources (Skilled and Unskilled)

= ₹(47,94,773 + 32,51,417.60)= ₹ 80,46,190.60.

(b) On the basis of the following information related to trading in options, you are required to pass relevant journal entries (at the time of inception and at the time of final settlement) in the books of Tom (Buyer) and Jerry (seller). Assume that the price on expiry is ₹ 950 and both Tom and Jerry follow the calendar year as an accounting year.

Date of purchase	Option Type	Expiry date	Premium per unit	Contract Lot	Multiplier
29.03.2015	**Equity index, call**	**31.05.2015**	**₹ 10**	**1,000 units**	**₹ 850 p.u**

[8]

Answer:

In the books of Tom (Buyer)

S. No.	Particulars		Debit ₹	Credit ₹
29.03.15	Equity Index Option Premium A/c To Bank A/c (Being premium paid on Equity Stock Options)	Dr.	10,000	10,000
31.05.15	Profit and Loss A/c To Equity Index Stock Option A/c (Being premium on option written off on expiry)	Dr.	10,000	10,000
31.05.15	Bank A/c To Profit and Loss A/c (Being profit on exercise of option received = 1,000 units ×(₹950 - ₹850)) (Exercise Price - Spot Price)	Dr.	1,00,000	1,00,000

In the books of Suman (Seller)

S. No.	Particulars		Debit ₹	Credit ₹
29.03.15	Bank A/c To Equity Index Option Premium A/c (Being premium on Option collected)	Dr.	10,000	10,000
31.05.15	Profit and Loss A/c To Bank A/c (Being loss on Option paid)	Dr.	1,00,000	1,00,000
31.05.15	Equity Index Option Premium A/c To Profit and Loss A/c (Being premium on option recognized as income)	Dr.	10,000	10,000

7. (a) From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2016 in accordance with AS-3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary cash account for the year ended 31.3.2016

Particular	Amount (₹ '000)	Particulars	Amount (₹ '000)
Balance on 1.4.2015	**800**	**Payment to suppliers**	**5,200**

Issue of equity shares	**2,000**	**Purchase of fixed assets**	**2,400**
Receipts from customers	**9,000**	**Overhead expenses**	**400**
Sale of fixed Assets	**400**	**Wages and salaries**	**1,200**
		Taxation	**900**
		Dividend	**200**
		Repayment of bank loan	**1,600**
		Balance on 31.3.2016	**300**
	12,200		**12,200**

[8]

Answer:

X Ltd.

Cash Flow Statement for the year ended 31st March, 2016 (Using the direct method)

Particulars	**₹ '000**	**₹ '000**
Cash flows from operating activities		
Cash receipts from customers	9,000	
Cash payment to suppliers	(5,200)	
Cash paid to employees	(1,200)	
Cash payments for overheads	(400)	
Cash generated from operations	2,200	
Income tax paid	(900)	
Net cash from operating activities		1,300
Cash flows from investing activities		
Payment for purchase of fixed assets	(2,400)	
Proceeds from sale of fixed assets	400	
Net cash used in investing activities		(2,000)
Cash flows from financing activities		
Proceeds from issuance of equity shares	2,000	
Bank loan repaid	(1,600)	
Dividend paid	(200)	
Net cash from financing activities		200
Net increase in cash		(500)
Cash at beginning of the period (01.04.2015)		800
Cash at end of the period(31.03.2016)		300

(b) Mr. Dutta buys the following Equity Stock Options and the seller/writer of the options is Mr. Bose

Date of purchase	**Option Type**	**Expiry date**	**Market lot**	**Premium per unit**	**Strike price (₹)**
29 June, 2016	**PP Co. Ltd**	**30 Aug., 2013**	**100**	**30**	**360**
30 June, 2016	**MM Co. Ltd.**	**30 Aug., 2013**	**200**	**40**	**450**

Assume the price of PP Co. Ltd. and MM Co. Ltd. on 30th August, 2016 is ₹ 370 and 400 respectively. Pass journal entries in the books of Mr. Bose. [8]

Answer:

In the books of Mr. Bose
Journal

Date	**Particulars**	**Debit (₹)**	**Credit (₹)**
29.06.2013	Bank A/c Dr. To, Option premium A/c [Being option premium received(₹3,000+₹8,000)]	11,000	11,000

30.08.2013	Loss on Derivatives A/c Dr. To, Bank A/c (Being Loss recognised) (₹370 - ₹360)×100 = ₹1,000 (₹450 - ₹400)×200 = ₹10,000	11,000	 11,000
30.08.2013	Option premium A/c Dr. To, Profit & Loss A/c (Being Premium transferred to income)	11,000	 11,000

8. (a) Discuss the Constitution of Government Accounting Standards Advisory Board (GASAB). [8]

Answer:

Constitution of Government Accounting Standards Advisory Board (GASAB)

Government of India have supported the proposal for establishment of a Government Accounting Standards Advisory Board for the Union and the States by the Comptroller and Auditor General of India in order to establish and improve standards of governmental accounting and financial reporting and enhance accountability mechanisms.

Accordingly, the Comptroller and Auditor General of India has constituted a Government Accounting Standards Advisory Board (GASAB) consisting of the following officers:

1. Deputy Comptroller and Auditor General (Accounts) as Chairperson
2. Controller General of Accounts
3. Financial Commissioner, Railways
4. Controller General of Defence Accounts
5. Additional Secretary (Budget), Ministry of Finance, Government of India
6. Deputy Governor, Reserve Bank of India or his nominee
7. Director General, National Council of Applied Economic Research (NCAER), New Delhi
8. President, Institute of Chartered Accountants of India (ICAI), or his Nominee

9-12 Principal Secretary (Finance) of four States by annual rotation

13. Principal Director (Accounts)

(b) Discuss the role of the Public Accounts Committee (PAC). [8]

Answer:

The role of the Public Accounts Committee is to assess the integrity, economy, efficiency and effectiveness of government financial management. It achieves this by:

- examining Government financial documents; and
- considering the reports of the Auditor - General.

A significant amount of the committee's work involves following up matters raised in the reports to Parliament by the Auditor - General. This ensures that public sector financial issues are scrutinised for the benefit of the Parliament and the public.

While scrutinising the Appropriation Accounts of the Government of India and the Reports of the Comptroller and Auditor General thereon, it is the duty of the Committee to satisfy itself—

– that the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged;
– that the expenditure conforms to the authority which governs it; and
– that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

An important function of the Committee is to ascertain that money granted by Parliament has been spent by Government “within the scope of the demand”. The functions of the Committee extend “beyond the formality of expenditure to its wisdom, faithfulness and economy”. The Committee thus examines cases involving losses, nugatory expenditure and financial irregularities.

It is also the duty of the PAC to examine the statement of accounts of autonomous and semiautonomous bodies, the audit of which is conducted by the Comptroller & Auditor General either under the directions of the President or by a Statute of Parliament.