# 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.

**(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.

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

**(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.

**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]**

**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 |

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]**

**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]**

**(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]**

**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]**

**(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]**

**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]**

**(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]**

**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]**

**(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., 2016 | 100 | 30 | 360 |
| 30 June, 2016 | MM Co. Ltd. | 30 Aug., 2016 | 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]**

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

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