Paper 17- Corporate Financial Reporting

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

Section A (Section is compulsory)

1. Multiple Choice Questions.(1 mark for right choice and 1 mark for justification) [10×2=20]

(a) From the following information determine the amount of unrealized profit to be eliminated. Thank You Ltd. holds 80% Equity shares of Wel Come Ltd.

— Thank You Ltd. sold goods costing ₹80,00,000 to Wel Come Ltd. at a profit of 25% on Cost Price. Entire stock were lying unsold as on the date of Balance Sheet.

A. ₹20,00,000
B. ₹80,00,000
C. ₹64,00,000
D. None of the above

Answer: — A. ₹20,00,000

Transaction	Sale by Om Ltd. to Shanti Ltd. [Holding ⟶ Subsidiary]
Nature of Transfer	**Downstream Transaction**
Profit on Transfer	Cost ₹80,00,000 × Profit on Cost i.e. 25% = ₹20,00,000
% of Stock included in Closing Stock	100%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 20,00,000 × 100% = ₹20,00,000

(b) FICKLE LTD. has five business segments with operating profits and losses as shown below:

Segment	Operating Profit / (loss) ₹ in Lakhs
P	3
Q	(3)
R	20
X	(9)
Y	(20)

Reportable segments as per AS-17 are

A. P,Q,R,X,Y
B. P,Q,R,Y
C. P, Q, R only
D. R, X, Y only

Answer: — D. R,X,Y only.

As per of AS-17 "Segment Reporting" a Business Segment or Geographical Segment should be identified as a reportable segment if : Its segment result, whether profit or loss is 10% or more of

i) the combined result of all segments in profit;
ii) the combined result of all segments in loss, whichever is greater, i.e. absolute amount.

Absolute profits = (3+20) Lakh = 23 Lakh Absolute Losses = (3+9+20) Lakh = 32 Lakh Greater of these two absolute amounts are losses of ₹32 lakhs 10% of ₹ 32 = ₹ 3.20 Lakh Reportable Segments are R, X, Y.

(c) G Ltd. takes over P Ltd. on 31.03.2016

There is Export Profit Reserve of ₹36,000 in the Balance Sheet of P Ltd. which is to be maintained for two more years. The journal entry will be :

A. Statutory Reserves A/c debit , to Amalgamation Adjustment A/c
B. Amalgamation Adjustment A/c debit , to Statutory Reserves A/c
C. General Reserves A/c debit, to Amalgamation Adjustment A/c
D. None of the above.

Answer:— B. Amalgamation Adjustment A/c debit , to Statutory Reserves A/c

The entry will be —

Amalgamation Adjustment A/c	Dr.	₹36,000	
To Statutory Reserves A/c			₹36,000

(d) On 1st April, 2015 Good Morning Ltd. offered 100 shares to each of its 500 employees at ₹50 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan (ESPP) shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant dated is ₹60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹56 per share.
On 30th April, 2015, 400 employees accepted the offer and paid ₹30 per share purchased. Normal value of each share is ₹10.
Compute the expenses to be recognized in 2014-2015.

A. ₹6.00
B. ₹2,40,000
C. ₹56
D. ₹50

Answer: — B. ₹2,40,000

Fair value of an ESPP = ₹56-₹50= ₹6.00
Number of shares issued = 400 employees X 100 shares / employee = 40,000 shares
Fair value of ESPP which will be recognized as expenses in the year 2014-2015
= 40,000 shares X ₹ 6 = ₹2,40,000
Vesting period = 1 month
Expenses recognized in 2014-2015 = ₹ 2,40,000

(e) The following data apply to a company's defined benefit pension plan for the year:

		Amount (₹)
Benefit payments	**1,00,000**	
Contribution	**1,30,000**	
Fair market value of plan assets		

End of year		**6,00,000**
Beginning of year		**4,00,000**

Calculate the actual return on plan assets.

A. ₹2,00,000
B. ₹1,30,000
C. ₹1,00,000
D. ₹1,70,000.

Answer:—D. ₹1,70,000.

The actual return is computed as follows:

Particulars	**Amount (₹)**	**Amount (₹)**
Change in fair market value of plan assets		2,00,000
Adjustments:		
Employer Contribution	1,30,000	
Benefit payments	1,00,000	30,000
Actual return on plan assets		1,70,000

(f) UV Ltd. had 20,00,000 equity shares outstanding as on 1-1-2014. On 1-10-2014 it issued 2 equity shares bonus for each share outstanding on 30-9-2014. Net profit for 2013 was ₹ 18,00,000, net profit for 2014 was ₹60,00,000. Calculate Basic EPS 2014 and adjusted EPS for 2013.

A. ₹1.00, ₹0.30
B. ₹0.30, ₹1.00
C. ₹1.30, ₹2.00
D. None of the above

Answer:—A. ₹1.00, ₹0.30

Earnings per share for the year 2014

$$\frac{₹\ 60,00,000}{(20,00,000+40,00,000)} = ₹\ 1.00$$

Adjusted earnings per share for the year 2013

$$\frac{₹\ 18,00,000}{(20,00,000+40,00,000)} = ₹\ 0.30$$

Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred in the beginning of the year 2014, the earliest period reported.

(g) N LTD. has imported $ 70,000 worth of goods from C TRADERS of USA on 28.02.2014 when exchange rate was ₹ 60.60 per US $. The payment for imports was made on 30.06.2014 when exchange rate was ₹ 59.50 per US $. If the rate of exchange on 31.03.2014 is ₹ 59.00 per US $, the exchange difference to be charged/debited to Profit & Loss Account for the year 2014-15 as per AS-11 will be –

A. ₹ 35,000
B. ₹ 45,000
C. ₹ 20,000
D. None of (A), (B) and (C)

Answer: — ₹35,000

As per AS-11, exchange difference on settlement on monetary items should be transferred to Profit & Loss Account as gain or loss. Therefore (₹59.50 - ₹59.00) x $70,000 = ₹ 35,000 will be debited to Profit & Loss Account for the year 2014-15.

(h) ROOM LTD. holds 25% share in DOOR LTD. at a cost of ₹ 7.50 lakhs as on 31.3.2012 out of DOOR's share Capital and Reserve of ₹ 30 lakhs each. For the year ended 31.3.2014, DOOR LTD. made a profit of ₹ 2,40,000 and 30% of it was distributed as dividend. In the Consolidated Financial Statement, the carrying amount of investment as at 31.3.2014 will be –
A. ₹ 15.00
B. ₹ 15.60
C. ₹ 15.42
D. ₹ 14.82

Answer: — C. ₹15.42

Particulars	₹ in lakhs
Cost of Share in DOOR Ltd. Share of Reserve (25% of ₹ 30 Lakh) Share of Profit (25% of ₹ 2.40 Lakh)	7.50 7.50 0.60
 Less: Dividend (2.40 Lakh x 30% x 25%)	15.60 0.18
Carrying amount of investments in Consolidated financial statements.	15.42

(i) At the end of financial year 2014-15, P Ltd. finds that there is a law suit outstanding. The possible outcome as estimated by the Board is as follows:

	Probability	Loss (₹)
Win	**60%**	**--**
Lose (low damage)	**30%**	**2,00,000**
Lose (high damage)	**10%**	**4,00,000**

Compute the amount of contingent liability to be shown by way of a note to financial statements as per AS - 29.
A. ₹60,000
B. ₹40,000
C. ₹1,00,000
D. None of the above

Answer: — C. ₹1,00,000

According to AS-29 for the purpose of disclosure of contingent liability by way of note, the amount will be:

0.30 × ₹2,00,000	= 60,000
0.10 × ₹4,00,000	= 40,000
	1,00,000

(j) How would you value the inventory per Kg. of finished goods consisted of :

Particulars	
Material Cost	**₹100 per Kg.**
Direct Labour Cost	**₹20 per Kg.**
Direct variable production overhead	**₹10 per Kg.**

Fixed production charges for the year on normal capacity of one lakhs kgs. Is ₹10 lakhs 2000 kgs of finished goods are on stock at the year end.
Value of inventory per Kg. of finished goods —
A. ₹2,80,000
B. ₹10,00,000
C. ₹10,60,000
D. None of the above

Answer: — A. ₹2,80,000

Computation of Cost per Kg. of finished goods :

Particulars	₹	₹
Material Cost		100
Direct labour Cost	20	
Direct variable production overhead	10	
Fixed production overhead (₹10,00,000/1,00,000)	10	40
		140

Thus, the value of 2000 kgs of finished goods on stock at the year-end will be ₹2,80,000 (2,000 kgs × ₹140)

Section B
(Answer any five questions out of seven questions) [16×5=80]

2. (a) Rose Ltd. entered into agreement with Tulip Ltd. for sale of goods of ₹8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2016. On the same day Tulip Ltd. entered into another agreement with Rose Ltd. to resell the same goods at ₹10.80 lakhs on 1st August, 2016. State the treatment of this transaction in the financial statements of Rose Ltd. as on 31.03.16. The pre-determined re-selling price covers the holding cost of Tulip Ltd. Give the Journal Entries as on 31.03.14 in the books of Rose Ltd. [8]

Answer:

In the given case , Rose Ltd. concurrently agreed to repurchase the same goods from Tulip Ltd. on 1st Feb., 2016. Also the re-selling price is pre-determined and covers purchasing and holding costs of Tulip Ltd. Hence , the transaction between Rose Ltd. and Tulip Ltd. on 1st Feb.,2016 should be accounted for as financing rather than sale. The resulting cash flow of ₹9.60 lakhs received by Rose Ltd., cannot be considered as revenue as per AS 9 " Revenue Recognition".

Journal Entries in the books of Rose Ltd.

Date	**Particulars**		**Debit (₹)**	**Credit (₹)**
01.02.16	Bank A/c	Dr.	9.60	
	To, Advance from Tulip Ltd.			9.60
	(Being advance received from Tulip Ltd. amounting [₹8 lakhs + 20% of ₹8 lakhs = 9.60 lakhs] under sale and re-purchase agreement)			
31.03.16	Financing Charges A/c	Dr.	0.40	
	To, Tulip Ltd.			0.40
	(Financing charges for 2 months at ₹1.20 lakhs i.e. ₹[10.80-9.60] $\times \frac{2}{6}$)i.e.(₹1.2 lakhs $\times \frac{2}{6}$)			
31.03.16	Profit and Loss A/c	Dr.	0.40	
	To, Financing Charges A/c			0.40

(Being amount of finance charges transferred to P& L A/c)

(b) Diamond Ltd. supplied the following information:

Net profit for 2014 – 15	**₹33 lakh**
Net profit for 2015 – 16	**₹49.50 lakh**
No. of shares before rights issue	**1,65,000**
Rights issue ratio	**One for every four held**
Right issue price	**₹270**
Date of Exercising rights option	**30th June, 2015 (Fully Subscribed on this date)**
Fair value of share before rights issue	**₹405**

You are required to compute:

(i) Basic earnings per share and

(ii) Adjusted earnings per share as per AS- 20. **[8]**

Answer:

(a) Basic EPS: Profit available to equity shareholders/ No. of shares

	2014 – 2015	2015 – 2016
Basic EPS	$\frac{33,00,000}{1,65,000}$ = ₹20 per share	$\frac{49,50,000}{1,65,000}$ = ₹30 per share
Adjusted earnings per share	$\frac{33,00,000}{1,65,000 \times 1.070}$ = ₹18.69 per share	$\frac{49,50,000}{(1,65,000 \times 1.07 \times 0.25) + (2,06,250 \times 0.75)}$ $= \frac{49,50,000}{1,98,825}$ = ₹24.90 per share
Right factor = $\frac{\text{Fair value per share prior to right issue}}{\text{Theoretical ex-right fair value per share}}$	405/378 = 1.071	

Right factor:

Theoretical Ex-right

$$\text{Fair Value} = \frac{\text{Aggregate fair Value of share prior to right issue} + \text{Proceeds from right issue}}{\text{No. of shares outstanding after right issue}}$$

$$= \frac{(₹405 \times 1,65,000) + (₹270 \times 41,250)}{2,06,250} = \frac{7,79,62,500}{2,06,250}$$

= ₹378.

3. **(a) Aveer Ltd. wants to re-classify its Investment in accordance with AS-13.Decide on the treatment to be given in each of the following cases:**

(i) A portion of Current Investments purchased for ₹20 lakhs to be reclassified as long-term Investments, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹25 lakhs.

(ii) Another portion of Current Investments purchased for ₹15 lakhs has to be reclassified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was ₹6.5 lakhs.

(iii) Certain Long-term Investments no longer considered for holding purposes have to be re-classified as Current Investments. The original cost of theses was ₹18 lakhs but they had been written down to ₹12 lakhs to recognize permanent decline as per AS 13.

[8]

Answer:

As per AS 13 'Accounting for Investments' where investments are reclassified from current to long term, transfers are made at the lower of cost and fair value at the date of transfer.

In the first case, the market value of the investment is ₹25 lakhs, which is higher than its cost ₹20 lakhs. Therefore, the transfer to long term investments should be carried at cost ₹20 lakhs.

In the second case, the market value of the investment is ₹6.5 lakhs, which is lower than its cost ₹15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value ₹6.5 lakhs. The loss of ₹8.5 lakhs should be charged to profit and loss account.

Where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.
In the third case, the book value of the investments is ₹12 lakhs, which is lower than its cost ₹18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹12 lakhs.

(b) S Ltd. acquired a patent at a cost of ₹60 lacs for a period of 5 years and the product-life cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹10 lacs per annum. After two years it was found that the product life-cycle may continue for another 4 years from then. the net cash flows from the product during these 4 years were expected to be ₹49,50,000; ₹54,00,000; ₹58,50,000 and ₹63,00,000. Find out the amortization cost of the patent for each of the year. [8]

Answer:

As per AS-26, "Intangible Assets", the amortization method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise, if that pattern cannot be determined reliably, the straight line method should be used.
In the instant case, the pattern of economic benefit in the form of net cash flows is determined reliably after two years. In the initial two years, the pattern of economic benefits could not have been reliably estimated therefore amortization was done at straight-line method, i.e. ₹10 lacs per annum. However, after two years pattern of economic benefits for the next five years in the form of net cash flows is reliably estimated as under and therefore amortization will also be done as per the pattern of cash inflows:

Cash inflows (₹)	Amount of amortization in the next 4 years (₹)
49,50,000	[40,00,000 x 49,50,000/2,25,00,000] = 8,80,000
54,00,000	[40,00,000 x 54,00,000/2,25,00,000] = 9,60,000
58,50,000	[40,00,000 x 58,50,000/2,25,00,000] = 10,40,000
63,00,000	[40,00,000 x 63,00,000/2,25,00,000] = 11,20,000
2,25,00,000	**Balance of WDV = 40,00,000**

4. The following are the summarized Balance Sheet (drafted) ZIN Ltd. and VES Ltd. as on March 31,2016.

(Amount in ₹)

Equity and Liability	ZIN Ltd.	VES Ltd.	Assets	ZIN Ltd.	VES Ltd.
1. Shareholders' Funds:			1. Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets	14,00,000	10,00,000
(i) Equity shares of ₹10 each	12,00,000	12,00,000	(b) Non-Current investments		
(ii) 10%Pref. Shares of ₹10 each	4,00,000	4,00,000	(i) 12,000 equity shares of VES Ltd.	1,60,000	
(b) Reserves & Surplus	6,00,000	8,00,000	(ii) 20,000 equity shares of Z in Ltd.		3,20,000
2. Non-Current liabilities:			2. Current Assets:		
Long term Borrowings (12% Debentures)	4,00,000	6,00,000	(a) Inventories	4,80,000	12,80,000
3. Current Liabilities:			(b) Trade Receivables		
Trade Payables			(i) Debtors	7,20,000	7,60,000
(i) Sundry Creditors	4,40,000	5,00,000	(ii) Bills Receivable	1,20,000	80,000
(ii) Bills payable	60,000	1,00,000	(c) Cash & Cash Equivalents	2,20,000	1,60,000
Total	31,00,000	36,00,000	Total	31,00,000	36,00,000

Fixed assets of both the companies are to be revalued at 15% above Book values and stock and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends, preference dividends having been already paid. After the above transactions are given effect to, Zin Ltd. will absorb Ves Ltd. on the following terms:

(a) 8 equity shares of ₹ 10 each will be issued by Zin Ltd. at par against 6 shares of Ves Ltd.
(b) 10% preference share of Ves Ltd. will be paid off at 10% discount, by issue of 10% preference share of ₹100 each in Zin Ltd. at par.
(c) 12% Debenture Holders of Ves Ltd. are to be paid off at a 8% premium by 12% debentures in Zin Ltd. issued at a discount of 10%.
(d) ₹ 60,000 to be paid by Zin Ltd. to Ves Ltd. for liquidation expenses.
(e) Sundry Creditors of Ves Ltd. include ₹40,000 due to Zin Ltd.

You are required to Prepare:

(i) Statement of purchase consideration payable by Zin Ltd.
(ii) Balance Sheet of Zin Ltd. as on March 31, 2016 after its absorption of Ves Ltd. as per Schedule-III to the Companies Act, 2013 with Notes to Accounts. [3+13 = 16]

Answer:

(i) Calculation of Purchase Consideration to be paid to Ves Ltd.

No. of shares of Ves Ltd.	1,20,000
Less: Held by Zin Ltd.	12,000
No. of shares held by outsiders	1,08,000

Exchange Ratio = 8:6 i.e. 4:3

∴ No. of shares to be issued by Zin Ltd.

$$1,08,000 \times \frac{4}{3} = 1,44,000$$

Less: Shares already held by Ves Ltd. = 20,000

1,24,000

It can also be calculated on equal footing as:

No. of Shares of Ves Ltd.	$1,20,000 \times \frac{4}{3} = 1,60,000$
(-) Held by Zin Ltd (assuming if it was held by other than Zin Ltd) $12,000 \times \frac{4}{3} = 16,000$	16,000
	1,44,000
	20,000
(-) Held by Ves Ltd. Shares to be issued	1,24,000

Particulars	₹
10% Preference shares @ 10% discount by issue of 10% Preference shares of A Ltd. of ₹100 each i.e. $₹4,00,000 \times \frac{90}{100}$	3,60,000

Purchase consideration:	
1,24,000 equity shares of ₹10 each	₹12,40,000
3,600 10% Preference shares of ₹100 each	₹3,60,000
	₹16,00,000

(ii)

Name of the Company: Zin Ltd.					
Balance Sheet as at 31.03.2016					
Ref No.		**Particulars**	**Note No.**	**As at 31st March, 2016**	**As at 31st March, 2015**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	32,00,000	
		(b) Reserves and surplus	2	8,62,000	
	2	Non-current liabilities			
		(a) Long-term borrowings	3	11,20,000	
	3	Current Liabilities			
		(a) Trade payables	4	10,60,000	
		Total		62,42,000	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	27,60,000	

		(b) Other non-current assets	6	72,000	
	2	Current assets			
		(a) Inventories	7	16,96,000	
		(b) Trade receivables	8	16,02,000	
		(c) Cash and cash equivalents	9	1,12,000	
		Total		62,42,000	

[Relevant notes]

		(₹)
Note 1. Share Capital	**As at 31st March, 2016**	**As at 31st March, 2015**
Authorised, Issued,and paid up Capital of ₹ 10 each	24,40,000	
2,44,000 Equity Shares of ₹10 each	24,40,000	
40,000 10% Preference Shares of ₹10 each	4,00,000	
3,600 10% Preference Shares of ₹100 each	3,60,000	
Total	32,00,000	
Note 2. Reserves and Surplus		
Reserve	4,32,000	
Revaluation Reserve	2,10,000	
Capital Reserve	2,20,000	
Total	8,62,000	
Note 3. Long Term borrowing		
12% Debentures 4,00,000+[(6,00,000×108%)/0.90]	11,20,000	
Total	11,20,000	
Note 4. Trade payables		
Sundry Creditors [4,40,000 + 5,00,000 – 40,000]	9,00,000	
Bills Payable [60,000 + 1,00,000]	1,60,000	
Total	10,60,000	
Note 5. Tangible Assets		
Fixed Assets [(14,00,000×115%)+(10,00,000×115%)]	27,60,000	
Total	27,60,000	
Note 6. Other non-current Assets		
Discount on Issue of Debentures [6,00,000×108%(10/90)]	72,000	
Total	72,000	
Note 7. Inventories		
Stock [4,80,000 + (12,80,000 × 95%)]	16,96,000	

Total	16,96,000	
Note 8. Trade Receivables		
Debtors (7,20,000 + 95% of 7,60,000)- 40,000	14,02,000	
Bills Receivables [1,20,000 + 80,000]	2,00,000	
Total	16,02,000	
Note 9. Cash and Cash Equivalent		
Cash at Bank	1,12,000	
Total	1,12,000	

Working Note:

1. **Calculation of goodwill/capital reserve**

Particulars	₹
Net asset taken over from Ves Ltd.	
Fixed asset (10,00,000 × 115%)	11,50,000
Stock (12,80,000 × 95%)	12,16,000
Debtors (7,60,000 × 95%)	7,22,000
Bills Receivable	80,000
Cash at bank	60,000
	32,28,000
Less: 12% Debenture (₹6,00,000 × 108%]	6,48,000
Sundry creditors and Bills Payable	6,00,000
	19,80,000
Less: Investment cancelled	1,60,000
	18,20,000
Less: Purchase consideration	16,00,000
Capital Reserve	2,20,000

2. **Computation of amount of cash at bank of Ves Ltd.**

Particulars	₹
Balance as per Balance Sheet	1,60,000
Add: Dividend from Zin Ltd.	20,000
	1,80,000
Less: Dividend paid by Ves Ltd.	1,20,000
	60,000

3. **Combined cash in Balance Sheet**

Particulars	₹
Balance of Zin Ltd. as per B/S	2,20,000
Take over from Ves Ltd.	60,000
	2,80,000
Less: Dividend paid	1,20,000
Expenses on Liquidation	60,000
	1,00,000
Add: Dividend from Ves Ltd.	12,000
	1,12,000

4. **Calculation of Reserves**

Particulars	₹
As per Balance Sheet of Zin Ltd.	6,00,000
Less: Expenses on Liquidation	60,000
Less: Dividend declared	1,20,000

Add: Dividend received from Ves Ltd.	4,20,000 12,000
	4,32,000

5.

5. **A Ltd. owned 80% of B Ltd, 35% of C Ltd. and 30% of D Ltd. C Ltd. is jointly controlled entity and D Ltd. is an associate. Balance Sheet of all four companies as on 31.03.2014 are:**

(₹ in lakhs)

Particulars	A Ltd.	B Ltd.	C Ltd.	D Ltd.
Liabilities				
Equity share of ₹ 1/- each fully paid-up	**1,500**	**600**	**1,200**	**1,200**
Retained Earnings	**6,000**	**5,100**	**5,400**	**5,400**
Creditors	**300**	**450**	**380**	**375**
Total	**7,800**	**6,150**	**6,980**	**6,975**
Assets				
Fixed Assets	**1,500**	**1,200**	**2,100**	**1,500**
Investment in B Ltd.	**1,200**			
Investment in C Ltd.	**900**			
Investment in D Ltd.	**900**			
Current Assets	**3,300**	**4,950**	**4,880**	**5,475**
Total	**7,800**	**6,150**	**6,980**	**6,975**

A Ltd. acquired shares in

(i) B Ltd. many years ago, when the company had retained earnings of ₹ 780 lakhs.

(ii) C Ltd. at the beginning of the year, when the company had retained earnings of ₹ 600 lakhs.

(iii) D Ltd. on 01.04.2013, when the company had retained earnings of ₹ 600 lakhs.

The balance of goodwill relating to B Ltd. had been written off three years ago.
The value of goodwill in C Ltd. remains unchanged.
Prepare the Consolidated Balance Sheet of A Ltd. as on 31.03.2014 as per AS-21, AS-23 and AS-27. [16]

Answer:

Consolidated Balance Sheet of A Ltd. as at 31st March, 2014

Particulars	Note No	Amount
A. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	1,500
(b) Reserves and Surplus	2	12,480
total		13,980
2. Minority Interest		1,140
3. Current Liabilities		
Trade Payables	3	883
Total (1+2+3)		16,003
B. ASSETS		
1. Non-current Assets		
(a) Fixed Assets		
(i) Tangible assets	4	3,435
(ii) Intangible assets	5	270
(b) Non-current investments	6	2,340
Total		6,045
2. Current Assets		

Other current assets	7	9,958
Total (1+2)		16,003

Notes to Accounts:

Note No:-1. Share Capital (₹ in lakhs)

Share capital in equity shares	1,500
Total	1,500

Note No:-2. Reserve and Surplus.

Retained Earnings (W.N.-2)	12,480
Total	12,480

Note No:-3. Trade Payables.

Creditors[300+450+133(35% of 380)]	883
Total	883

Note No:-4.Tangible Assets.

Fixed Assets [1,500+1,200+735(35% of 2,100)]	3,435
Total	3,435

Note No:- 5. Intangible Assets.

Goodwill (W.N. 2)	270
Total	270

Note No:-6. Non-current Investments.

Investments in Associates (W.N. 4)	2,340
Total	2,340

Note No:-7. Other current assets

Other current assets [3,300+4,950+1,708(35% of 4,880)]	9,958
Total	9,958

WORKING NOTES:-

1. Computation of Goodwill

B Ltd. (subsidiary)		
Cost of investment		1,200
Less: Paid up value of shares acquired	480	
Share in pre-acquisition profits of B Ltd.(780×80%)	624	1,104
Goodwill		96
C Ltd.(Jointly Controlled Entity)		
Cost of investment		900
Less: Paid up value of shares acquired(35% of 1,200)	420	
Share in pre-acquisition profits of C Ltd.(35% of 600)	210	630
Goodwill		270
Note: Jointly controlled entity C Ltd to be consolidated on proportionate basis i.e.35% as per AS-27.		
D Ltd.(Associate as per AS-23)		
Cost of investment		900
Less: Paid up value of shares acquired(30% of 1,200)	360	
Share in pre-acquisition profits of C Ltd.(30% of 600)	180	540
Goodwill		360
Goodwill to be shown in the consolidated		

Goodwill of C Ltd.		270
Goodwill of B Ltd		96
Less: Goodwill written off of B Ltd.		96
Goodwill		270

2. Consolidated Retained Earnings:-

A Ltd.	6,000
Share in post acquisition profits of B Ltd - 80% (5,100 - 780)	3,456
Share in post acquisition profits of C Ltd - 35% (5,400 - 600)	1,680
Share in post acquisition profits of D Ltd - 30% (5,400 - 600)	1,440
Less: Goodwill written off	(96)
	12,480

3. Minority Interest-B Ltd.

Share Capital (20% of 600)	120
Share in Retained Earnings (20% of 5,100)	1,020
	1,140

4. Investment in Associates

Cost of Investments (including goodwill ₹360 lakhs)	900
Share of post acquisition profits	1,440
Carrying amount of investment (including goodwill ₹360 lakhs)	2,340

6. (a) A Company purchased a plant for ₹50 Lakhs during the financial year and installed it immediately. The price charged by the Vendor included Excise Duty (CENVAT Credit Available) of ₹5 Lakhs. During this year, the Company also produced excisable goods on which Excise Duty chargeable is ₹4.50 Lakhs. Show the Journal Entries describing CENVAT Credit treatment. [8]

Answer:

Journal

Particulars	Dr. (₹)	Cr. (₹)
Fixed Assets A/c Dr. CENVAT Credit Receivable (Capital Goods)A/c Dr. CENVAT Credit Deferred (Capital Goods)A/c Dr. To Asset Vendor / Bank A/c (Being Plant purchased recorded, including immediate CENVAT Credit available of 50%, balance 50% (assumed) credit available in subsequent year)	45,00,000 2,50,000 2,50,000	 50,00,000
Excise Duty A/c Dr. To CENVAT Credit Receivable A/c (Capital Goods) (Being set off of CENVAT Credit during the year)	2,50,000	2,50,000
Excise Duty A/c Dr. To Bank A/c (Being balance Excise Duty payable ₹4,50,000 ,₹2,50,000 set-off, now settled)	2,00,000	2,00,000
Subsequent Financial Year CENVAT Credit Receivable (Capital Goods)A/c Dr. To CENVAT Credit Deferred (Capital Goods)A/c (Being transfer of balance CENVAT Credit available on Capital Goods)	2,50,000	2,50,000

(b) Following is the Balance Sheet of Uma Ltd. as on 31st March, 2016:

Liabilities	₹ in Lakh	Assets	₹ in Lakh
1,00,000 Equity Shares of ₹10 each	10,00,000	Preliminary expenses	5,00,000
10,000 12% Preference Shares of ₹100 each	10,00,000	Goodwill	15,00,000
		Buildings Plant	10,00,000
General Reserve	6,00,000	Investment in 10% Stock	4,80,000
Profit and Loss Account	4,00,000	Stock	6,00,000
15% Debentures	10,00,000	Stock-in - trade	4,00,000
Creditors	8,00,000	Debtors	2,20,000
		Cash	1,00,000
	48,00,000		**48,00,000**

Additional information are given below:

(a) **Nominal value of investment is ₹5,00,000 and its market value is ₹5,20,000.**

(b) **Following assets are revalued:**

(i) Building	**₹32,00,000**
(ii) Plant	**₹18,00,000**
(iii) Stock-in-trade	**₹4,50,000**
(iv) Debtors	**₹3,60,000**

(a) **Average profit before tax of the company is ₹12,00,000 and 12.50% of the profit is transferred to general reserve, rate of taxation being 50%.**

(b) **Normal dividend expected on equity shares is 8% while fair return on closing capital employed is 10%.**

(c) **Goodwill may be valued at three year's purchase of super profits.**

(d) **Ascertain the value of each equity share under fair value method.**

[8]

Answer:

1.	**Calculation of Capital Employed**	₹	₹
	Assets: Buildings Plant Stock Debtors Cash		 32,00,000 18,00,000 4,50,000 3,60,000 1,00,000
			59,10,000
	Less: Liabilities:		
	Creditors	8,00,000	
	Debentures	10,00,000	18,00,000
	TOTAL CAPITAL EMPLOYED		41,10,000
2.	**Calculation of Actual Profit**		
	Average Profit before Tax (given)		12,00,000
	Less: Income from Investment (5,00,000 × 10%)		50,000
			11,50,000
	Less: Income Tax @ 50%		5,75,000
	Actual Profit		5,75,000

3.	**Profit for Equity Shareholders**		
	Actual Profit (as calculated above)		5,75,000
	Less: Transfer to Reserve @ 12.50%		(71,875)
	Less: Preference Dividend		(1,20,000)
	Profit available to Equity Shareholders.		3,83,125
4.	Normal Profit 10% of Capital Employed = 10% of ₹41,10,000 = ₹ 4,11,000		
5.	Super Profit = Actual Profit - Normal Profit = ₹5,75,000 – ₹4,11,000 = ₹1,64,000		
6.	Goodwill = ₹1,64,000 x 3 = ₹4,92,000		
7.	Net Assets for Equity Shareholders = Capital Employed + Goodwill + Investment – Preference Share Capital = ₹41,10,000 + ₹4,92,000 + ₹4,80,000 - ₹10,00,000 = ₹40,82,000		
	Value per share (Based on Intrinsic Value Method) $= \frac{₹40,82,000}{1,00,000\ Shares} = ₹40.82$		
	Value per share (Based on Yield Method) Yield on Equity Share = $\frac{\text{Profit for Equity Shareholders}}{\text{Equity Share Capital}} \times 100$ $= \frac{₹3,83,125}{10,00,000} \times 100 = 38.31\%$ Value per share = $\frac{38.31}{8} \times 10 = ₹47.89$		
	Value of Equity Share Under Fair Value Method $= \frac{\text{Intrunsic value + yield value}}{2} = \frac{40.82 + 47.89}{2} = ₹44.36$ (approx).		

7. (a)Write a note on disclosure requirement of IGAS 1. **[8]**

Answer:

Disclosure requirement of GAS – 1:

The Financial Statements of the Union Government, the State Governments and the Union Territory Governments (with legislature) shall disclose the following:

- maximum amount for which Guarantees have been given during the year, additions and deletions (other than invoked during the year) as well as Guarantees outstanding at the beginning and end of the year;

- amount of Guarantees invoked and discharged or not discharged during the year:
- details of Guarantee commission or fee and its realisation; and
- other material details.

The Financial Statements of the Union Government, the State Governments and the Governments of Union Territories (with legislature) shall disclose in the notes the following details concerning class or sector of Guarantees:

- limit, if any, fixed within which the Government may give Guarantee;
- whether Guarantee Redemption or Reserve Fund exists and its details including disclosure of balance available in the Fund at the beginning of the year, any payments made and balance at the end of the year;
- details of subsisting external foreign currency guarantees in terms of Indian rupees on the date of Financial Statements;
- details concerning Automatic Debit Mechanism and Structured Payment Arrangement, if any;
- whether the budget documents of the Government contain details of Guarantees:
- details of the tracking unit or designated authority for Guarantees in the Government; and
- other material details.

(b) Discuss the differences between government accounting and commercial accounting. [8]

Answer:

Although the basic principles of financial accounting that are applicable in regular commercial activities apply to the government accounts, there are certain features of governmental accounting which make it quite different from that of regular commercial accounting.

The differences between commercial and government accounting have been presented hereunder:

1. Meaning: The accounting system applied in the government departments, offices and institutions is referred to as government accounting. While, the system of accounting applied by non-government organizations (whether profit-oriented or non-profit oriented) is known as commercial accounting.
2. Objective: Government accounting is maintained by the government offices for recording and reporting the utilisation and position of public funds. Commercial accounting is maintained by business organizations to know the profit or loss for an accounting period and disclose the financial position of the entity.
3. Scope: The government accounting happens to be more elaborate that that followed in commercial accounts.
4. Budget: Government accounting is directly influenced by the government budgeting system, while commercial accounting does not follow the government budgeting system.
5. Basis: Government accounting is prepared on cash basis. On the other hand, commercial accounting may be done on cash basis or accrual basis, or sometimes even on hybrid basis.
6. Level of Accounting: Government accounting has the system of central level and operating level accounting. Commercial accounting has no provision of central level and operating level accounting.
7. Rules and Provisions: Government accounting is strictly maintained by following the financial rules and provisions as set by the concerned government. Commercial accounting is maintained by following the applicable rules and the 'Generally Accepted Accounting Principles' (GAAP).

8. Information: Government accounting provides information to the government about the receipts, deposit, transfer and utilisation of public funds. Commercial accounting provides information to the various stakeholders about the operating result and financial position of the business.
9. Auditing: The audit the books of accounts maintained by government departments, offices or institutions are to be audited by a recognised department of the government (namely, the Auditor General Office); while the books of accounts maintained under commercial accounting is audited by any professional auditor.

8. Write short note (any four out of five): [4×4=16]

(a) 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	0.35%	29.40
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			294.4

(b) Write a note on — "Financial Reporting vis- à-vis Triple Bottom Line Reporting".

Answer:

Origin: The origination of financial reporting precedes that of Triple bottom line reporting, the latter being just a few decades old.
Nature: It is mandatory for corporates to prepare and present their financial reports; while preparation of full TBL reports including social and environmental dimension is voluntary in nature.
Scope: Triple bottom line reporting is broader in scope than financial reporting, as the former includes the reporting of social and environmental performances in addition to the financial performance of an organisation.
Contents: The information contained within a TBL report is of a different nature to that included in a financial report. Thus, TBL reporting enables environmental and social risks

that have the capacity to materially affect long-term financial performance to be identified and, therefore, taken into consideration when preparing financial reports.

(c) Discuss the features of XBRL Reporting.

Answer:

1. Clear Definitions: XBRL allows the creation of reusable, authoritative definitions, called taxonomies, which capture the meaning contained in all of the reporting terms used in a business report, as well as the relationships between all of the terms. Taxonomies are developed by regulators, accounting standards setters, government agencies and other groups that need to clearly define information that needs to be reported upon. XBRL doesn't limit what kind of information is defined: it's a language that can be used and extended as needed.
2. Testable Business Rules: XBRL allows the creation of business rules that constrain what can be reported. Business rules can be logical or mathematical, or both. These business rules can be used to:
   - Prevent poor quality information being sent to a regulator or third party, by being run by the preparer while the report is in draft stage.
   - Prevent poor quality information being accepted by a regulator or third party, by being run at the point that the information is being received. Business reports that fail critical rules can be sent back to the preparer for review and resubmission.
   - Identifying or highlighting questionable information, allowing prompt follow up, correction or explanation.
   - Creation of ratios, aggregations and other kinds of value-added information, based on the fundamental data provided.
3. Multi-lingual Support: XBRL allows concept definitions to be prepared in as many languages as necessary. Translations of definitions can also be added by third parties. This means that it's possible to display a range of reports in a different language to the one that they were prepared in, without any additional work. The XBRL community makes extensive use of this capability as it can automatically open up reports to different communities.
4. Strong Software Support: XBRL is supported by a very wide range of software from vendors large and small, allowing a very wide range of stakeholders to work with the standard.

(d) A company's plant and machinery was ₹6,000 lakhs as on 01.04.2015. It provided depreciation at 15% per annum under WDV method. However it noticed that about ₹1,000 lakhs worth of imported asset, which is component of above plant and machinery acquired on 01.04.2015, would be obsolete in 2 years. Company wants to write-off this asset over 2 years. Can company do so? – Comment.

Answer:

As per AS-10, each part of an item of PPE that has a cost that is significant when compared to the total cost of the item should be depreciated separately. As it appears, that imported asset of ₹ 1,000 lakhs, which is component of plant and machinery, has significant cost as compared to total cost. Therefore, it should be depreciated separately. The company's policy to write off over two years is correct.

(e) Scope of Ind AS 3 (Business Combination)- Discuss.

Answer:

This Ind AS applies to a transaction or other event that meets the definition of a business combination.

This Ind AS does not apply to:

(a) the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
(b) the acquisition of an asset or a group of assets that does not constitute a business.

In such cases the acquirer shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in Ind AS 38, Intangible Assets) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.