Paper 17- Corporate Financial Reporting

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

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.** **[10×2=20]**

(a) Parthan Ltd. reports quarterly and estimates an annual income of ₹200 crores. Assume Tax rates on first ₹100 crores at 30% and on the balance income at 40%. The estimated quarterly incomes are ₹15 crores, ₹50 crores, ₹75 crores and ₹60 crores respectively. The Tax expenses to be recognized in the last quarter as per AS-25 is

A. ₹24 crores
B. ₹21 crores
C. ₹19 crores
D. Insufficient Information

Answer:— B. ₹ 21 lakhs.

Tax Expenses : 30% on ₹100 Crores = ₹30 Crores.
40% on remaining ₹100 Crores = ₹40 Crores.
Total Tax = (30 + 40) = ₹70 Crores.
Weighted average Annual Income Tax Rate [70 ÷ 200] = 35%
Tax expenses to be recognized in last quarter: 35% on ₹60 Crores = ₹21 Crores.

(b) Q Ltd. acquired 2,000 equity shares of R Ltd. on April, 01,2015 for a price of ₹ 3,00,000. R Ltd. made a net profit of ₹ 80,000 during the year 2015-16. R Ltd. issued bonus shares of one share for every five shares held out of the post acquisition profits earned during the year 2015-16. The Share Capital of R Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the share of Q Ltd. in the pre-acquisition profit of R Ltd. is ₹ 56,000, the amount of Goodwill/Capital Reserve to be shown in the Consolidated Balance Sheet as on March 31, 2015 is —

A. ₹ 4,000 (Goodwill)
B. ₹ 4,000 (Capital Reserve)
C. ₹ 44,000 (Goodwill)
D. ₹ 50,000 (Goodwill)

Answer:— A. ₹ 4,000 (goodwill)

Cost of investments	₹ 3,00,000
Less: Share of capital profit	₹ 56,000
	2,44,000
Face value of shares (including bonus shares of 400)	₹2,40,000
Cost of control-Goodwill	₹ 4,000

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

There is Export Profit Reserve of ₹15,000 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.	₹15,000	
To Statutory Reserve A/c			₹15,000

(d) Super Profit (Computed) : ₹ 9,00,000
Normal rate of return : 12%
Present value of annuity of ₹1 for 4 years @ 12% : 3.0374
Value of Goodwill is —

A. ₹2,96,306
B. ₹1,08,000
C. ₹27,33,660
D. None of the above

Answer:— C. ₹27,33,660

Value of goodwill = Super profit × P.V of Annuity of ₹ 1for 4 years @ 12% = ₹ 9,00,000 × 3.0374 = ₹ 27,33,660.

(e) 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

(f) ABC Ltd. has paid an advance tax of ₹6,40,000 during the current year. Out of this paid tax, ₹40,000 is paid for tax on LTCG (Long term capital gains)
Under which activity the above LTCG tax is categorized in cash flow statement as per Ind AS 7?

A. Operating Activity
B. Financing Activity
C. Investing Activity
D. None of the above.

Answer: — C. Investing Activity

Cash Flows arising from taxes on income should be classified as cash flows from operating activities unless they can be specifically identifies with financing and investing activities. In the present case the amount of tax paid as LTCG is thus to be classified as cash flow from investing activities.

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

	Amount (₹)
Fair market value of plan assets (beginning of year)	**2,00,000**
Fair market value of plan assets	**2,85,000**
Employer Contribution	**70,000**
Benefit Paid	**50,000**

Calculate the actual return on plan assets.

A. ₹2,85,000

B. ₹65,000

C. ₹2,00,000

D. ₹85,000.

Answer:—B: ₹65,000.

The actual return is computed as follows:

Particulars	**Amount (₹)**	**Amount (₹)**
Fair market value of plan assets (end of year)		2,85,000
Fair market value of plan assets (beginning of year)		2,00,000
Change in plan assets		85,000
Adjusted for		
Employer contributions	70,000	
Less: Benefit Paid	50,000	20,000
Actual return on plan assets		65,000

(h) Mitali Ltd. presents interim financial report quarterly. On 1-4-2015. Mitali Ltd. has carried forward loss of ₹400 lakhs for income-tax purpose for which deferred tax asset has not been recognized. The Mitali Ltd. earns ₹ 500 lakhs in each for quarter ending on 30-6-2015,30-9-2015,31-12-2015 and 31-3-2016 excluding the loss carried forward. Income-tax rate is expected to be 40% Calculate the amount of tax expense to be reported in each quarter.

A. ₹500

B. ₹640

C. ₹160

D. ₹1,600

Answer:—C: ₹160

The estimated payment of the annual tax on ₹ 2,000 lakhs earnings for the current year.

(2,000 lakhs - ₹ 400 lakhs) = ₹ 1,600 lakhs

₹ 1,600 × 40/100 = ₹ 640 lakhs.

Average annual effective tax rate = (640/2,000) × 100 = 32%

Tax expense to be shown each quarter will be 500 × 32/100 = ₹ 160 lakhs.

(i) 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.

(j) X Ltd. holds 69% of Y Ltd., Y Ltd. holds 51% of W Ltd., Z Ltd. holds 49% of W. Ltd. As per AS 18, Related Parties are :

A. **X Ltd., Y Ltd. & W Ltd;**
B. **X Ltd. & Z Ltd;**
C. **Y Ltd. & Z Ltd;**
D. **X Ltd. & Y Ltd. only.**

Answer:—A. X Ltd., Y Ltd. & W Ltd.

X Ltd., YLtd. & W Ltd. are related to each other. Z Ltd. & W Ltd. are related to each other by virtue of Associate relationship. However, neither X Ltd. nor Y Ltd. is related to Z Ltd. and vice versa.

2. (a) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS 3:

Particulars		₹ in Lakhs	₹ in Lakhs
Net Profit			**60,000**
Add:	**Sale of Investments**		**70,000**
	Depreciation on Assets		**11,000**
	Issue of Preference Shares		**9,000**
	Loan raised		**4,500**
	Decrease in Stock		**12,000**
			1,66,500
Less:	**Purchase of Fixed Assets**	**65,000**	
	Decrease in Creditors	**8,000**	

	Increase in Debtors	6,000	
	Exchange gain	8,000	
	Profit on sale of investments	12,000	
	Redemption of Debenture	5,700	
	Dividend paid	1,400	
	Interest paid	945	1,07,045
			59,455
Add:	Opening cash and cash equivalent		12,345
Closing cash and cash equivalent			71,800

[10]

Answer:

Cash Flow Statement

Particulars	(₹ in Lakhs)	(₹ in Lakhs)
Cash flows from operating activities		
Net profit		60,000
Less: Exchange gain		(8,000)
Less: Profit on sale of investments		(12,000)
		40,000
Add: Depreciation on assets		11,000
Change in current assets and current liabilities		51,000
(-) Increase in debtors	(6,000)	
(+) Decrease in stock	12,000	
(-) Decrease in creditors	(8,000)	(2,000)
Net cash from operating activities		49,000
Cash flows from investing activities		
Sale of investments	70,000	
Purchase of fixed assets	(65,000)	
Net cash from Investing activities		5,000
Cash flows from financing activities		
Issue of preference shares	9,000	

Loan raised	4,500	
Redemption of Debentures	(5,700)	
Interest paid	(945)	
Dividend paid	(1,400)	
Net cash from financing activities		5,455
Net increase in cash & cash equivalents		59,455
Add: Opening cash and cash equivalents		12,345
Closing cash and cash equivalents		71,800

(b) NM Ltd. had the following borrowings during a year in respect of capital expansion.

Plant	Cost of Asset (₹)	Remarks
Plant P	**200 lakhs**	**No specific borrowings**
Plant Q	**250 lakhs**	**Bank loan of ₹ 130 lakhs at 10%**
Plant R	**350 lakhs**	**9% Debentures of ₹ 250 lakhs were issued.**

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (1) ₹ 200 lakhs at 10% from CC Bank and (2) ₹ 220 lakhs at 11.50% from SS Bank, to meet its capital expansion requirements.
Determine the amount of borrowing costs to be capitalized in each of the above Plants, as per AS-16. [8]

Answer:

1. Computation of Actual Borrowing Costs incurred during the year

Source	Loan Amount	Interest Kate	Interest Amount
	₹ in lakhs		₹ in lakhs
Bank Loan	130.00	10%	13.00
9% Debentures	250.00	9%	22.50
Term Loan from CC Bank	200.00	10%	20.00
Term Loan from SS Bank	220.00	11.5%	25.30
Total	800.00		80.80
Specific Borrowings included in above	380.00		35,50

2. Weighted Average Capitalisation Rate for General Borrowings

$$= \frac{\text{Total Interest - Interest on Specific Borrowings}}{\text{Total Borrowings - Specific Borrowings}} = \frac{(80.80-35.50)}{(800-380)} = 45.30 \div 420 = 10.79\%.$$

3. Capitalisation of Borrowing Costs under AS - 16 will be as under:

Plant	Borrowing	Loan Amount	Interest Rate	Interest Amount	Cost of. Asset	
		₹ in lakhs		₹ in lakhs	₹ in lakhs	₹ in lakhs
P	General	200	10.79%	21.58		221.58
Q	Specific	130	10.00%	13.00	143.00	
	General	120	10.79%	12.95	132.95	275.95

R	Specific	250	9.00%	22.50	272.50	
	General	100	10.79%	10.79	110.79	383.29
	Total	800		80.82		880.82

Note: The amount of borrowing costs capitalized should not exceed the actual interest cost.

3. (a) A Ltd. acquired 30% Equity Share Capital of B Ltd. at a cost of ₹ 4,50,000. The comparative balance sheets of B Ltd. on the date of acquisition and year end are given below:

Balance Sheet of B Ltd.

Liabilities	**Beginning**	**Year end**	**Assets**	**Beginning**	**Year end**
	₹	₹		₹	₹
Share Capital	**10,00,000**	**10,00,000**	**Fixed Assets**	**6,00,000**	**7,00,000**
General Reserve	**2,00,000**	**3,30,000**	**Investment**	**3,50,000**	**4,80,000**
Securities	**1,00,000**	**1,00,000**	**Current Assets**	**5,00,000**	**5,10,000**
Premium					
Current Liabilities	**1,50,000**	**2,10,000**			
Proposed Dividend	**—**	**50,000**			
	14,50,000	**16,90,000**		**14,50,000**	**16,90,000**

There was no revaluation of asset by B Ltd. during the year. Current Assets of B Ltd. at year-end include stock costing ₹ 60,000 purchased from A Ltd. which sells at cost + 20%. Show the investment in associates in the consolidated balance sheet to be prepared by A Ltd. in the beginning and at year-end. [8]

Answer:

Calculation of Goodwill/Capital Reserve

	₹
Share capital of B Ltd.	10,00,000
General Reserve of B Ltd.	2,00,000
Securities Premium of B Ltd.	1,00,000
Total Equity of B Ltd.	13,00,000
% holding of A Ltd.	30%
Share of A Ltd.	3,90,000
Cost of Acquisition	4,50,000
Goodwill	60,000

Calculation of share of profit earned during the year

	₹
Increase in General Reserve	1,30,000
Proposed dividend	50,000
Total profit for the year	1,80,000
Share of A Ltd. (30%)	54,000

Calculation of Unrealised profit on stock

	₹
Cost of stock to B Ltd.	60,000
Unrealised profit of A Ltd. (20/120)	10,000
Share of A Ltd. in unrealized profit (30%)	3,000

Consolidated Balance Sheet of A Ltd. (Beginning) (Extract)

Liabilities	Amount	Assets	Amount
		Investment in B Ltd. (Including Goodwill ₹ 60,000)	4,50,000

Consolidated Balance Sheet of A Ltd. (Year ending) (Extract)

Liabilities	Amount	Assets	Amount	Amount
		Investment in B Ltd. (Including Goodwill ₹ 60,000)	4,50,000	
		Add: Share of profit (current years)	54,000	
		Less: Unrealised profit on stock	3,000	5,01,000

(b) (i) Ekalavya Ltd provided ₹75 Lakhs for inventory obsolescence in the last year. In the subsequent year, it was determined that some 50% of such stock was usable. The Company wants to adjust the same through Prior Period Adjustment Account as the provision was made in the earlier year. State your views. [Ind AS 8] [4]

Answer:

Write-back of provision made in respect of Inventories in the earlier year does not constitute Prior Period Adjustment since it is not an error or omission relating to prior period Financial Statements. It merely involves making estimates based on prevailing circumstances when these Financial Statements were being prepared.

Changes in Accounting Estimates result from new information or new developments. By its nature, the revision of an estimate does not relate to prior periods, and is not the correction of an error.

In the given case, revision of the estimate of obsolescence does not make the resulting amount of ₹37.5 Lakhs as a Prior Period Error.

(ii) A Company deals in petroleum products. The sale price of petrol is fixed by the Government After the Balance Sheet date, ' but before the finalization of the Company's accounts, the Government unexpectedly increased the price retrospectively. Can the Company account for Additional Revenue at the close of the year? Discuss. [Ind AS 10] [4]

Answer:

Adjusting Events are those which provide further evidence of conditions that existed at the end of the Reporting Period. In this case, Price Revision is an Adjusting Event, since sale had already taken place during the Financial Year.

The Price Revision is granted after the Balance Sheet date, but before finalization of accounts. This is not a Prior Period Error as per Ind AS-8, as there is no error or omission in the past financial year.

If the Revenue Recognition Criteria in Ind AS-18 are satisfied, then Additional Revenues arising out of the said price revision may be recognised in the current financial year.

4. The following is the Balance Sheet of Winners Ltd as on 30th June-

Equity and Liabilities	**₹**
(1) Shareholders' Funds:	
(a) Share Capital – 20,000 Shares of ₹ 10 each	**2,00,000**
(b) Reserves & Surplus – General Reserve	**20,000**
(2) Non-Current Liabilities:	
Long Term Borrowings (i) 10% Debentures	**1,00,000**
(ii) Loan from bank	**40,000**
(3) Current Liabilities:	
Trade Payables – Sundry Creditors	**80,000**
Total	**4,40,000**
Assets	

(1) Non-Current Assets:	
(a) Fixed Assets: **(i) Tangible Assets**	
- Land & Building	**1,00,000**
- Plant & Machinery	**1,45,000**
(ii) Intangible Assets – Goodwill	**25,000**
(b) Other Non-Current Assets	
- Preliminary expenses	**16,000**
(2) Current Assets:	
(a) Inventories	**55,000**
(b) Trade Receivables	**65,000**
(c) Cash & Cash Equivalents	**34,000**
Total	**4,40,000**

The balance of Winners Ltd is taken over by Superb Ltd as on that date on the following terms:

(i) All Assets except cash and bank are taken over at Book Value less 10% subject to (ii) below.
(ii) Goodwill is to be valued at 4 years' Purchase of the excess of average (five years) Profits over 8% of the combined account of Share Capital and General Reserve.
(iii) Trade Creditors are to be taken over subject to a discount of 5%.
(iv) Loan from Bank is to be repaid by Winners Ltd.
(v) The Purchase Consideration is to be discharged in Cash to the extent of ₹ 1,50,000 and the balance is fully paid Equity Shares of ₹ 10 each valued at ₹ 12.50 per share.

The average of the five years profit is ₹ 30,100. The expenses of Liquidation amount to ₹ 2,000. Prior to 30th June, Winners Ltd sold goods costing ₹ 30,000 to Superb Ltd for ₹ 40,000. Debtors include ₹ 20,000 still due from Superb Ltd. on the date of absorption, ₹ 25,000 worth of Goods were still in Stock of Superb Ltd.

Show the:
Realisation Account, Bank Account, Sundry Shareholders Account and Shares in Superb Ltd. **[16]**

Answer:

1. Basic Information

Selling Co: Winners Ltd	Date of B/S: 30th June	Nature of Amalgamation:
Buying Co: Superb Ltd	Date of Amalgm: 30th June	Purchase (since the Assets are not taken over at Book Value & Purchase consideration discharged is by other than shares)

2. Purchase Consideration

	Particulars		**₹**
1.	Calculation of Goodwill	Average of 5 years Profit (given)	30,100
	Less:	Normal Profit 8% of Capital + Reserves i.e., ₹ 2,20,000	17,600
		Super Profit	12,500
		Goodwill at 4 years purchase 12,500 × 4	50,000
2.	Calculation of purchase consideration		
	Assets taken over -	Land & Building	1,00,000
		Plant & Machinery	1,45,000

		Stock	55,000
		Debtors	65,000
		Total Assets Taken Over	3,65,000
	Less:	Allowance at 10% of Assets Value	36,500
		Balance Assets Value	**3,28,500**
	Add:	Goodwill as calculated above	50,000
		Total value of Assets taken over	**3,78,500**
	Less:	Sundry Creditors less 5% discount =(80,000–5% thereon)	76,000
		Net Purchase Consideration	**3,02,500**
3.	Discharge of Purchase Consideration: (a) Payable in cash		1,50,000
	(b) Given in Shares – 12,200 Shares of ₹ 10 each valued at ₹ 12.50 per share		1,52,500

3. In the Books of Winners Ltd.
(a) Realisation Account

Particulars	₹	Particulars	₹
To Sundry Assets transferred: Goodwill	25,000	By Sundry Creditors	80,000
Land & Building	1,00,000	By Superb Ltd. – Purc. Consideration	3,02,500
Plant & Machinery	1,45,000	By Sundry Shareholders A/c (Loss)	9,500
Stock	55,000		
Debtors	65,000		
To Bank (Expenses)	2,000		
Total	3,92,000	Total	3,92,000

(b) Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	34,000	By Realisation A/c – Expenses	2,000
To Superb Ltd. – amount paid	1,50,000	By 10% Debentures	1,00,000
		By Loan from Bank	40,000
		By Sundry Shareholders	42,000
Total	1,84,000	Total	1,84,000

(c) Sundry Shareholders Account

Particulars	₹	Particulars	₹
To Preliminary Expenses	16,000	By Share Capital	2,00,000
To Loss-on Realisation	9,500	By General Reserve	20,000
To Bank	42,000		
To Shares in Superb Ltd.	1,52,500		
Total	2,20,000	Total	2,20,000

(d) Shares in Superb Ltd. Account

Particulars	₹	Particulars	₹
To Superb Ltd.	1,52,500	By Sundry Shareholders (transfer)	1,52,500

5. **From the following Balance Sheets of a group of companies and the other information provided, draw up the consolidated Balance Sheet as on 31.3.2012. Figures given are in ₹ Lakhs:**

Balance Sheets as on 31.3.2012

Liabilities	X ₹	Y ₹	Z ₹	Assets	X ₹	Y ₹	Z ₹
Shares capital (in shares of ₹ 10 each)	1,650	1,100	550	Fixed Assets (Tangible)	715	825	550
Reserves	275	220	165	Cost of investment in Y Ltd.	990		
Profit and Loss balance	330	275	220	Cost of investment in Z Ltd.	220		
Bills payables	55		27.5	Cost of investment in Z Ltd.		440	
Creditors	165	55	55	Stock	275	110	110
Y Ltd. balance			82.5	Debtors	385	55	110
Z Ltd. balance	275			Bills receivables		55	110
				Z Ltd. balance		55	
				X Ltd. balance			165
				Cash and bank balance	165	110	55
	2,750	1,650	1,100		2,750	1,650	1,100

i. X Ltd. holds 8,80,000 shares and 1,65,000 shares respectively in Y Ltd. and Z Ltd.; Y Ltd. holds 3,30,000 shares in Z Ltd. These investments were made on 1.7.2011 on which date the provision was as follows:

	Y Ltd. ₹	Z Ltd. ₹
Reserves	110	55
Profit and loss account	165	88

ii. In December, 2010 Y Ltd. invoiced goods to X Ltd. for ₹ 220 lakhs at cost plus 25%. The closing stock of X Ltd. includes such goods valued at ₹ 27.5 lakhs.
iii. Z Ltd. sold to Y Ltd. an equipment costing ₹ 132 lakhs at a profit of 25% on selling price on 1.1.2012. Depreciation at 10% per annum was provided by Y Ltd. on this equipment.
iv. Bills payables of Z Ltd. represent acceptances given to Y Ltd. out of which Y Ltd. had discounted bills worth ₹ 16.5 lakhs.
v. Debtors of X Ltd. Include ₹ 16.5 lakhs being the amount due from Y Ltd.
X Ltd. proposes dividend at 10%. **[16]**

Answer:

Name of the Company: X Ltd. and its subsidiary Y Ltd. and Z Ltd.
Consolidated Balance Sheet as at 31st December,2012

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	1,650.00	-

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
		(b) Reserves and surplus	2	835.45	-
		(c)Money received against share warrants		-	-
				2,485.45	-
	2	**Minority Interest**		436.15	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	247.50	-
		(c) Other current liabilities	4	71.50	-
		(d) Short-term provisions	5	165.00	-
				456.50	-
		TOTAL (1+2+3+4)		3,405.60	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	6	2,047.10	-
		(ii) Intangible assets		-	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments		-	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				2,047.10	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories	7	489.50	-
		(c) Trade receivables	8	522.50	-
		(d) Cash and cash equivalents	9	192.50	-

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
		(e) Short-term loans and advances		-	-
		(f) Other current assets	10	154.00	-
				1,496	-
		TOTAL (1+2)		3,405.60	-

Annexure

Note 1. Share Capital	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Share Capital in Equity Shares	1,650.00	
Total	1,650.00	

Note 2. Reserves and Surplus	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Capital Reserves	73.70	
Other Reserves	448.80	
Profit & Loss A/c	312.95	
Total	835.45	

Note 3. Other Current Liabilities	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	165.00	
Y Ltd.	55.00	
Z Ltd.	55.00	
	275.00	
Less: Mutual Indebtedness	27.50	
Total	247.50	

Note 4. Other Current Liabilities	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	55.00	
Y Ltd.	27.50	
	82.50	
Less: Mutual Indebtedness	11.00	
	71.50	

Note 5. Short Term Provisions	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Proposed Dividend	165.00	
Total	165.00	

Note 6. Tangible assets	**As at 31st**	**As at 31st**

	December, 2012 (₹)	December, 2011(₹)
X Ltd.	715.00	
Y Ltd.	825.00	
Z Ltd.	550.00	
	2,090.00	
Less: Unrealised Profit	42.90	
Total	2,047.10	

Note 7. Inventories	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	275.00	
Y Ltd.	110.00	
Z Ltd.	110.00	
	495.00	
Less: Unrealised Profit	5.50	
Total	489.50	

Note 8. Trade Receivables	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	385.00	
Y Ltd.	55.00	
Z Ltd.	110.00	
	550.00	
Less: Mutual Indebtedness	27.50	
Total	522.50	

Note 9. Cash and cash equivalents	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Cash and Bank Balances	330.00	
Current Account Balances [(275.00+82.50)-(55+165)]	137.50	
Total	192.50	

Note 10. Other current assets	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Y Ltd.	55.00	
Z Ltd.	110.00	
	165.00	
Less: Mutual Indebtedness	11.00	
Total	154.00	

Working Notes:

(₹ in lakhs)

Analysis of Profits of Z Ltd.	Capital Profit	Revenue Reserve	Revenue profit
Reserves on 1.7.2011	55.00		
Profit and Loss A/c on 1.7.2011	88.00		
Increase in Reserves		110.00	
Increase in Profit			132.00
	143.00	110.00	132.00
Less: Minority Interest (10%)	14.30	11.00	13.20
	128.70	99.00	118.80
Share of X Ltd.	42.90	33.00	39.60
Share of Y Ltd.	85.80	66.00	79.20
Analysis of Profits of Y Ltd.			
Reserves on 1.7.2011	110.00		
Profit and Loss A/c on 1.7.2011	165.00		
Increase in Reserves		110.00	
Increase in Profit			110.00
	275.00	110.00	110.00
Share in Z Ltd.		66.00	79.20
	275.00	176.00	189.20
Less: Minority Interest (20%)	55.00	35.20	37.84
Share of X Ltd.	220.00	140.80	151.36
Cost of Control			
Investments in Y Ltd.			990.00
Investments in Z Ltd.			660.00
			1,650.00
Less: Paid up value of investments			
in Y Ltd.	880.00		
in Z Ltd.	495.00	1,375.00	
Capital Profit			
in Y Ltd.	220.00		
in Z Ltd.	128.70	348.70	1,723.70
Capital Reserve			73.70
Minority Interest	**Y Ltd.**	**Z Ltd.**	
Share Capital	220.00	55.00	
Capital Profit	55.00	14.30	
Revenue Reserves	35.20	11.00	
Revenue Profits	37.84	13.20	
	348.04	93.50	
Less: Unrealised profit on stock (20% of 5.5)	1.1		
Unrealised profit on equipment (10% of 42.90)		4.29	
	346.94	89.21	
Total	**436.15**		
Unrealised Profit on equipment sale			
Cost	132.00		
Profit	44.00		
Selling Price	176.00		

Unrealised profit = $44 - 44 \times \frac{10}{100} \times \frac{3}{12}$ = 44.00 – 1.1 = 42.90			
Profit and Loss Account – X Ltd.			
Balance	330.00		
Less: Proposed Dividend	165.00		
	165.00		
Share in Y Ltd.	151.36		
Share in Z Ltd.	39.60		
	355.96		
Less: Unrealised profit on equipment (90% of 42.90)	38.61		
	317.35		
Less: Unrealised profit on stock $\left(27.50 \times \frac{25}{125} \times 80\%\right)$	4.4		
	312.95		
Reserves – X Ltd.			
X Ltd.	275.00		
Share in Y Ltd.	140.80		
Share in Z Ltd.	33.00		
	448.80		

6. (a) Dhoora Ltd. granted 1500 stock options to its employees on 01.04.2013 at ₹ 50 per share. The vesting period is 2½ years and the maximum exercise period is one year. Market price on that date is ₹ 190 per share. All the options were exercised on 30.06.2016. Pass journal entries in the books of company, if the face value of equity share is ₹ 10 per share and account books are closed on 31st March in every year. [8]

Answer:

Journal of Dhoora Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31.3.14	Employees Stock Option Expenses A/c Dr. To Employees Stock Option Outstanding A/c (Being expenses on 1500 stock options recognised)		84,000	 84,000
31.3.14	P/L A/c Dr. To Employees Stock Option Expenses A/c (Being Employees Stock Options expenses transferred)		84,000	 84,000
31.3.15	Employees Stock Option Expenses A/c Dr. To Employees Stock Option Outstanding A/c (Being expenses on 1500 stock options recognised)		84,000	 84,000
31.3.15	P/L A/c Dr. To Employees Stock Option Expenses A/c (Being Employees Stock Options expenses transferred)		84,000	 84,000
31.3.16	Employees Stock Option Expenses A/c Dr. To Employees Stock Option Outstanding A/c (Being expenses on 1500 stock options recognised)		42,000	 42,000
31.3.16	P/L A/c Dr. To Employees Stock Option Expenses A/c (Being Employees Stock Options expenses transferred)		42,000	 42,000
30.6.16	Bank A/c Dr. Employees Stock Option Outstanding A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c		75,000 2,10,000	 15,000 2,70,000

	(Being 1500 options exercised @ ₹ 50 per option)				

Working Notes:
Calculation of intrinsic value of option = Market price per share - Exercisable price per share = ₹190 – ₹ 50 = ₹140

Employee Compensation Expenses to be recognised:

	2013-14 (₹)	2014-15 (₹)	2015-16 (₹)
Gross Value of employee compensation expenses	84,000	1,68,000	2,10,000
Gross Value = No. of Options expected to vest × Intrinsic Value × expired period/ Vesting period	[1,500x140x1/2.5]	[1,500x140x2/2.5]	[1,500x140]
Less: Expenses already recognised upto preceding accounting period	----	84,000	1,68,000
Hence, Expenses to be recognised	84,000	84,000	42,000

(b) The following abridged Balance Sheet as on 31st March, 2016 pertains to S Ltd.

Liabilities	₹ in lakhs	Assets	₹ in lakhs
Share Capital :		**Goodwill, at cost**	**420**
180 lakh Equity shares of ₹10 each, fully paid up	**1,800**	**Other Fixed Assets**	**11,166**
		Current Assets	**2,910**
90 lakh Equity shares of ₹10 each, ₹8 paid up	**720**	**Loans and Advances**	**933**
		Miscellaneous Expenditure	**171**
150 lakh Equity shares of ₹5 each, fully paid-up	**750**		
Reserves and Surplus	**5,628**		
Secured Loans	**4,500**		
Current Liabilities	**1,242**		
Provisions	**960**		
	15,600		**15,600**

You are required to calculate the following for each one of three categories of equity shares appearing in the above mentioned Balance Sheet:

(i) Intrinsic value on the basis of book values of Assets and Liabilities including goodwill;
(ii)Value per share on the basis of dividend yield.
Normal rate of dividend in the concerned industry is 15%, whereas Glorious Ltd. has been paying 20% dividend for the last four years and is expected to maintain it in the next few years; and
(iii) Value per share on the basis of EPS.

For the year ended 31st March, 2016 the company has earned ₹1,371 lakh as profit after tax, which can be considered to be normal for the company. Average EPS for a fully paid share of ₹10 of a Company in the same industry is ₹2.

[8]

Answer:

(A) Calculation of Intrinsic value [Based on book value]

₹

Goodwill	420
Fixed Assets	11,166
Current Assets	2,910
Loan Advances	933
Total	15,429
Less: Provision	960
Current liabilities	1,242
Secured loans	4,500
Net Assets available for Equity share holder	8,727
Add: Notional calls [90x2]	180
Total Assets	8,907
÷ Equity share capital [1,800 + 900 + 750)	3,450
Intrinsic value per Rupee	2.58
Paid up value ₹10 x 2.58 =	25.8
Paid up value ₹8 x 2.58 =	20.64
Paid up value ₹5 x 2.58 =	12.90

(B) $$\text{Dividend Yield} = \frac{\text{Dividend Rate}}{\text{Normal rate of Return}} \times \text{Paid up Share Capital}$$

$$\text{Paid up value } 10 = \frac{20\%}{15\%} \times 10 = ₹13.33$$

$$\text{Paid up value } 8 = \frac{20\%}{15\%} \times 8 = ₹10.67$$

$$\text{Paid up value } 5 = \frac{20\%}{15\%} \times 5 = ₹6.67$$

(C) $$\text{Earning per Rupee of Share Capital} = \frac{\text{Earning after tax}}{\text{Paidup Share Capital}}$$

$$= \frac{1,371}{3,270} = 0.419$$

Earning per fully paid shares of ₹10 = 0.419×₹10 = ₹4.19
Earning per share of ₹10 each, ₹ 8 paid-up = ₹0.419×8=₹3.35
Earning per share of ₹5, fully paid-up = ₹0.419 × 5= ₹2.10

Value of fully paid share of ₹10 = $₹\frac{4.19}{2} \times 10 = ₹20.95$

Value of share of ₹10, ₹8 paid-up = $₹\frac{4.19}{2} \times 8 = ₹16.75$

Value of fully paid-up share of ₹5 = $₹\frac{4.19}{2} \times 5 = ₹10.50$.

7. (a) List the features of Government Accounting. [8]

Answer:

Features of Government Accounting

Government Accounting is a unique application area which has certain characteristics of its own. Some of the main features of Government Accounting are discussed as under:

1. **Specific system of accounting:** It is a specific accounting system which is followed by government in its departments, offices and institutions.
2. **Reporting of utilisation of public funds:** The government and its institutions are public institution whose main objective is to provide services to the society and also to maintain law and order in the country. So, the accounting system used by such institutions has to reveal how public funds and properties have been used for that purpose. It is to be noted that government accounting is not done for revealing any profit and loss.
3. **Government Regulations:** Government accounting is maintained according to government rules and regulations. The financial policies, rules and regulations as determined from time to time provide the system of government accounting.
4. **Double Entry System:** Government accounting is based on the principles and assumptions of double entry system of book keeping system. Accordingly, every financial transactionentered into by a government/ government office/ institution are recorded showing their double effects. It implies that for each government financial transaction one aspect of the transaction is debited and the other aspect is credited.
5. **Budget Heads:** All the expenses of government offices are classified into different budget heads and expenditures are made only on approved budget heads.
6. **Budgetary Regulation:** Government expenditures are governed by budgetary regulations. In other words, no government office can make expenditure more than the amount allocated in the budget. Thus, in effect, government accounting gets regulated by the budget.
7. **Mode of Transaction:** All government transactions are supposed to be performed through banks.
8. **Fund-based Accounting:** Apeculiar characteristic of governmental accounting is the employment of separate funds. The government is engaged in an ever-growing number of operations and activities which are quite unrelated to each other. The particular sources of revenue or income often are dedicated to use for a particular phase of the government's operations. The accounts must segregate these specially dedicated resources and isolate them from all other transactions in a separate "fund."
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 so as to ensure proper governance and also to prevent misuse and misappropriation of public funds.

(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) Write a short note on — Meaning of XBRL;

Answer:

XBRL is a language for the electronic communication of business and financial data which is revolutionising the business reporting around the world. The term XBRL includes four terminologies – Extensible, Business, Reporting and Language. These terms are briefly discussed hereunder:

- Extensible: This term implies that the user can extend the application of a particular business data beyond its original intended purpose. The major advantage in it is that the extended use can be determined even by the users and not just the ones who merely prepare the business data. This is achieved by adding tags which are both human and machine readable – describing what the data is.
- Business: This platform is relevant to any type of business transaction. It is to be noted that XBRL focus is on describing the financial statements for all kinds of entities.
- Reporting: The intention behind promoting the use of XBRL is to have all companies report their financial statements in a consolidated manner using the specified formats.
- Language: XBRL is based on 'eXtensible Markup Language' (XML). It is one of a family of "XML" languages which is becoming a standard means of communicating information between businesses and on the internet. It prescribes the manner in which the data can be "marked-up" or "tagged" to make it more meaningful to human readers as well as to computers-based system.

(b) Write a note on — Users of Triple Bottom Line Reporting;

Answer:

All types of entities viz. Businesses, non-profits organisations and government entities alike can all use the TBL.

Businesses: The TBL and its core value of sustainability have become compelling in the business world due to accumulating anecdotal evidence of greater long-term profitability. For example, reducing waste from packaging can also reduce costs.

Among the firms that have been exemplars of these approaches are General Electric, Unilever, Proctor and Gamble, 3M among others.

Non-profit Organisations: Many non-profit organizations have adopted the TBL and some have partnered with private firms to address broad sustainability issues that affect mutual stakeholders. Companies recognize that aligning with nonprofit organizations makes good business sense, particularly those nonprofits with goals of economic prosperity, social well-being and environmental protection.

Government: State, regional and local governments are increasingly adopting the TBL and analogous sustainability assessment frameworks as decision-making and performance-monitoring tools.

(c) Write a short note on — Discuss the characteristics of IFRS;

Answer:

The characteristics of IFRS are:

- These are global accounting standards.
- These standards are 'principle based', and not 'rule-based'.
- IFRS are developed and maintained by the IASB.
- These are issued with the intention of applying these standards across the globe on a consistent basis.
- It ensures high quality transparent reporting that would ensure comparability among the entities across the globe.
- Every standard has a specific structure to ensure uniformity and facilitate reading, interpretation and application. They are: Introduction, Standards, Basis of Conclusion (BC), Implementation Guidelines (IG), Illustrative Examples (IE), and Dissenting Opinions of board members.

(d) Write a short note on — Objectives and Scopes of Ind AS 1

Answer

Objective

This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability

- both with financial statements of previous periods and
- with the financial statements of other entities.
- It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope

- An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with Indian Accounting Standards (Ind ASs).
- Consolidated Financial Statements in accordance with Ind AS 110 'Consolidated Financial Statements'
- Separate financial statements in accordance with Ind AS 27 'Separate Financial Statements'.
- This Ind AS does not apply to interim Financial Statements prepared in accordance with Ind AS 34 except para 15 to 35 of Ind AS 1.

(e) Consolidated vs. Contingency Funds of India.

The Consolidated Funds is constituted under Article 266 (1) of the Constitution of India. All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the

Consolidated Fund. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament. This is the largest of all the three funds.

The Contingency Fund of India Fund set by the Government of India under Article 267 of the Constitution of India. It records the transactions connected with Contingency.It is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs. The corpus of this fund is ₹ 500 crores. Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest account of Government of India.