Paper-16: Advanced Financial Accounting & Reporting

Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate full marks.

Working Notes should form part of the answer.

"Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates."

Part A questions are compulsory. Attempt all of them

Part B has seven question. Attempt any five of them

Part A (25 marks)

1.(a) In each of the cases given below, one out of four alternatives is correct. Indicate the correct answer (= 1 mark)and give workings/reasons briefly in support of your answer (= 1 mark): [10×2=20]

(i) Umbrrella 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 Crores.

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.

(ii) Umesh Behari Ltd. has provided the following information: Depreciation as per accounting records ₹ 4,00,000, Depreciation as per income tax records ₹10,00,000. Unamortized preliminary expenses as per income tax records ₹ 60,000, Tax rate 50%. There is adequate evidence of future profit sufficiency. As per AS 22 Deferred Tax Asset / Liability to be recognized will be
A. ₹ 3,00,000 (DTA)
B. ₹ 30,000 (DTL)
C. ₹ 2,70,000 (Net DTL)
D. None of these

Answer: — C: ₹2,70,000 (Net DTL).

Deferred tax liability = 50% ₹(10,00,000 – 4,00,000) = ₹3,00,000
Deferred tax asset = 50% of ₹60,000 = ₹30,000
Net Deferred tax liability = ₹2,70,000

(iii) M.M Corporate Securities Ltd. is showing an intangible asset at ₹ 72 lakhs as on 01.04.2011 and that item was acquired for ₹ 96 lakhs on 01.04.2008 and that the item was available for use from that date. It has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. As per AS 26

A. ₹ 4.8 lakhs should be adjusted against the current year's profits
B. ₹ 4.8 lakhs should be adjusted against the opening balance of revenue reserves
C. ₹ 9.6 lakhs should be adjusted against the opening balance of revenue reserves
D. None of these

Answer: — B: 4.8 lakhs should be adjusted against the opening balance of revenue reserves.

As per para 63 of AS 26 "Intangible Assets", the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.
The company has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. The period of 12 years is more than the maximum period of 10 years specified under AS 26. Accordingly, The company would be required to restate the carrying amount of intangible asset as on 1.4.2011 at ₹ 96 lakhs less ₹ 28.8 lakhs (₹ 9.6 lakhs × 3 years) = ₹ 67.2 lakhs. If amortisation had been as per AS 26, the carrying amount would have been ₹ 67.2 lakhs. The difference of ₹ 4.8 lakhs i.e. (₹ 72 lakhs – ₹ 67.2 lakhs) would be required to be adjusted against the opening balance of revenue reserves. The carrying amount of ₹ 67.2 lakhs would be amortised over 7 (10 less 3) years in future.

(iv) B & B Construction Co. undertook a contract on 1st January, 2013 to construct a building for ₹ 80 lakhs. The company found on 31st March, 2013 that it had already spent ₹ 58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹ 31,50,000. Contract Value to be recognized as turnover in the final accounts for the year ended 31st March, 2013 as per AS 7 (revised) will be

A. ₹ 80 lakhs
B. ₹ 10 lakhs
C. ₹ 52 lakhs
D. None of these

Answer: — C: ₹ 52 lakhs.

Contract work in progress (58,50,000/90,00,000) × 100 = 65% .
Proportion of total contract value to be recognized as turnover
= 65% of ₹ 80,00,000 = ₹ 52,00,000.

(v) Gurjari Ltd. purchased Fixed Assets costing ₹ 12,000 lakhs on 1.4.2013 and the same was fully financed by Foreign Currency Loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = ₹ 40 and ₹ 42.50 as on 1.04.2013 and 31.03.2014 respectively. First instalment was paid on 31.03.2014. As per AS-11, Exchange Difference to be charged to P & L A/c for the year 2013-14 will be :

A. ₹ 750 lakhs
B. ₹ 500 lakhs
C. ₹ Nil
D. None of these

Answer: — A: ₹ 375 lakhs.

Foreign Currency Loan= ₹ 12,000 lakhs/ ₹ 40= 300 lakhs US Dollars
Exchange difference = 300 lakhs US Dollars × (42.50 – 40.00) = ₹ 750 lakhs
(including exchange loss on payment of first instalment)
Therefore, entire loss due to exchange differences amounting ₹ 750 lakhs should be charged to Profit and Loss Account for the year.

(vi) Mega Ltd. deals in three products A,B and C, which are neither similar nor interchangeable. At the time of closing of its account for the year 2012-13 the historical cost and net realizable value of the items of closing stock are determined as below:

Items	Historical Cost (₹ in Lakhs)	Net realizable value (₹ in Lakhs)
A	22	16
B	18	18
C	10	14

What will be the value of closing stock?
A. ₹44 Lakhs
B. ₹40 Lakhs
C. ₹48 Lakhs
D. None of these

Answer: — A: ₹44 Lakhs.

Computation of value of closing stock

Lower of Historical Cost and Net Realisable Value will be considered	₹
A	16
B	18
C	10
Value of Closing Stock	**44**

(vii) Montana Ltd. is having a plant (asset), carrying amount of which is ₹ 120 lakh on March 31, 2012. Its balance useful life is 3 years and residual value at the end of 3 years is ₹ 9 lakh. Estimated future cash flow from using the plant will be ₹ 30 lakh per annum for 3 years. If the discount rate is 10% "the Value in Use" for the plant as per AS-28 will be
[Given: PVIFA (10%, 3 yrs) = 2.487 and PVIF (10%, 3 yrs) = 0.7513]
A. ₹ 81.37 lakh
B. ₹ 66.00 lakh
C. ₹ 65.61lakh
D. Insufficient Information

Answer: — A ₹ 81.37 Lakh.

Present Value of future cash flows for 3 years: 30 x 2.487 = ₹ 74.61 Lakh.
Present value of residual value on 31.3.2015 =9 x 0.7513 = ₹ 6.76 Lakh.

Value in Use = ₹ 81.37 Lakh.

(viii) The fair value of Plan assets of Tulip Ltd. at beginning and end of the year 2013-2014 were ₹ 4,00,000 and ₹ 5,70,000 respectively. The employer's contribution to the plan during the year was ₹ 1,40,000. If benefit payments to retirees were ₹ 1,00,000 what would be the actual return on plan assets (as per AS- 15) ?

A. ₹ 1,50,000 lakhs

B. ₹ 1,30,000 lakhs

C. ₹ 1,20,000 lakhs

D. Insufficient Information

Answer: — B : ₹ 1,30,000.

Actual Return = Fair value of assets (end of year) - Fair Value of assets (beginning of year) - Employer's contribution + benefit payments = (5,70,000 – 4,00,000 – 1,40,000 + 1,00,000) = ₹ 1,30,000.

(ix) First Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2013 at ₹ 2,400 lakh. As at that date value in USE is ₹ 1,600 lakh. If the net selling price is ₹ 1,800 lakh, Impairment loss of the Asset as per AS-28 will be

A. ₹ 800 lakh

B. ₹600 lakh

C. ₹ 200 lakh

D. None of (A), (B), (C)

Answer: — B : ₹600 Lakh.

Recoverable amount is higher of Value in use ₹1,600 lakh and net selling price ₹1,800 lakh.
Recoverable amount = ₹1,800 lakh.
Impairment loss = Carried Amount – Recoverable amount
= ₹(2,400 – 1,800) = ₹600 lakh.

(x) MGS Ltd. purchased a machine costing ₹1,25,000 for its manufacturing operations and paid shipping costs of ₹30,000. MGS Ltd. spent an additional ₹12,000 testing and preparing the machine for use. What amount should MGS record as the cost of machine?

A. ₹1,67,000

B. ₹1,25,000

C. ₹ 30,000

D. None of (A), (B), (C)

Answer:— A: ₹1,67,000.

As per As 10, the cost of fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Cost includes the purchase price, freight and handling charges, insurance cost on the machine while in transit, cost of special foundations, and costs of assembling, installation and testing.
Therefore the cost to be recorded is ₹(1,25,000+30,000+12,000) i.e. ₹1,67,000.

1.(b) Cost of Production of product A is given below:

Raw material per unit	**₹160**
Wages per unit	**₹50**
Overhead per unit	**₹50**
	₹260

As on the balance sheet date the replacement cost of raw material is ₹110 per unit. There are 100 units of raw material on 31.3.12.

Calculate the value of closing stock of raw materials in the following conditions:

(i) If finished product is sold at ₹ 275 per unit, what will be the value of closing stock of raw material?

(ii) If finished product is sold at ₹ 240 per unit, what will be the value of closing stock of raw material? [5]

Answer:

(i) The realizable value of the product is more than the total cost of the product. The cost of raw material per unit is more than the replacement cost, hence, raw materials should be valued on actual cost.

Therefore, the value of raw materials: 100 units x ₹160 per unit = ₹16,000

(ii) The realizable value of the product is less than the total cost of the product. Though the cost of raw material per unit is more than the replacement cost, hence, raw materials should be valued on replacement cost.

Therefore, the value of raw materials: 100 units x ₹110 per unit= ₹11,000

Part B (75 marks)

2. The summarized Balance Sheets of S Ltd. and H Ltd. as on 31.3.13 were as follows:

(₹ in Lakhs)

Liabilities	**S Ltd.**		**H Ltd.**	
Equity Share capital		**100**		**30**
Reserves and surplus		**500**		**90**
10% 25,000 Debentures of ₹ 100 each		**-**		**25**
Other Liabilities		**150**		**-**
Total		**750**		**145**
Assets				
Fixed assets at cost	**250**		**100**	
Less: Depreciation	**125**	**125**	**55**	**45**
Investment in H Ltd.				
- **2 Lakhs Equity shares of ₹ 10 each at cost**	**32**			
- **10% 25,000 debentures of ₹ 100 each at cost**	**24**	**56**		
Current assets	**1,000**		**300**	
Less: Current liabilities	**431**	**569**	**200**	**100**
Total		**750**		**145**

In a scheme of absorption duly approved by the Court, the assets of 'H' Ltd. were taken over at an agreed value of ₹ 140 lakhs. The liabilities were taken over at par. Outside shareholders of 'H' Ltd. were allotted equity shares in S Ltd. at a premium of ₹ 90 per share in satisfaction of other

claims in 'H' Ltd. for purposes of recording in the books of 'S' Ltd. Fixed assets taken over from 'H' Ltd. were revalued at ₹ 50 lakhs.

The scheme was put through on 1st April, 2013.

a. Pass journal Entries in the books of 'S' Ltd.

b. Show the balance of 'S' Ltd. after absorption of 'H' Ltd. [15]

Answer:

WN # 1: Purchase consideration of shares to be issued

Purchase Consideration ₹ 140 lakhs = Debentures ₹ 25 lakhs + Equity Share holders ₹ 115 lakhs

Equity Share holders ₹ 115 lakhs = Worth of shares belonging to S Ltd. $\frac{2.4 \text{ lakh}}{3 \text{ lakh}} \times 115$ = ₹92 lakhs

+

Amount pertaining to outsiders 115 – 92 = ₹23 lakhs

Number of shares to be issued to outside shareholders @ ₹10 each at a premium of ₹ 90 each

= $\frac{₹23,00,000}{100}$ = 23,000 Shares.

a) Part - II Journals entries in the Books of S Ltd.

- Nature of Amlagamation - Purchase Method
- Method of Accounting - Purchase Method

(₹ in Lakhs)

	Particulars	Debit	Credit
i.	For Purchase Consideration Due : Business Purchase A/c Dr. To Liquidator for H Ltd." A/c (Being the purchase consideration payable to liquidator of H Ltd. for business purchase)	 23	 23
ii.	For assets and liabilities taken over : Fixed Assets A/c Dr. Dr. Current Assets A/c Dr. Dr. To Current Liabilities A/c To Liability for 10% Debentures A/c To Business Purchase A/c To Investment in H Ltd. A/c To Capital Reserve (balancing figure) (Being the assets and liabilities taken over from H Ltd)	 50 300	 200 25 23 32 70
iii.	Discharge of purchase consideration: Liquidator of H Ltd. A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being the allotment of 23,000 equity shares of ₹ 10 each to outside shareholders of H Ltd. at a premium of ₹90 per	 23	 2.30 20.70

	share.)		
iv.	Cancellation of Liability of Debentures: 10% Debenetures A/c Dr. To Investments in Debentures A/c To Capital Reserve A/c (Being the cancellation of debentures of H Ltd.)	25	24 1

Name of the Company: S Ltd.

Balance Sheet as at 01.04.2013

Ref No.		Particulars	Note No.	As at 1st April, 2013	As at 1st April, 2012
				(₹ in lakhs)	**(₹ in lakhs)**
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	102.30	
		(b) Reserves and surplus	2	591.70	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		(a) Long-term borrowings			
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c) Other current liabilities	3	781.00	
		(d) Short-term provisions			
		Total		**1,475.00**	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	4	175.00	
		(ii) Intangible assets			
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			

		(b) Non-current investments			
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	Current assets			
		(a) Current investments			
		(b) Inventories			
		(c) Trade receivables			
		(d) Cash and cash equivalents			
		(e) Short-term loans and advances			
		(f) Other current assets	5	1,300.00	
		Total		**1,475.00**	

	(₹ in Lakhs)	
Note 1. Share Capital	**As at 1st April, 2013**	**As at 1st April, 2012**
Authorised, Issued, Subscribed & paid up		
10.23 lakhs Equity Shares of ₹ 10 each [of the above shares, 23,000 Equity shares are allotted as fully paid up for consideration other than cash]	102.30	
Total	102.30	

RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 1st April, 2013**		**As at 1st April, 2012**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.12	10	100.00	NIL	NIL
Add: Fresh Issue (Incld, Bonus shares, Right shares, split shares, shares issued other than cash)	0.23	2.30	NIL	NIL
	10.23	102.30	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	10.23	102.30	NIL	NIL

Note: It has been assumed that Current assets have been taken over by S Ltd. at their book value.

Note 2. Reserves and Surplus	**As at 1st April, 2013**	**As at 1st April, 2012**

Reserves	500.00	
Capital Reserve (70 + 1)	71.00	
Securities Premium	20.70	
Total	591.70	
Note 3. Other Current Liabilities	**As at 1st April, 2013**	**As at 1st April, 2012**
Other Liabilities	150.00	
Current Liabilities (431+200)	631.00	
Total	781.00	

Note 4. Tangible assets	**As at 1st April, 2013**	**As at 1st April, 2012**
Fixed asset (125+50)	175.00	
Total	175.00	

Note 5. Other Current Assets	**As at 1st April, 2013**	**As at 1st April, 2012**
Current Assets (1,000 + 300)	1,300.00	
Total	1,300.00	
Note : It has been assumed that Current assets have been taken over by S Ltd. as their book value.		

3. The following are the Balance Sheets of A Ltd. and B Ltd. as on 31st December 2013.

Liabiltiies	**A Ltd. ₹**	**B Ltd. ₹**	**Assets**	**A Ltd. ₹**	**B Ltd. ₹**
Share capital			**Fixed Assets**	**14,00,000**	**5,00,000**
Equity shares of ₹ 10 each	**12,00,000**	**6,00,000**	**Investment:**		
10% Preference shares of ₹10 each	**4,00,000**	**2,00,000**	**6,000 shares of B Ltd.**	**1,60,000**	**-**
			5,000 shares of A Ltd.	**-**	**1,60,000**
Reserves and surplus	**6,00,000**	**4,00,000**	**Current Assets:**		
Secured loans:			**Stock**	**4,80,000**	**6,40,000**
12% Debentures	**4,00,000**	**3,00,000**	**Debtors**	**7,20,000**	**3,80,000**
Current liabilities:			**Bills receivable**	**1,20,000**	**40,000**
Sundry creditors	**4,40,000**	**2,50,000**	**Cash at bank**	**2,20,000**	**80,000**
Bills payable	**60,000**	**50,000**			
	31,00,000	**18,00,000**		**31,00,000**	**18,00,000**

Fixed assets of both the companies are to be revalued at 20% above book value. Stock in—-trade and Debtors are taken over at 10% lesser than their book value. Both the companies are to pay 10% Equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, A Ltd. will absorb B Ltd. on the following terms.

i. 8 Equity shares of ₹ 10 each will be issued by A Ltd. at par against 6 shares of B Ltd.

ii. **10% Preference Shareholders of B Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in A Ltd.**

iii. **12% Debentureholders of B Ltd. are to be paid at 8% premium by 12% Debentues in A Ltd. issued at a discount of 10%.**

iv. **₹ 60,000 is to be paid by A Ltd. to B Ltd. for Liquidation expenses. Sundry creditors of B Ltd. include ₹ 20,000 due to A Ltd.**

Prepare :

(a) Absorption entries in the books of A Ltd.

(b) Statement of consideration payable by A Ltd. **[15]**

Answer:

Part - I Purchase consideration payable by A Ltd.

A. Equity share holders:-

No of equity shares of B Ltd.	60,000
Less:- Held by A Ltd.	12,000
No. of equity shares held by outsiders	48,000
Exchange ratio	8:6
No. of equity shares to be issued by A Ltd. (48,000 × 8/6)	64,000
Less: Already held by B Ltd. in A Ltd.	(10,000)
No. of equity shares to be issued now	54,000
Value of shares to be issued 54,000 × 10 =	₹ 5,40,000

B. Preference share holders:-

Preference Share capital of B Ltd.	2,00,000
Payable at discount of 10% [2,00,000 - (10% of 2,00,000)]	1,80,000
10% Preference shares to be issued at par by A Ltd. to B Ltd.	₹ 1,80,000

C. Purchase consideration (A+B) ₹ 7,20,000

Part II - Absorption entries in the books of A Ltd.

A. Pre - Amalagamation Events :-

	Particulars	Debit	Credit
1.	Revaluation of Fixed assets		
	To Revaluation Reserve A/c		2,80,000
2.	Dividend received from B Ltd. on 12,000 shares		
	Bank A/c	Dr. 12,000	
	To Reserves and Surplus		12,000
3.	Dividend on equity Share capital @ 10%		
	i. Due entry		
	Reserves and Surplus	Dr.1,20,000	
	To Proposed Dividend A/c		
	1,20,000		

ii. Payment entry

Proposed Dividend A/c Dr.1,20,000

To Bank A/c

1,20,000

B. Amalgamation Events

Nature of Amalgamation - Purchase

Method of Accounting - Purchase

Particulars		**Debit**	**Credit**
1. For Purchase Consideration Due:			
To Liquidator of B Ltd.			7,20,000
2. For assets and liabilities taken over			
Fixed Assets (120% of 5,00,000)	Dr.	6,00,000	
Stock A/c (90% of 6,40,000)	Dr.	5,76,000	
Debtors A/c (90% of 3,80,000)	Dr.	3,42,000	
Bills Receivable A/c	Dr.	40,000	
Bank A/c *	Dr.	30,000	
To 12% Debentures of B Ltd A/c			3,24,000
To Sundry creditors A/c			2,50,000
To Bills payable A/c			50,000
To Business Purchase A/c			7,20,000
To Investment in B Ltd. A/c			1,60,000
To Capital Reserve A/c (Balancing Figure)			84,000
3. For Discharge of Purchase consideration			
Liquidator of B Ltd A/c	Dr.	7,20,000	
To Equity Share Capital A/c			5,40,000
To 10% Preference Share Capital A/c			1,80,000
4. Liquidation expenses incurred by B Ltd, later reimbursed by A Ltd.			
Capital Reserve A/c	Dr.	60,000	
To Bank A/c			60,000
5. Discharge to debenture holders of B Ltd.			
12% Debenture Holders A/c	Dr.	3,24,000	
Discount on Issue of debentures A/c	Dr.	36,000	
To 12% Debentures A/c.			3,60,000
6. Cancellation of inter company owings			
Sundry Creditors A/c	Dr.	20,000	
To Sundry Debtors A/c			20,000

* Bank Balance of B Ltd.	
Add : Dividend Received from A Ltd (10% on 1,00,000)	10,000
Less : Dividend paid on Share capital (10% on 6,00,000)	(60,000)

30,000

\# 12% Debentures of B Ltd. = 3,00,000

Payable at 8% premium 3,00,000 × 108% = 3,24,000

4. X Ltd. is a holding Company and Y Ltd. and Z Ltd. are subsidiaries of X Ltd. Their Balance Sheets as on 31.12.2012 are given below-

Liabilities	X Ltd.	Y Ltd.	Z Ltd.	Assets	X Ltd.	Y Ltd.	Z Ltd.
Share Capital	1,50,000	1,50,000	90,000	Fixed Assets	30,000	90,000	64,500
Reserves	42,000	15,000	13,500	Investments in:			
Profit & Loss A/c	24,000	18,000	13,500	- Shares of Y Ltd.	1,12,500	—	—
Z Ltd. Balance	4,500	—	—	- Shares of Z Ltd.	19,500	79,500	—
Sundry Creditors	10,500	7,500	—	Stock in Trade	18,000	—	—
X Ltd. Balance	—	10,500	—	Y Ltd. Balance	12,000	—	—
				Sundry Debtors	39,000	31,500	48,000
				X Ltd. Balance	—	—	4,500
Total	**2,31,000**	**2,01,000**	**1,17,000**	**Total**	**2,31,000**	**2,01,000**	**1,17,000**

The following particulars are given:

i. The Share Capital of all Companies is divided into shares of ₹ 10 each.

ii. X Ltd. held 12,000 shares in Y Ltd. and 1,500 shares of Z Ltd.

iii. Y Ltd. held 6,000 shares of Z Ltd.

iv. All these investments were made on 30.6.2011.

v. On 31.12.2011, the position was as shown below: (Amount in ₹)

Particulars	Reserve	P&LA/c	Creditors	Fixed Assets	Stock	Debtors
Y Ltd.	12,000	6,000	7,500	90,000	6,000	72,000
Z Ltd.	11,250	4,500	1,500	64,500	53,250	49,500

vi. 10% Dividend is proposed by each Company.

vii. The whole of stock in trade of Y Ltd. as on 30.06.2012 (₹ 4,000) was later sold to X Ltd. for ₹ 4,400 and remained unsold by X Ltd. as on 31.12.2012.

viii. Cash in transit from Y Ltd. to X Ltd. was ₹ 1,500 as at the close of business. You are required to prepare the Consolidated Balance Sheet of the group as at 31.12.2012. [15]

Answer:

1. Basic Information

Company Status		Dates	Holding Status		
Holding Company	= X Ltd.	Acquisition: 30.06.2011		**Y Ltd.**	**Z Ltd.**
Subsidiary	= Y Ltd.	Consolidation: 31.12.2012	a. Holding Co.	(X) 80%	(X) 16.67%

Sub–Subsidiary	= Z Ltd.			–	(Y) 66.66%
			b. Minority Int.	20%	16.67%

Note: The Shareholding Pattern is as under

Company	Held by X	Held by Y	Total Holdings	Minority Interest	Total No. of Shares
Y Ltd.	12,000 (80%)	N. A.	12,000 (80%)	3,000 (20%)	15,000 (100%)
Z Ltd.	1,500 (16.67%)	6,000 (66.67%)	7,500 (83.33%)	1,500 (16.67%)	9,000 (100%)

2. Analysis of Reserves and Surplus of Subsidiary Companies

(a) General Reserve

Y Ltd.				**Z Ltd.**		
Balance on 31.12.2012 ₹ 15,000				31.12.2012 ₹ 13,500		
1.1.12 Prev. B/s 12,000 Capital	Tfr in 2012 ₹ 3,000			1.1.12 Prev. B/s 11,250 Capital	Tfr in 2012 ₹ 2,250	
	1.1.12 to DOA ₹ 1,500 Capital	DOA to DOC ₹ 1,500 Revenue			1.1.12 to DOA ₹ 1,125 Capital	DOA to DOC ₹1,125 Revenue
Capital Profit - ₹ 13,500; Revenue Profit - ₹ 1,500				Capital Profit - ₹ 12,375; Revenue Profit - ₹ 1,125		

(b) Profit & Loss Account

Y Ltd.				**Z Ltd.**		
Balance on 31.12.2012		18,000		Balance on 31.12.2012		13,500
Less:Proposed Dividend (10% x 1,50,000)		(15,000)		Less: Proposed Dividend (10%x90,000)		9,000
Add: Dividend from Z Ltd. (6/12 x 9,000 x 66.67%)		3,000		Adjusted Balance		4,500
Adjusted Balance		6,000				
1.1.12 Prev. B/s 6,000 Capital	Profit in 2012	NIL		1.1.12 Prev. B/s 4,500 Capital	Profit in 2012 NIL Revenue	

3. Analysis of Net Worth of Subsidiary Companies (Indirect Method)

Particulars		**X Ltd.**		**Minority Interest**	
		80%	**16.67%**	**Y Ltd.**	**Z Ltd.**
		Y 66.67% Z		**20%**	**16.67%**
(a)	**Share Capital**	**1,50,000**	**90,000**		
Less:	Minority Interest	(30,000)	(15,000)	30,000	15,000
	Holding Co's Share	**1,20,000**	**75,000**		

(b)	**Capital Profits** General Reserve Profit & Loss Account	13,500 6,000	12,375 4,500		
Trfr.	Y's share in Z (66.67% x ₹ 16,875)	**19,500** 11,250	**16,875** (11,250)		
Less:	Minority Interest	30,750 (6,150)	5,625 (2,812)		
	Holding Co's Share	**24,600**	**2,813**	6,150	2,812
(c) **Trfr.**	**Revenue Reserve:** B's share in C (66.67% x ₹ 1,125)	1,500 750	1,125 (750)		
Less:	Minority Interest	2,250 (450)	375 (188)		
Holding Co.'s Share		**1,800**	**187**	450	188
(d)	**Revenue Profits**	**NIL**	**NIL**	–	–
(e) **Less:**	**Proposed Dividend** Minority Interest	15,000 (3,000)	9,000 (1,500)		
	Holding Co's Share	**12,000**	**7,500**	3,000	1,500
	Minority Interest Before Stock Reserve Adjustment			**39,600**	**19,500**
Less:	Share of Minority Interest of Y in Unrealized Profits (4,400 - 4,000) x 20%			(80)	–
	Minority Interest			**39,520**	**19,500**

4. Cost of Control

	Particulars			₹
	Cost of Investment:	X Ltd. in Y Ltd. X Ltd. in Z Ltd. Y Ltd. in Z Ltd.	1,12,500 19,500 79,500	**2,11,500**
Less:	Dividend out of Pre-acqn. Pfts From Y Ltd. From Z Ltd.	(For 01.01.2012 to 30.06.2012) (12,000 Shares x ₹ 10 x 10% x 6/12] (7,500 Shares x ₹ 10 x 10% x 6/12)	 6,000 3,750	**9,750**
	Adjusted Cost of Investment			**2,01,750**
Less:	(a) Nominal Value in Share Capital of:	Y Ltd. Z Ltd.	1,20,000 75,000	(1,95,000)
	(b) Share in Capital Profits	Y Ltd. Z Ltd.	24,600 2,813	**(27,413)**
	Capital Reserve on Consolidation			**20,663**

5. Consolidation of Reserves and Surplus

Particulars	**Gen. Res.**	**P & L A/c**

	Balance as per Balance Sheet of X Ltd.		42,000	24,000
Less:	Proposed Dividend	(₹ 1,50,000 x 10%)	–	(15,000)
Add:	Share of Proposed Dividend	(01.07.2012 to 31.12.2012) from		
		Y (12,000 Shares x ₹ 10 x 10% x 6/12)	–	6,000
		Z (1,500 Shares x ₹ 10 x 10% x 6/12)	–	750
	Adjusted Balance		**42,000**	**15,750**
Add:	Share of Revenue from	Y Ltd.	1,800	NIL
		Z Ltd.	187	NIL
	Consolidated Balance		43,987	15,750
Less:	Stock Reserve [₹ 4,400 - ₹ 4,000] x 80%		–	(320)
	Corrected Consolidated Balance		**43,987**	**15,430**

Name of the Company: X Ltd. And its subsidiary Y & 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	150,000	-
		(b) Reserves and surplus	2	80,080	-
	2	**Minority Interest (39,520 + 19,500)**		59,020	-
	3	**Current liabilities**			
		(a) Trade payables	3	18,000	-
		(b) Short-term provisions	4	15,000	-
		TOTAL (1+2+3+4)		**3,22,100**	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	5	1,84,500	-
	2	**Current assets**			
		(a) Inventories (18,000 – 400)		17,600	-
		(b) Trade receivables	6	1,18,500	-
		(c) Cash and cash equivalents		1,500	-
		TOTAL (1+2)		**3,22,100**	-

Note 1. Share Capital		
	Current Year	**Previous Year**

Note 2. Reserve and Surplus		
	Current Year	**Previous Year**

Authorised Capital	-	-		General Reserve	43,987	-
Issued and Paid Up: Equity Share capital	1,50,000	-		Profit & Loss A/c	15,430	-
				Capital Reserve on Consolidation	20,663	-
	1,50,000	-			**80,080**	

Note 3. Trade Payable				**Note 4. Short Term Provisions**		
	Current Year	**Previous Year**			**Current Year**	**Previous Year**
Sundry Creditors				Proposed Dividend	15,000	-
X	10,500	-				
Y	7,500	-			**15,000**	
	18,000	-				

Note 5. Tangible Assets				**Note 6. Trade Receivable**		
	Current Year	**Previous Year**			**Current Year**	**Previous Year**
Fixed Assets				Sundry Debtors		
X	30,000	-		X	39,000	
Y	90,000	-		Y	31,500	
Z	64,500	-		Z	48,000	
	1,84,500	-			1,18,500	

5. The following are the Balance sheets (as at 31.3.2013) of A Ltd. and C Ltd.:

Liabilities	**A Ltd. ₹**	**C Ltd. ₹**	**Assets**	**A Ltd. ₹**	**C Ltd. ₹**
Share Capital:			**Fixed Assets**	**75,00,000**	**45,00,000**
Equity Shares of ₹10 each	**54,00,000**	**27,00,000**	**Investments**	**7,50,000**	**7,50,000**
10% Preference shares of ₹100 each	**18,00,000**	**-**	**Current Assets**		
			Stock	**27,00,000**	**18,00,000**
12% Preference shares of ₹100 each	**-**	**9,00,000**	**Debtors**	**22,50,000**	**18,00,000**
			Bills receivable	**75,000**	**15,000**
Reserve and Surplus:			**Cash at Bank**	**2,25,000**	**1,35,000**
Statutory Reserve	**1,50,000**	**1,50,000**			
General Reserve	**37,50,000**				
Secured Loan		**25,50,000**			
15% Debentures	**7,50,000**	**-**			
12% Debentures	**-**	**7,50,000**			
Current Liabilities					
Sundry creditors	**16,20,000**	**19,20,000**			
Bills payable	**30,000**	**30,000**			
	1,35,00,000	**90,00,000**		**1,35,00,000**	**90,00,000**

Contingent liabilities for bills receivable discounted ₹ 30,000.

(A)	**The following additional information is provided to you:**		
		A Ltd.	**C Ltd.**
		₹	**₹**
	Profit before Interest and Tax	**22,12,500**	**11,70,000**
	Rate of Income-tax	**40%**	**40%**
	Preference dividend	**1,80,000**	**1,08,000**
	Equity dividend	**5,40,000**	**4,05,000**
	Balance profit transferred to Reserve account.		

(B) The equity shares of both the companies are quoted on the Mumbai Stock Exchange. Both the companies are carrying on similar manufacturing operations.

(C) A Ltd proposes to absorb business of C Ltd. as on 31.3.2013. The agreed terms for absorption are:

(i) 12% Preference shareholders of C Ltd. will receive 10% Preference shares of A Ltd. sufficient to increase their present income by 20%.

(ii) The Equity shareholders of C Ltd. will receive equity shares of A Ltd. on the following terms:

(a) The Equity shares of C Ltd. will be valued by applying to the earnings per share of C Ltd. 60 per cent of price earnings ratio of A Ltd. based on the results of 2010-11 of both the Companies.

(b) The market price of Equity shares of A Ltd. is ₹40 per share.

(c) The number of shares to be issued to Equity shareholders of C Ltd. will be based on the 80% of market price.

(d) In addition to Equity shares, 10% Preference shares of A Ltd. will be issued to the equity shareholders of C Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2010-11.

(iii) 12% Debentureholders of C Ltd. are to be paid at 8% premium by 15% debentures in A Ltd. issued at a discount of 10%.

(iv) ₹ 24,000 is to be paid by A Ltd. to C Ltd. for liquidation expenses. Sundry Creditors of C Ltd. include ₹ 30,000 due to A Ltd. Bills receivable discounted by A Ltd. were all accepted by C Ltd.

(v) Fixed assets of both the companies are to be revalued at 20% above book value. Stock in trade is taken over at 10% less than their book value.

(vi) Statutory reserve has to be maintained for two more years

(vii) For the next two years no increase in the rate of equity dividend is anticipated.

(viii) Liquidation expense is to be considered as part of purchase consideration.

You are required to:

- **Find out the purchase consideration and**

- **Give journal entries in the books of A Ltd.** **[15]**

Answer :

₹

(i)	For Preference Shareholders Present Income of Preference Shareholders of C Ltd. Add : 20% increase	 1,08,000 21,600 1,29,600
	10% Preference Shares to be issued of ₹ 12,96,000 (1,29,600/10 x 100) **For Equity Shareholders** Valuation of Equity Shares of C Ltd. = Number of shares x Value of one share (i.e. EPS of C Ltd. x P/E ratio of A Ltd. x 60/100) = 2,70,000 × (₹ 2 × 20 ×60/100) = 2,70,000 × 24 = ₹ 64,80,000 **Issue of Equity Shares** No. of Equity Shares to be issued at 80% of Market Price i.e. 80% of ₹ 40 = ₹ 32 64,80,000/32 = 2,02,500 shares Equity Share Capital = 2,02,500 × ₹ 10 = ₹ 20,25,000 Securities premium = 2,02,500 x ₹ 22 = 44,55,000 **₹ 64,80,000**	
	Issue of Preference Shares Present Equity Dividend Less: Expected Equity Dividend from A Ltd. (20,25,000 × 10/100)	 ₹ 4,05,000 2,02,500
	Loss in income	2,02,500
	10% Preference Shares to be issued of ₹ 20,25,000 (2,02,500/10 × 100)	20,25,000
Purchase Consideration: -	Preference Shares Capital [₹12,96,000 + ₹ 20,25,000] Equity Share Capital (2,02,500 shares of ₹ 10 each at ₹ 32 per share) Liquidation Expenses (in cash)	33,21,000 64,80,000 24,000
		98,25,000

(ii) Journal Entries in the Books of A Ltd. **Dr.** **Cr.**

	Particulars		₹	₹
1.	Fixed Assets A/c To Revaluation Reserve (Being fixed assets revalued at 120% of book value)	Dr.	15,00,000	 15,00,000
2.	Business Purchase A/c	Dr.	98,25,000	

	To Liquidator of C Ltd. (Being purchase consideration payable for the business taken over from C Ltd.)		98,25,000
3.	Fixed Assets A/c Dr. Investment A/c Dr. Stock A/c Dr. Debtors A/c Dr. Bills Receivable A/c Dr. Cash at Bank A/c Dr. Goodwill A/c (Balancing figure) Dr. To 12% Debentures in C Ltd. To Creditors To Bills Payable To Business Purchase A/c (Being incorporation of different assets and liabilities of C Ltd. taken over at agreed values and balance debited to goodwill account)	54,00,000 7,50,000 16,20,000 18,00,000 15,000 1,35,000 28,65,000	8,10,000 19,20,000 30,000 98,25,000
4.	Liquidator of C Ltd. Dr. To Equity Share Capital A/c To Securities Premium A/c To Preference Share Capital A/c To Bank A/c (Being discharge of consideration for C Ltd's business)	98,25,000	20,25,000 44,55,000 33,21,000 24,000
5.	12% Debentures in C Ltd. Dr. Discount on issue of Debentures Dr. To 15% Debentures (Being allotment of 15% Debentures to debenture holders at a discount of 10% to discharge liability of C Ltd. debentures)	8,10,000 90,000	9,00,000
6.	Sundry Creditors A/c Dr. To Sundry Debtors A/c (Being cancellation of Mutual owing)	30,000	30,000
7.	Amalgamation Adjustment A/c Dr. To Statutory Reserve A/c (Being statutory reserve account is maintained under statutory requirements)	1,50,000	1,50,000
8.	Securities Premium A/c Dr. To Discount on issue of Debentures A/c (Being discount on issue of Debentures written off out of securities premium)	90,000	90,000

6. (a) From the following information of Neelam Ltd., compute the Economic Value Added(EVA):

Share Capital	**₹ 3,000 lakhs**
Reserves and Surplus	**₹ 5,000 lakhs**
Long Term Debt	**₹ 500 lakhs**
Tax Rate	**40 %**
Risk Free Rate	**8 %**
Market Rate of Return	**15 %**
Interest	**₹ 50 lakhs**
Beta Factor	**1.05**
Profit before Interest and Tax	**₹ 3,000 lakhs**

[6]

Answer:

Neelam Ltd.

Computation of Economic Value Added Particulars	**₹ in Lakh**
Net operating – Profit after tax	1,770
Add: Interest on long term fund	30
	1,800
Less: Cost of Capital ₹8,500 lakhs x 14.80%	1,258
Economic Value Added	542

Working Notes:

(i) Cost of Equity = Risk free rate + Beta Factor (Market Rate – Risk Rate)

=8% + 1.05 (15 – 8) = 8% + 7.35% = 15.35%

(ii) Cost of Debts: **₹in lakhs**

Interest	₹50 lakhs
Less: Tax (40%)	**₹20 lakhs**
Interest after tax	₹30 lakhs

Cost of Debt = $\frac{30}{500} \times 100 = 6\%$

(iii) Weighted Average cost of Capital: **₹in lakhs**

Cost of Equity ₹8,000 lakhs x 15.35% (W.N.-1):	₹1228 lakhs
Cost of Debt ₹500lakhs x 6% (W.N. – 2.):	₹ 30 lakhs
	₹1258 lakhs

WACC= $\frac{1,258}{8,500} = 14.80\%$

(iv) Capital Employed : **₹in lakhs**

Share Capital 3,000

Reserves and Surplus	5,000
Long Term Debts	500
	8,500
(v) Net Operating Profit after tax	
Profit before Interest + Tax	3,000
Interest	50
	2,950
Tax 40% on ₹2,950 lakhs	1,180
Operating profit after tax	**1,770**

(b) Explain the need and significance of Environmental Accounting. [9]

Answer :

Need and significance of Environmental Accounting:

(i) Resource Utilisation: Natural Resources (water, air, minerals, forests etc.) are required to carry on the business activities of every firm. Also, the functioning of an enterprise has some favourable and some adverse effects on the environment. Hence, there is a need for maintaining accounts of the effects of the activities of a business entity on the environment and on natural resources.

(ii) Resource Availability: Environmental Accounting is useful for disclosing how much natural resources are available in the country, their incomes and the costs incurred to use them and their depreciation, values etc.

(iii) Social Responsibility: Environmental Accounting is helpful for measuring industrial development and social welfare and the fulfilment of social responsibilities by Companies. Companies are urged to be accountable to both Shareholders and wider society. Profit Making is not considered as the sole corporate objective.

(iv) Qualitative Study: Traditional Accounting System is restricted to quantitative and monetary aspects only. Hence, Environmental Accounting is necessary to analyse the effect of environmental resources in the entire business functions of a firm.

(v) Environmental Protection: Environmental Accounting will help in evaluating the problem of environment protection. The business activities of the enterprise should be recognised as society (environment) centred and not only profit-centred.

(vi) Going Concern: Environmental pollution and the substantial costs associated with clean-up activities, fines, compensation, and bad publicity etc. can even significantly affect the share prices and even the stability of a Company. Hence, environmental accounting awareness is required.

(vii) Social Accounting: Social Accounting has been the precursor of Environmental Accounting. Social Costs also include the use of natural resources and pollution of environments. Also preservation of the environment is a critical factor for sustainable development. So, Environmental Accounting deserves special attention of manager, investors, society, different branches of Government and other stakeholders.

7. (a) On April 1, 2012, a company Sky Blue Ltd. offered 100 shares to each of its 1,500 employees at ₹60 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan 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 date is ₹70

per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹68 per share.

On April 30, 2012, 1,200 employees accepted the offer and paid ₹60 per share purchased. Nominal value of each share is ₹10.

Record the issue of shares in book of the Sky Blue Ltd. under the aforesaid plan. [5]

Answer :

Fair value of ESPP per share = ₹68 – ₹60 = ₹8

Number of share issued = 1,200 × 100 = 1,20,000

Fair value of ESPP = 1,20,000 × ₹8 = ₹9,60,000

Vesting period = One month

Expense recognized in 2012-13 = ₹9,60,000

Particulars	₹	₹
<u>**April 30, 2012**</u>		
Bank (1,20,000x60)	72,00,000	
Employees' Compensation A/c (1,20,000x8)	9,60,000	
To Share Capital (1,20,000x10)		12,00,000
To Securities premium (1,20,000x58)		69,60,000

(b) From the following information, prepare cash flow statement by using indirect method as per AS-3.

Balance Sheet

Liabilities	31.3.2013	31.3.2014	Assets	31.3.2013	31.3.2014
Capital	50,00,000	60,00,000	Plant & Machinery	27,30,000	42,70,000
Retained Earnings	26,50,000	36,90,000	Less : Depreciation	6,10,000	7,90,000
Debentures	—	9,00,000		21,20,000	34,80,000
Current Liabilities :			Current Assets :		
Creditors	8,80,000	8,20,000	Debtors	23,90,000	28,30,000
Bank Loan	1,50,000	3,00,000	Less : Provision	1,50,000	1,90,000
Liability for Expenses	3,30,000	2,70,000		22,40,000	26,40,000
Dividend Payable	1,50,000	3,00,000	Cash	15,20,000	28,20,000
Creditors for plant	—	2,00,000	Marketable Securities	11,80,000	15,00,000
and machinery			Inventories	20,10,000	19,20,000
purchased			Prepaid Expenses	90,000	1,20,000
	91,60,000	1,24,80,000		91,60,000	1,24,80,000

Additional Information:

(i) Net Income for the year ended 31.03.2014, after charging depreciation of ₹1,80,000 is ₹22,40,000.

(ii) Debtors of ₹ 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account.

(iii) The Board of Directors declared dividend of ₹ 12,00,000.

Note: Marketable securities are treated as cash equivalents. [10]

Answer :

Cash Flow Statement for the year ended 31-03-2014

Cash Flows from Operating Activities		₹	₹
Net Income		22,40,000	
Add:	Depreciation	1,80,000	
		24,20,000	
Add:	Decrease in Inventories	90,000	
	Increase in Provision for Doubtful Debts*	40,000	
			25,50,000
Less:	Increase in Current Assets:		
	Debtors*		(4,40,000)
	Prepaid Expenses		(30,000)
	Decrease in Current Liabilities:		
	Creditors		(60,000)
	Expenses Outstanding		(60,000)
Net Cash from Operating Activities			19,60,000
Cash Flows from Investing Activities			
Payment for Purchase of Plant & Machinery (15,40,000–2,00,000)		(13,40,000)	
Cash outflow from Investing Activities			(13,40,000)
Cash Flows from Financing Activities			
Issue of Share Capital (on Cash)		10,00,000	
Bank Loan Raised		1,50,000	
Issue of Debentures		9,00,000	
Payment of Dividend		(10,50,000)	
Cash flows from Financing Activities			10,00,000

Net Increase in cash and Cash equivalents during the year		16,20,000
Add : Opeaning balance of cash and cash equivalents		27,00,000
Cash balance as on 31-3-2014		43,20,000

*Alternatively, provision for doubtful debts created (₹40,000) + ₹ 2,30,000 (Bad Debts) may be added. In that case, increase in debtors (including bad debts written off) ₹ 6,70,000 (₹ 4,40,000 + ₹ 2,30,000) is subtracted. However, net effect will remain same. It is only a matter of presentation. Adjustment for interest on bank loan is ignored as rate of interest is not given.

8. Write short notes on any three of the following: **[5x3=15]**
(a) Basic Structure of the Form of the Government Accounts :
(b) Human Resource Accounting (HRA):
(c) Advantages in the preparation of Value Added Statement;
(d) Committee on Public Undertaking.

Answer:

(a) Basic Structure of the Form of the Government Accounts:

i. Period of Accounts : the annual accounts of the central, state and union territory Government shall record transactions, which take place during financial year running from 1" April to 31st March.
ii. Cash Basis Accounts: With exception of such book adjustment as may be authorized by these rules on the advice of the comptroller and Auditor General of India(CAG), the transaction in Government Accounts shall represent the actual cash receipt and disbursement during a financial year.
iii. Form of Accounts: There are three parts i.e. Consolidated Fund, Contingency Fund and Public Account. In Consolidated fund, there are two divisions i.e. revenue consisting of section for receipt heads and expenditure heads(Revenue Accounts) capital, Public debt, loan consisting of section of receipt heads (Capital Accounts), whereas, Contingency Fund Accounts shall be recorded for the transactions connected with the Government Set up under Article 267 of the constitution. In Public Account, transactions relating to debt deposit, advances, remittances and suspense shall be recorded.

(b) Human Resource Accounting (HRA): Human Resource Accounting (HRA) is an attempt to identify, quantify and report investments made in human resources of an organization. Leading public sector units like OIL, BHEL and NTPC have started reporting human resources in their annual reports as additional information. Although human beings are considered as the prime mover for achieving productivity, and are placed above technology, equipment and money, the conventional accounting practice does not assign significance to the human resource. Human resources are not thus recognized as 'assets' in the Balance Sheet, while investments in human resources are not considered as assets and not amortized over the economic service life. The result is that the income and expenditure statement comprising current revenue and expenditure gives an incorrect picture of the real affairs of the organization. Accountants have been severely criticized by the Behavioral Scientists for their failure to value human resources, as this has come out as a handicap for effective management. Human resource accounting provides scope for planning and decision making in relation to proper manpower planning. Also, such accounting can bring out the effect of various new rules, procedures and incentives relating to work force, and in turn, can act as an eye opener for modifications of existing laws and statutes.

(c) Advantages in the preparation of Value Added Statement;

The advantages in the preparation of Value Added Statements are as follows:

- Reporting on the aspects of Value Added Statements (VA) can to a great extent improve the attitude of employees towards their relevant companies. This is mainly due to the fact VA reflects a broader view of the company's objectives and responsibilities.
- VA statement duly makes it advantageous for the company to introduce a productivity linked bonus system for the employees based on the VA. The, employees may be given a productivity bonus on the basis of VA/Payroll Ratio.
- VA based ratios (e.g. VA/Payroll, Taxation / VA, VA/Sales etc.) are useful diagnostic and predictive tools. Trends in VA ratios, comparisons with other companies and international comparisons may be useful.
- VA provides a very good measure of the size and importance of a company. For using the sales figure on capital employed figures as a basis for company's rankings can cause distortion. This is because adopting the sales figure to get inflated through large bought in expenses or a capital intensive – intensive company with a few employees may appear to be more important than a highly skilled labour – intensive company.
- VA Statement usually links a financial company's financial accounts to a national income of an economy, and its relevant contribution.
- VA Statement is built on the basic conceptual foundations which are currently accepted in Balance Sheets and income Statements. The relevant statements and the concepts like going concern, matching, consistency and substance over form are equally applicable towards preparation of VA Statement.

(d) Committee on Public Undertaking: The Committee on Public Undertakings exercises the same financial control on the public sector undertakings as the Public Accounts Committee exercises over the functioning of the Government Departments. The functions of the Committee are:

i. to examine the reports and accounts of public undertakings.

ii. to examine the reports of the Comptroller & Auditor General on public undertakings.

iii. to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.

The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.

The objective of the Financial Committees, in doing so, is not to focus only on the individual irregularity, but on the defects in the system which led to such irregularity, and the need for correction of such systems and procedures.