Paper – 18 - Corporate Financial Reporting

This paper contains 5 questions, divided in sub-questions. Each question represents the specified weightage in sections as prescribed syllabus for this paper. Answers must be given against all questions. However, students are requested to read the instructions against each individual question also. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

Question No. 1 is compulsory.

(a) What are the related party disclosure requirements as per AS-18? [5]
(b) (i) List the types of Shares based transactions as per IFRS-2 [3]
(ii) State the scope of IFRS-6 (Exploration for and Evaluation of Mineral Assets) [2]

Question No. 2 : Answer to Question No. 2(a) is Compulsory. Answer any two from the remaining sub-questions.

(a) Given below are the Balance Sheets of M Ltd. and N Ltd. as on 31st December 2014 (in ₹000)

Equity and Liabilities	M Ltd.	N Ltd.
(1) Shareholders' funds		
(a)Share Capital	10,000	12,000
(b) Reserves and Surplus		
(i) General Reserve	5,000	4,000
(ii)Export Profit Reserve (Note)	2,000	3,000
Non-Current Liabilities		
Long Term Borrowings		
14% Debentures	5,000	5,000
Current Liabilities		
Trade Payables - Sundry Creditors	2,000	1,000
Short Term Provisions	4,500	5,000
Total	28,500	30,000
Assets		
Non-current Assets		
Fixed Assets	16,500	18,000
Non-Current Investments	5,000	—
Current Assets		
Inventories	5,000	5,000
Trade Receivables(Drs)	1,500	6,500
Cash & Cash Equivalents	500	500
Total	28,500	30,000

Note: This is a Statutory Reserve as per Income Tax Law.

Share of M Ltd and N Ltd are ₹ 10 each. MN Ltd has been formed for the purpose of Amalgamation which took over M Ltd and N Ltd and in exchange, Shares of MN Ltd were issued. Expenses for Amalgamation were ₹ 100 (000s). 14% New Debentures are to be issued to the Debentureholders of M Ltd and N Ltd.
Show the Purchase Consideration based on Net Assets of Transferor Companies. [5]

(b) A Ltd. and M Ltd. decide to amalgamate and to form a new company AM Ltd. The following are their summarised balance sheets as at 31.3.2014:

Equity and Liabilities	A Ltd. (₹)	M Ltd. (₹)
(1)Shareholders' funds		
(a)Share Capital (₹ 100) each	10,00,000	6,00,000
(b) Reserves and Surplus		
General Reserve	1,00,000	50,000
Investment Allowance Reserve	40,000	30,000
Non-Current Liabilities		
12% Debentures (₹100 each)	3,00,000	1,00,000
Current Liabilities		
Trade payables	60,000	20,000
Total	15,00,000	8,00,000
Assets		
Non-current Assets		
Fixed Assets	7,50,000	2,00,000
Non-current investments		
1,500 Shares in M	3,50,000	—
4,000 Shares in A	—	5,00,000
Current Assets	4,00,000	1,00,000
Total	15,00,000	8,00,000

Calculate the amount of purchase consideration for A Ltd. and M Ltd. and draw up the balance sheet of AM Ltd. after considering the following:

(i) Assume amalgamation is in the nature of purchase.

(ii) Fixed assets of A Ltd. are to be reduced by ₹ 50,000 and that of M Ltd. are to be taken at ₹ 3,00,000.

(iii) 12% debentureholders of A Ltd. and M Ltd. are discharged by AM Ltd. by issuing such number of its 15% debentures of ₹ 100 each so as to maintain the same amount of interest.

(iv) Shares of AM Ltd. are of ₹ 100 each.

Also show, how the investment allowance reserve will be treated in the Financial Statement assuming the Reserve will be maintained for 3 years. [10]

(c) The business of H Ltd. was carried on continuously at losses. The following are the extracts from the Balance Sheet of the company as on 31st March,2014

Equity and Liabilities	H Ltd. (₹)
(1) Shareholders' funds	
(a) Share Capital (₹ 100) each	
30,000 Equity Shares of ₹10 fully paid	3,00,000
2,000 8% Cum Preference Share of ₹100 fully paid	2,00,000
(b) Reserves and Surplus	
Securities Premium Account	90,000
Profit & Loss Account	(2,05,000)
Non-Current Liabilities	
Long Term Borrowings	
Unsecured Loan (From Directors)	50,000
Current Liabilities	
Trade payables	3,00,000
Outstanding Expenses (including Directors Remuneration ₹ 20,000)	70,000
Total	8,05,000
Assets	

Non-current Assets	
Fixed Assets	
Tangible Assets	
Plant	**3,00,000**
Loose Tools	**10,000**
Intangible Assets	
Goodwill	**50,000**
Current Assets	
Inventories	**1,50,000**
Trade Receivables - Debtors	**2,50,000**
Cash & Cash Equivalents	
Cash	**10,000**
Bank	**35,000**
Total	**8,05,000**

Note: Dividends on Cumulative Preference Shares are in arrears for 3 years.

The following scheme of reconstruction has been agreed upon and duly approved by the Court.

1. **Equity Shares to be converted into 1,50,000 Shares of ₹ 2 each.**
2. **Equity Shareholders to surrender to the Company 90% of their holding.**
3. **Preference Shareholders agree to forego their right to arrears of Dividends in consideration of which 8% Preference Shares are to be converted into 9% Preference Shares.**
4. **Sundry Creditors agree to reduce their claim by one fifth in consideration of their getting Shares of ₹ 35,000 out of the surrendered Equity Shares.**
5. **Directors agree to forego the amounts due on account of Unsecured Loan and Directors Remuneration.**
6. **Surrendered Shares not otherwise utilized to be cancelled.**
7. **Assets to be reduced as under:**

	₹
Goodwill by	**50,000**
Plant by	**40,000**
Tools by	**8,000**
Sundry Debtors by	**15,000**
Stock by	**20,000**

8. **Any surplus after meeting the losses should be utilized in writing down the value of the Plant further.**
9. **Expenses of Reconstruction amounted to ₹10,000.**
10. **Further 50,000 Equity Shares were issued to the existing members for increasing the Working Capital. The issue was fully subscribed and paid-up.**

A Member holding 100 Equity Shares opposed the scheme and his Shares were taken over by the Director on payment of ₹ 1,000 as fixed by the Court.

Pass Journal Entries for giving effect to the above arrangement. [10]

(d) Red Ltd. and Blue Ltd. propose to amalgamate. Their balance sheets as at 31st March, 2014 were as follows:

Equity and Liabilities	**Note**	**Red Ltd. (₹)**	**Blue Ltd. (₹)**

Shareholders' funds			
Share Capital			
Equity share capital (in shares of ₹10 each)		15,00,000	6,00,000
Reserves and Surplus	1	9,00,000	1,50,000
Current Liabilities:			
Trade Payables - Creditors		3,00,000	1,50,000
Total		27,00,000	9,00,000
Assets			
Non-current Assets:			
Fixed Assets (less depreciation)		12,00,000	3,00,000
Investments (Face value of ₹3 lakhs, 6% Tax free G.P notes)		3,00,000	
Current Assets:			
Inventories		6,00,000	3,90,000
Trade receivables - Debtors		5,10,000	1,80,000
Cash and cash equivalents		90,000	30,000
Total		27,00,000	9,00,000

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

Their Net Profit (after taxation) were as follows:

Year	Red Ltd.	Blue Ltd.
2011-12	(₹)3,90,000	(₹)1,35,000
2012-13	(₹)3,75,000	(₹)1,20,000
2013-14	(₹)4,50,000	(₹)1,68,000

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

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

(ii) Draft the opening balance sheet of Green Ltd. after amalgamation [10]

Question No. 3: Answer to question No. 3(a) is Compulsory. Also answer any one from the remaining sub-questions

(a) The Balance Sheet of Golden and Silver Limited as on 31.3.2014 are given below:

Equity and Liabilities	Note	Golden Ltd.(₹)	Silver Ltd.(₹)
Shareholders' funds			
Share Capital			
Equity share capital		2,40,000	2,40,000
Reserves and Surplus	1	64,000	71,000
Current Liabilities:			
Trade Payables - Creditors		8,000	15,000
Other current liabilities		4,000	10,000
Total		3,16,000	3,36,000

Assets			
Non-current Assets:			
Fixed Assets		88,000	1,68,000
Investments		1,80,000	10,000
Current Assets:			
Inventories		20,000	80,000
Trade receivables - Debtors		12,000	30,000
Cash and cash equivalents		8,000	16,000
Other current assets		8,000	32,000
Total		3,16,000	3,36,000

Note 1: Reserves and Surplus	Red Ltd. (₹)	Blue Ltd. (₹)
General Reserves	40,000	32,000
Profit and Loss Account	24,000	39,000

Additional information:

(i) On 1.10.2011, Golden Ltd. acquired 16,000 shares of ₹10 each at the rate of ₹11 per share.

(ii) Balances to General reserve and Profit and Loss account of Silver Ltd. stood on 1.4.2011 at ₹60,000 and ₹32,000 respectively.

(iii) All the dividends declared and paid relating to the past years had been properly adjusted for to arrive at the Profit and Loss Account Balance.

(iv) On 1.3.2014, bonus shares were issued by Silver Ltd. at the rate of one fully paid share for every five held and effect has been given to that in the above accounts. The bonus was declared from general reserves from out of profits earned prior to 1.4.2011.

(v) On 1.10.2011, Fixed assets was revalued at ₹2,16,000, but no adjustment had been made in the books.

(vi) Depreciation had been charged @ 10% p.a. on the book value as on 1.4.2011 (on straight line method), there being no addition or sale since then.

(vii) Out of Current profits ₹4,000 have been transferred to General reserve every year.

(viii) Bills receivable of Golden Ltd. include ₹4,000 bills accepted by Silver Ltd. Bills discounted by Golden Ltd., but not yet matured include ₹3,000 accepted by Silver Ltd.

(ix) Sundry creditors of Golden Ltd. include ₹4,000 due to Silver Ltd. Sundry debtors of Silver Ltd. include ₹8,000 due from Golden Ltd.

(x) It is found that Golden Ltd. has remitted a cheque of ₹4,000, which has not yet been received by Silver Ltd.

Show the analysis of pre and post acquisition profit and reserves as on 31.03.2014 for the purpose of consolidation. [10]

(b) HJ Ltd. made an offer to acquire all the Shares of LJ Ltd., to be satisfied by the allotment of 5 Shares in HJ Ltd. at ₹ 25 per Share for every 4 Shares in LJ Ltd. By the date of expiration of the offer, which was on 1.1.2013, Shareholders owning 75% of the Shares LJ Ltd. accepted the offer and the acquisition was effective from that date.
The accounting date of LJ Ltd. was on 31st March in each year, but to conform with HJ Ltd. the accounts were prepared to 30.06.2013, covering the Fifteen Months to the date.
The draft summarized accounts of the Companies on 30.06.2013 which do not include any of Shares in LJ Ltd. were as follows –

Equity and Liabilities	HJ (₹)	LJ(₹)

(1) Shareholders' Funds:		
(a) Share Capital -Authorised	3,00,000	75,000
- Issued & Fully paid (₹ 10)	1,50,000	60,000
(b) Reserves & Surplus		
- General Reserve	55,000	---
- Profit & Loss A/c	62,000	20,000
(2) Current Liabilities:		
(a) Other Current Liabilities	27,000	7,000
(b) Short Term Provisions		
- Provision for Taxation	33,000	6,000
Total	**3,27,000**	**93,000**
Assets	**HJ(₹)**	**LJ(₹)**
(1) Non-Current Assets:		
(a) Fixed Assets - Tangible		
(i) P & M at Cost	50,000	12,000
Less: Depreciation	18,000	3,000
	32,000	9,000
(ii)Freehold Prop,(at cost)	2,00,000	38,000
(b) Non-Current Investments		
(Quoted Invt at Cost)	7,000	-
(2) Current Assets:		
(a) Inventories	32,000	21,000
(b) Trade Receivables - Drs	41,000	17,000
(c)Cash & Cash Equivalents	15,000	8,000
Total	**3,27,000**	**93,000**

Profit & Loss Account - Period ending 30.06.2013

Particulars	HJ	LJ
Period	12 Months	15 Months
Balance brought forward	14,000	12,000
Add: Profit for the period	80,000	18,000
Total	94,000	30,000
Taxation for the period	32,000	6,000
Interim Dividend paid, 30th Nov 2012	---	4,000
Balance Carried forward	62,000	20,000
Total	94,000	30,000

The Directors of HJ Ltd recommended a final dividend of 20% to the Shareholders on register as on 30.06.2013. The Directors of LJ Ltd proposed a final dividend of 12.50% payable on 30.09.2013.
You are required to prepare the Consolidated Balance Sheet of HJ Ltd and LJ as on 30.06.2013. [15]

(c) Following are the Balance Sheets of Mumbai Limited, Delhi Limited, Amritsar Limited and Kanpur Limited as at 31st December, 2012:

Liabilities	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
Share Capital (₹ 100 face value)	1,00,00,000	80,00,000	40,00,000	1,20,00,000
General Reserve	40,00,000	8,00,000	5,00,000	20,00,000
Profit & Loss Account	20,00,000	8,00,000	5,00,000	6,40,000

Sundry Creditors	6,00,000	2,00,000	1,00,000	1,60,000
	1,76,00,000	98,00,000	51,00,000	1,48,00,000
Assets				
Investments:				
30,000 shares in Delhi Ltd.	70,00,000	---	---	---
10,000 shares in Amritsar Ltd.	22,00,000	---	---	---
5,000 shares in Amritsar Ltd.	---	10,00,000	---	---
Shares in Kanpur Ltd. @ ₹ 120	72,00,000	36,00,000	12,00,000	---
Fixed Assets	---	40,00,000	30,00,000	1,40,00,000
Current Assets	2,00,000	12,00,000	9,00,000	8,00,000
	1,76,00,000	98,00,000	51,00,000	1,48,00,000

Balance in General Reserve Account and Profit & Loss Account, when shares were purchased in different companies were:

	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
General Reserve Account	20,00,000	4,00,000	2,00,000	12,00,000
Profit & Loss Account	12,00,000	4,00,000	1,00,000	1,20,000

Required:

Prepare the consolidated Balance Sheet of the group as at 31st December, 2012 (Calculations may be rounded off to the nearest rupee). [15]

Question No. 4: Answer to Question No. 4(a) is Compulsory. Also answer any two from the remaining sub-questions.

(a) List the specific commercial advantages included in Triple Bottom Line Reporting. [5]

(b) Aro Ltd. furnishes the following Profit and Loss Account-

Profit and Loss Account for the year ended 31st March 2014

Particulars	Notes	₹(000)
INCOME:		
Turnover	1	29,872
Other Income		1,042
Sub-Total		30,914
EXPENDITURE:		
Operating Expenses	2	26,741
Interest on 8% Debentures		987
Interest on Cash Credit	3	151
Excise Duty		1,952
Sub-Total		29,831
Profit before Depreciation		1,083
Less: Depreciation		(342)
Profit before tax		741
Less: Provision for tax	4	(376)
Profit after tax		365
Less: Transfer to fixed assets replacement reserve		(65)

Profit available for distribution		300
Less: Dividend Paid		(125)
Retained Profit		175

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

Prepare value added statement for the year ended 31st March 2014 and reconcile total value added with profit before taxation. [10]

(c) Drimid Investment Ltd. deals in equity derivatives. Their current portfolio comprises of the following instruments:
Infosys ₹ 5600 Call Expiry June 2014 2,000 unit bought at ₹ 197 each (cost)
Infosys ₹ 5700 Call Expiry June 2014 3,600 unit bought at ₹ 131 each (cost)
Infosys ₹ 5400 Put Expiry June 2014 4,000 unit bought at ₹ 81 each (cost)
What will the profit or loss to Drimid Investments Ltd. in the following situations?
i. Infosys closes on the expiry day at ₹ 6,041
ii. Infosys closes on the expiry day at ₹ 5,812
iii. Infosys closes on the expiry day at ₹ 5,085 [10]

(d) Vedan Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31-03-2012. Few machines were sold on hire purchase basis. The hire purchase price was set as ₹ 100 lakhs as against the cash price of ₹ 80 lakhs. The amount was payable as ₹ 20 lakhs down payment and balance in 5 equal installments. The hire vendor collected first installment as on 31-03-2013, but could not collect the second installment which was due on 31-03-2014. The company was finalising accounts for the year ending 31-03-2014. Till 15-05-2014, the date on which the Board of Directors signed the accounts, the second installment was not collected. Presume IRR to be 10.42%.

Required;
(i) What should be the principal outstanding on 1-4-2013? Should the company recognize finance charge for the year 2013-14 as income?
(ii) What should be the net book value of assets as on 31-03-14 so far Vedan Ltd. is concerned as per NBFC prudential norms requirement for provisioning?
(iii) What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI? [10]

Question No. 5 (Answer any three):

(a) List the functions of the Public Accounts Committee. [5]
(b) Write a note on Consolidated Fund of India. [5]
(c) Describe Audit Boards set up under the supervision and control of the CAG. [5]
(d) "The Secretariat of GASAB is constituted by officers of various Accounts and Finance streams belonging to Civil Services". List them. [5]