Paper – 18: Corporate Financial Reporting

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL C	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identity	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
		Decide	To solve or conclude
	EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify
		Evaluate	Appraise or asses the value of
		Recommend	Propose a course of action

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) PP Private Limited has taken machinery on lease from RR Ltd. The information is as under:

Lease term = 4 years
Fair value at inception of lease = ₹ 20,00,000
Lease rent = ₹ 6,25,000 p.a. at the end of year
Guaranteed residual value = ₹ 1,25,000
Expected residual value = ₹ 3,75,000
Implicit interest rate = 15%
Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575, 0.5718 respectively. Calculate the value of lease liability as per AS-19. [5]

(b) Best Ltd. is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2012, 2013 and 2014 for ₹11,00,000, ₹16,00,000 and ₹21,00,000 respectively. However, for income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of ₹7,00,000, ₹18,00,000 and ₹23,00,000 for the years 2012, 2013 and 2014 respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/liability for the years 2012, 2013 and 2014. [5]

Answer:

1. (a)

According to para 11 of AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee.

Present value of minimum lease payments will be calculated as follows:

Years ₹	Minimum Lease Payment (Discount rate @5%)	Internal rate of return ₹	Present value
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	7,50,000*	0.5718	4,28,850

* Minimum Lease Payment of 4th year includes guaranteed residual value amounting ₹1,25,000.

Total	26,25,000	18,55,850

Present value of minimum lease payments ₹18,55,850 is less than fair value at the inception of lease i.e. ₹20,00,000, therefore, the lease liability should be recognized at ₹18,55,850 as per AS 19.

1. (b)

Best Ltd.

Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Net Deferred Tax Liability(balance)
2012	11,00,000	7,00,000	4,00,000	1,40,000
2013	16,00,000	18,00,000	2,00,000	(70,000)
2014	21,00,000	23,00,000	2,00,000	(70,000)
	48,00,000	48,00,000		NIL

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

2. (a) The Balance Sheet of Arjuna Ltd. as on 31st December is given below–

Equity and Liabilities	₹	Assets	₹
(1) Shareholders' Funds:		(1) Non-Current Assets:	
Share Capital		Fixed Assets	50,00,000
(i) Equity Shares of ₹10 each	50,50,000	(2) Current Assets:	
(ii) 8% Preference Shares of ₹10 each	9,50,000	(a) Inventories	20,00,000
(2) Non-Current Liabilities:		(b) Trade Receivables –Debtors	10,00,000
Long-Term Borrowings		(c) Cash & Cash Equivalents	5,00,000
– 12% Debentures	15,00,000		
(3) Current Liabilities:			
Sundry Creditors and Other Current Liabilities	10,00,000		
Total	**85,00,000**	**Total**	**85,00,000**

Sarthi Ltd. agrees to take over Arjuna Ltd. by issuing two Preference Shares of ₹10 each for every Preference Shares held by the Shareholders of Arjuna Ltd. and requisite number of Equity Shares of ₹10 each at par to discharge the amount of purchase consideration after issuing Preference shares. Purchase Consideration is settled as per Book Value of the assets and current liabilities take nover only the Debentures will be taken over by Sarthi Ltd. on the agreement that these will be paid off at 10% premium after one year. Debenture holders of Arjuna Ltd. will accept 12% Debentures of Sarthi Ltd. Calculate purchase consideration. [5]

Answer:

Purchase Consideration by Net Assets Method

Particulars	₹
Book Value of Assets taken over (i.e. Total of Assets Side)	85,00,000
Less: Liabilities taken over: Debentures @ 10% Premium (15 Lakhs + 10% of 15 Lakhs)	(16,50,000)
Sundry Creditors & Other Liabilities	(10,00,000)
Net Purchase Consideration	**58,50,000**

This purchase consideration shall be discharged by 8% Preference Shares and Equity Shares of Sarthi Ltd. (Issue of Debentures to the Debenture holders of Arjuna Ltd. shall not be included in Purchase Consideration).

Number of Shares to be issued is computed as under –

A. Preference Shares to be issued (₹9,50,000/100)×2 =1,90,000 Shares

Balance of Purchase Consideration = ₹58,50,000 – ₹19,00,000 = ₹39,50,000

B. Equity Shares to be issued $= \frac{₹\ 39,50,000}{₹\ 10}$ = 3,95,000 Shares.

2. (b) A Ltd. and B Ltd. were amalgamated on and from 1st April, 2014. A new company C Ltd. was formed to take over the business of the existing companies.

The Balance Sheets of A Ltd. and B Ltd., as on 31st March, 2014 are given below:

(₹ in lakhs)

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Shareholders' Funds:			**Non-Current Assets:**		
Share Capital			**Fixed Assets**		
Equity shares of ₹100 each	**800**	**750**	**Land and Building**	**550**	**400**
12% Preference shares of ₹100 each	**300**	**200**	**Plant and Machinery**	**350**	**250**
Reserves and Surplus			**Non-current Investments**		
Revaluation Reserve	**150**	**100**	**Investments**	**150**	**50**
General Reserve	**170**	**150**			
Investment Allowance Reserve	**50**	**50**	**Current Assets:**		
Profit & Loss Account	**50**	**30**	**Stock**	**350**	**250**
Non-Current Liabilities:			**Sundry Debtors**	**250**	**300**
10% Debentures (₹100 each)	**60**	**30**	**Bills Receivable**	**50**	**50**
Current Liabilities:			**Cash and Bank**	**300**	**200**
Sundry Creditors	**270**	**120**			
Bills Payable	**150**	**70**			
Total	**2,000**	**1,500**	**Total**	**2,000**	**1,500**

Additional Information:

A. 10% Debentureholders of A Ltd., and B Ltd., are discharged by C Ltd., issuing such number of its 15% Debentures of ₹100 each, so as to maintain the same amount of interest.

B. Preference shareholders of the two companies are issued equivalent number of 15% Preference shares of C Ltd., at a price of ₹150 per share (face value of ₹100).

C. C Ltd., will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each share of B Ltd. The shares are to be issued @ ₹30 each, having a face value of ₹10 per share.

D. Investment allowance reserve to be maintained for 4 more years.

Compute the purchase consideration and the way to discharge the debentures by C Ltd. [10]

Answer:

A. Computation of Purchase Consideration

(₹ in lakhs)

Particulars	A Ltd.	B Ltd.
(a) Preference Shareholders		
(3,00,00,000 ÷100) i.e. 3,00,000 Shares × ₹150 each	450	
(2,00,00,000÷100) i.e. 2,00,000 Shares × ₹150 each		300
(b) Equity Shareholders:	1,200	
[(8,00,00,000÷100) × 5] i.e. 40,00,000 Shares × ₹ 30 each		900
[(7,50,00,000÷100) × 4] i.e. 30,00,000 Shares × ₹ 30 each		
Amount of purchase consideration	1,650	1,200

B. Net Assets taken over

(₹ in lakhs)

	A Ltd.		B Ltd.	
Assets takenover:				
Land and Building		550		400
Plant and Machinery		350		250
Investments		150		50
Stock		350		250
Sundry Debtors		250		300
Bills Receivable		50		50
Cash and Bank		300		200
		2,000		1,500
Less: Liabilities taken over				
Sundry Creditors	40		20	
Bills Payable	270		120	
Net Assets taken over	150	(460)	70	(210)
		1,540		1,290

C. Goodwill/Capital Reserve

(₹ in lakhs)

	A Ltd.	B Ltd.
Purchase Consideration	1,650	1,200
Less: Net Assets taken over	(1,540)	(1,290)
Goodwill	110	-
Capital Reserve	-	(90)
Net Goodwill 110 – 90 = 20		

D. Share Capital/Securities Premium

(₹ in lakhs)

	Share Capital		Securities
	Equity	Preference	Premium
A Ltd.			
Equity shares (8,00,000 shares ×5 × ₹10)	400		
Securities premium (8,00,000 shares ×5 × ₹20)			800
Preference shares (3,00,000 shares × ₹100)		300	
Securities premium (3,00,000 shares × ₹50)			150
B Ltd.			
Equity shares (7,50,000 shares ×4 × ₹10)	300		
Securities premium (7,50,000 shares × 4 × ₹20)			600
Preference shares (2,00,000 shares × ₹100)		200	
Securities premium (2,00,000 shares × ₹50)			100
	700	500	1,650

E. Debentures

(₹ in lakhs)

	A Ltd.	B Ltd.
Interest on debentures @ 10% = 60 × 10% = 6 Number of 15% debenture to maintain same amount to interest $\left(\frac{6}{15}\times 100\right)$	40	
Interest on debentures @ 10% = 30 × 10% = 3 Number of 15% debentures to maintain same amount of interest $\left(\frac{3}{15}\times 100\right)$		20

2. (c) The following are the Balance Sheets of AA Ltd. and BB Ltd., as at 31.12.2014:

AA Ltd.

(₹'000)

Liabilities	₹	Assets	₹
Shareholders' Funds:		**Non-Current Assets:**	
Share Capital		Fixed Assets	3,400
3,00,000 Equity shares of ₹10 each	3,000		
1,000 Preference shares of ₹100 each	1,000	Current Assets:	
Reserves and Surplus		Stock (pledged with secured loan creditors)	18,400
General Reserve	400		
Profit & Loss Account	(16,600)	Other Current Assets	3,600
Non-Current Liabilities:			
Secured Loan (secured against pledge of stock)	16,000		
Current Liabilities:			
Unsecured Loans	8,600		
Other Current Liabilities	13,000		
Total	42,000	Total	42,000

BB Ltd.

(₹'000)

Liabilities	₹	Assets	₹
Shareholders' Funds:		**Non-Current Assets:**	
Share Capital		Fixed Assets	6,800
10,00,000 Equity shares of ₹10 each	10,000		
Reserves and Surplus		Current Assets:	
General Reserve	2,800	Other Current Assets	9,600
Non-Current Liabilities:			
Secured Loan	8,000		
Current Liabilities:			
Other Current Liabilities	4,600		
Total	16,400	Total	16,400

Both the companies go into liquidation and CC Ltd., is formed to take over their businesses. The following information is given:

(i) All Current assets of two companies, except pledged stock are taken over by CC Ltd. The realizable value of all Current assets are 80% of book values in case of AA Ltd. and 70% for BB Ltd. Fixed assets are taken over at book value.

(ii) The breakup of Current liabilities is as follows:

	AA Ltd.	BB Ltd.
	₹	₹

Statutory liabilities (including ₹ 22 lakhs in case of AA Ltd. in case of a claim not having been Admitted shown as contingent liability)	**72,00,000**	**10,00,000**
Liabilities to employees	**30,00,000**	**18,00,000**

The balance of Current liability is miscellaneous creditors.

(iii) Secured loans include ₹16,00,000 accrued interest in case of BB Ltd.

(iv) 2,00,000 equity shares of ₹10 each are allotted by CC Ltd. at par against cash payment of entire face value to the shareholders of AA Ltd. and BB Ltd. in the ratio of shares held by them in AA Ltd. and BB Ltd.

(v) Preference shareholders are issued Equity shares worth ₹2,00,000 in lieu of present holdings.

(vi) Secured loan creditors agree to continue the balance amount of their loans to CC Ltd. after adjusting value of pledged security in case of AA Ltd. and after waiving 50% of interest due in the case of BB Ltd.

(vii) Unsecured loans are taken over by CC Ltd. at 25% of Loan amounts.

(viii) Employees are issued fully paid Equity shares in CC Ltd. in full settlement of their dues.

(ix) Statutory liabilities are taken over by CC Ltd. at full values and miscellaneous creditors are taken over at 80% of book value.

Compute the goodwill/capital reserve that will arise as a result of this takeover and the number of equity shares to be issued by CC Ltd. [10]

Answer:

A. Value of miscellaneous creditors taken over by CC Ltd.

(in ₹ '000s)

	AALtd. ₹	BBLtd. ₹
Other Current liabilities(Given in balance sheet)	13,000	4,600
Less : Statutory liabilities	5,000	1,000
Liabilities to employees	3,000	1,800
Miscellaneous creditors	5,000	1,800
80% thereof	4,000	1,440

B. Value of total liabilities taken over by CC Ltd.

	AA Ltd. ₹	₹	BB Ltd. ₹	₹
Current liabilities				
Statutory liabilities	7,200		1,000	
Liabilities to employees	3,000		1,800	
Miscellaneous creditors	4,000	14,200	1,440	4,240
Secured loans				
(given in Balance sheet)	16,000		8,000	
Interest waived	-		800	7,200

As value of stock	14,720		
(80% of ₹ 184 lakhs)		1,280	
Unsecured Loans			
(25% of ₹86 lakhs)		2,150	-
		17,630	11,440

C. Assets taken over by CC Ltd.

	AA Ltd. ₹	B Ltd. ₹
Fixed Assets (Assumed on book value basis)	3,400	6,800
Current Assets 80% and 70% respectively of book value	2,880	6,720
	6,280	13,520

D. Goodwill / Capital Reserve on amalgamation

Liabilities taken over		17,630	11,440
Equity shares to be issued to Preference Shareholders		200	-
	A	17,830	11,440
Less: total assets taken over	B	6,280	13,520
	A-B	11,550	(2,080)
		Goodwill	Capital Reserve
		Not Goodwill	9,470

E. Equity shares issued by CC Ltd.

			Number
(i)	For Cash		2,00,000
	For consideration other than cash		
(ii)	In Discharge of Liabilities to Employees	4,80,000	
(iii)	To Preference shareholders	20,000	5,00,000
			7,00,000

2. (d) Move Around Ltd. has two divisions – 'Inland' and 'International'. The Balance Sheet (draft) as at 31st December was as under - (₹ Crores)

Particulars		Inland	International	Total
Fixed Assets:	**Cost**	**600**	**600**	**1,200**
	Less: Depreciation	**500**	**200**	**700**
	WDV (Written Down Value) [A]	**100**	**400**	**500**
Net Current Assets:	**Current Assets**	**400**	**300**	**700**
	Less: Current Liabilities	**200**	**200**	**400**
	Net Current Assets [B]	**200**	**100**	**300**
	Total [A + B]	**300**	**500**	**800**
Financed by:	**Loan Funds (Secured by a charge on Fixed Assets)**		**100**	**100**
Own Funds:	**Equity Capital (fully paid up *X* 10 Shares)**			**50**
	Reserves and Surplus			**650**

Total	**300**	**500**	**800**

It is decided to form a new Company 'Travel Ltd' for International Tourism to take over the Assets and Liabilities of International Division.

Accordingly Travel Ltd was formed to takeover at Balance Sheet figures, the Assets and Liabilities of International Division. Travel Ltd is to allot 5 Crore Equity Shares of ₹ 10 each in the Company to the members of Move Around Ltd in full settlement of the consideration. The members of Move Around Ltd are therefore to become members of Travel Ltd as well without having to make any further investment.

Requirement:

i. **Pass Journal Entries in relation to the above in the books of Move Around Ltd and also in Travel Ltd.**

ii. **Show the Balance Sheets of Travel Ltd. as on 1st January immediately after the reconstruction.**

iii. **The Directors of both the Companies ask you to find out the Net Asset Value of Equity Shares Pre and Post-Demerger.**

iv. **Comment on the impact of Demerger on "Shareholders Wealth". [10]**

Answer:

1. Journal of Move Around Ltd (₹ Crores)

	Particulars		Debit	Credit
1.	Current Liabilities A/c	Dr.	200	
	Secured Loans A/c	Dr.	100	
	Provision for Depreciation A/c	Dr.	200	
	Loss on Demerger A/c (balancing figure)	Dr.	400	
	To Fixed Assets			600
	To Current Assets			300
	(Being Assets and Liabilities of International Division transferred to Travel Ltd and the consideration being allotment of 1 Equity Share of ₹ 10 each of Travel Ltd at par for every share held in Move Around Ltd)			
2.	Reserves A/c	Dr.	400	
	To Loss on Demerger A/c			400
	(Balance in Loss on Demerger Account adjusted against balance in Reserves A/c)			

(Note: Any other alternative entries, with same net effect on Various Accounts, may be given)

2. Books of Travel Ltd (₹ Crores)

	Particulars		Debit	Credit
	Fixed Assets A/c	Dr.	600	
	Current Assets A/c	Dr.	300	
	To Current Liabilities A/c			200
	To Secured Loans			100
	To Provision for Depreciation			200
	To Equity Share Capital			50
	To Capital Reserve (balancing figure)			350

	(Being the Assets and Liabilities of International division of Move Around Ltd taken over by Travel Ltd and allotment of 5 Crore Equity Shares of ₹10 each at par as fully paid up to the Members of Move Around Ltd)		

3. Balance Sheet of Travel Ltd as on 1st January after Demerger **(₹ Crores)**

	Particulars as at 31st March	Note	This Year	Prev. Year
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	**1**	**50**	
	(b) Reserves & Surplus - Capital Reserve		350	
(2)	**Non-Current Liabilities:** Long Term Borrowings (Secured)		100	
(3)	**Current Liabilities**		200	
	Total		**700**	
II	**ASSETS**			
(1)	**Non-Current Assets:** Tangible Fixed Assets	**2**	400	
(2)	**Current Assets**		300	
	Total		**700**	

Notes to the Balance Sheet (₹ Crores) **Note 1: Share Capital**

Particulars	This Year	Prev. Year
Authorised: ....Equity Shares of ₹10 each		
Issued, Subscribed & Paid up: 5 Crore Equity Shares of ₹10 each	50	
Total	**50**	

Note 2: Tangible Assets

Particulars	This Year	Prev. Year
Gross Block **Less:** Depreciation	600 200	
Total	**400**	

4. Net Asset Value of Equity Shares

Particulars	Travel and Tours Ltd	Travel Ltd.	Total NAV per Share
Before Demerger	$\frac{₹\ 50\text{ Cr} + ₹\ 650\text{ Cr}}{5\text{ Cr Share}}$ = ₹140 per Share	Not Applicable	₹ 140
After Demerger	$\frac{₹\ 50\text{ Cr} + ₹\ (650-400)\ 250\text{ Cr}}{5\text{ Cr Share}}$ = ₹60 per Share	$\frac{₹\ 50\text{ Cr} + ₹\ 350\text{ Cr}}{5\text{ Cr Share}}$ = ₹ 80 per Share	₹ 140

5. Impact on Shareholder's Wealth

A. Demerger into two companies has no impact on Shareholder's Wealth based on Net Asset Value.

B. The Pre-Demerger value of Shareholding was ₹140 per Share and post Demerger, even though the NAV per Share in Travel and Tours Ltd has come down to ₹60, the additional share in Travel World Ltd received without any Cash Outflow has an NAV of ₹80.

C. Therefore, the total of Net Asset Value per Share of a Shareholder does not undergo any change.

D. However post-demerger, where the earning capacity of the businesses undergo a change, profitability, EPS, MPS, PE Ratio are likely to be affected, either favourably or adversely.

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

3. (a) A Ltd. acquired 5,000 Shares of S Ltd. at ₹ 48 per Share Cum-Dividend constituting 62.50% holding in the latter. Immediately after purchase, S Ltd. declared and distributed a dividend at ₹ 4 per Share, which S Ltd. credited to its Profit and Loss Account.

One year later, S Ltd. declared a Bonus of 1 fully paid Equity Share of ₹ 10 each for every 5 Shares held. Later on, S Ltd. proposed to raise funds and made a Rights Issue of 1 Share for 5 held at ₹ 36 per Share. A Ltd. exercised its right.

After some time, at its AGM, S Ltd. had decided to split its Equity Share of ₹ 10 into Two Equity Shares of ₹ 5 each. The necessary resolutions were passed and share certificates issued to all its existing shareholders.

To increase its stake in S Ltd. to 80%, A Ltd. acquired sufficient number of shares at ₹ 30 each.

Ascertain the Cost of Control as on 31st December if S's share in Capital Profits (duly adjusted for purchase in lots) as on that date was ₹ 3,15,000. [10]

Answer:

A. Cost of Investment

	Particulars		Shares	₹
	Cost of First Acquisition	(5,000 x ₹ 48)	5,000	2,40,000
Less:	Pre-Acquisition Dividend	(5,000 × ₹ 4 per Share)	N.A.	(20,000)
	Corrected Cost of Investment		5,000	2,20,000
Add:	Bonus Shares	(1/5 × 5,000 Shares)	1,000	–
	Cost after Bonus Shares		6,000	2,20,000
Add:	Rights Shares	(1/5 x 6,000 Shares x ₹ 36)	1,200	43,200
	Cost after Rights Issue before Share Split		**7,200**	**2,63,200**
	Cost after share split (WN)	(2 Sh. for 1 for 7,200 Sh = 7,200 x 2)	14,400	2,63,200
Add:	Acquisition to increase holding to 80% (WN)	(4,032 x ₹ 30)	4,032	1,20,960
	Balance on date of Consolidation		**18,432**	**3,84,160**

Notes:

- **Share Split:** In case of Share Split, the Cost of Acquisition will not undergo any change. Only the number of Equity Shares and the face value will change. This is similar to adjustment for Bonus Issue. However, for Bonus Issue, the face value and paid up value of the share will be the same as the original share. In share split, the face value and paid up value will be lesser than that of the original shares.

- **Calculation of Number of Shares to be acquired to increase stake to 80%**

Particulars			Shares
a. Shares held before acquisition			14,400
b. % of holding			62.5%
c. Hence, Total Number of Shares of S Ltd.	(a ÷ b)	= (14,400 ÷ 62.50%)	23,040
d. 80% of above	(c x 80%)	= (23,040 x 80%)	18,432
e. Number of Shares to be acquired	(d - a)	= (18,432 - 14,400)	4,032

2. Cost of Control

Particulars		₹
Cost of Investment	**(A)** (from 1 above)	**3,84,160**
Nominal Value of Equity Capital	(18,432 x ₹ 5 per Share)	92,160
Share in Capital Profit		3,15,000
Total of Above	**(B)**	**4,07,160**
Capital Reserve (if B < A)	**(B-A)**	23,000

3. (b) Earth Ltd., a listed company, entered into an expansion programme on 1st October, 2014. On that date the company purchased from Big Ltd. its investments in two Private Limited Companies. The purchase was of

(a) the entire share capital of Good Ltd.

and

(b) 50% of the share capital of Better Ltd.

Both the investments were previously owned by Big Ltd. After acquisition by Earth Limited, Better Ltd. was to be run by Earth Ltd. and Big Ltd. as a jointly controlled entity.

Earth Ltd. makes its financial statements upto 30th September each year. The terms of acquisition were:

Good Ltd.

The total consideration was based on price earnings ratio (P/E) of 12 applied to the reported profit of ₹ 20 lakhs of Good Ltd. for the year 30 September, 2013. The consideration was settled by Earth Ltd. issuing 8% debentures for ₹ 140 lakhs (at par) and the balance by a new issue of ₹ 1 equity shares, based on its market value of ₹2.50 each.

Better Ltd.

The market value of Better Ltd. on first October, 2013 was mutually agreed as ₹375 lakhs. Earth Ltd. satisfied its share of 50% of this amount by issuing 75 lakhs ₹1 equity shares (market valued 2.50 Each) to Big Ltd.

Earth Ltd. has not recorded in its books the acquisition of the above investments or the discharge of the consideration.

The summarized statements of financial position of the three entities at 30th September, 2014 are:

₹ in thousands

	Earth Ltd.	Good Ltd.	Better Ltd.
Assets			
Tangible Assets	**34,260**	**27,000**	**21,060**

Inventories	9,640	7,200	18,640
Debtors	11,200	5,060	4,620
Cash	-	3,410	40
	55,100	42,670	44,360
Liabilities			
Equity capital:			
₹ 1 Each	10,000	20,000	25,000
Retained earnings	20,800	15,000	4,500
Trade and other payables	17,120	5,270	14,100
Overdraft	1,540	-	-
Provision for taxes	5,640	2,400	760
	55,100	42,670	44,360

The following information is relevant.

(a) The book values of the net assets of Good Lid. and Better Ltd. on the date of acquisition were considered to be a reasonable approximation to their fair values.

(b) The current profits of Good Ltd. and Better Ltd. for the year ended 30th September, 2014 were ₹80 lakhs and ₹20 lakhs respectively. No dividends were paid by any of the companies during the year.

(c) Better Ltd., the jointly controlled entity, is to be accounted for using proportional consolidation, in accordance with AS-27 "Interests in joint venture".

(d) Goodwill in respect of the acquisition of Better Ltd. has been impaired by ₹10 lakhs at 30th September, 2014. Gain on acquisition, if any, will be separately accounted.

Prepare the consolidated Balance Sheet of Earth Ltd. and its subsidiaries as at 30th September, 2014. [15]

Answer:

Consolidated Balance Sheet of Earth Ltd.
with its Subsidiary Good Ltd. and Jointly controlled Better Ltd.
as on 30th September, 2014

	Particulars as at 31st March	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds**:			
	(a) Share Capital	**1**	21,500	
	(b) Reserves & Surplus	**2**	49,050	
(2)	**Non-Current Liabilities:** 8% Debentures		14,000	
(3)	**Current Liabilities**			
	(a) Trade Payables – (17,120+5,270+7,050)		29,440	
	(b) Other Current Liabilities – Bank overdraft		1,540	
	(c) Short term Provisions - Provision for Taxes (5,640+2,400+380)		8,420	
	Total		**1,23,950**	
II	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Fixed Assets: (i) Tangible Assets (34,260+27,000+10,530)		71,790	
	(ii) Intangible Assets - Goodwill		4,000	

(2)	**Current Assets** (a) Inventories - (9,640+7,200+9,320) (b) Trade receivables - Debtors (11,200+5,060+2,310) (c) Cash and Cash Equivalents - cash (3,410+20)		 26,160 18,570 3,430	
	Total		**1,23,950**	

Notes to the Balance Sheet

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: ....Equity Shares of ₹ 10 each		
Issued, Subscribed & Paid up: Equity Shares of ₹ 1 each	21,500	
Total	**21,500**	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Retained Earning	28,800	
(b) Capital Reserve	3,000	
(b) Securities Premium	17,250	
Total	**49,050**	

Working Notes:

A. Purchase consideration paid to Good Ltd.

Earnings per share for the year 30th September, 2013

$= \frac{20,00,000}{2,00,00,000}$ = ₹ 0.10 per share

Market price per share = ₹ 0.10 x 12 (i.e. P/E ratio) = ₹ 1.20 per share

Purchase consideration = ₹ 1.20 x 2,00,00,000 shares = ₹ 2,40,00,000

Purchase consideration to be paid as under:

8% Debentures	₹ 1,40,00,000
Equity Shares (40,00,000 shares of @₹ 2.50 each)	₹ 1,00,00,000
	₹ 2,40,00,000

Purchase consideration paid to Good Ltd. will be ₹ 24,000 thousands.

B. Consideration paid to Better Ltd.

	₹ in thousands
Total market value (as given)	37,500

50% Shares acquired by Earth Ltd. (75,00,000 shares @ ₹2.50 each) 18,750

C. Analysis of retained earnings of Good Ltd. as on 30.9.2014

	₹ in thousands
Retained earnings given in balance sheet on 30.9.14	15,000
Less: Current profits for the year ended 30.9.14 (Post acquisition)	8,000
Pre acquisition retained earnings	7,000

Earth Ltd. has 100% share in pre and post acquisition profits of Good Ltd.

D. Retained Earnings in the Consolidated Balance Sheet

	₹ in thousands
Balance in Earth Ltd. balance sheet	20,800
Add: Share in post acquisition profits of Good Ltd.	8,000
Add: Share in post acquisition profits of Better Ltd. (Joint venture @50%)	1,000
	29,800
Less: Goodwill (written off)	1,000
	28,800

E. Capital Reserve

			₹ in thousands
Amount Paid			24,000
Less:	Paid up value of shares	20,000	
	Pre-acquisition profit	7,000	27,000
Capital Reserve			3,000

F. Goodwill

	₹ in thousands
Amount paid for shares of Better Ltd (₹ 37,500 x 50%)	18,750
Less: Paid up value of shares (₹ 25,000 x 50%)	12,500
Pre-acquisition profit (₹ 2,500 x 50%)	1,250
Goodwill	5,000
Less: Impairment (Written off)	1,000
	4,000

3. (c) Balance Sheets of 3 Companies Arun, Balu, and Chand as at 31.12.2014 is given below –

Equity & Liabilities	P (₹)	Q (₹)	R (₹)	Assets	P (₹)	Q (₹)	R (₹)
(1) Shareholders' Funds:				(1) Non-Current Assets:			
(a) Share Capital	2,50,000	2,00,000	1,20,000	(a) Fixed Assets -			
(b) Reserves & Surplus				(i)Tangible	56,000	1,10,000	75,000
(i) Reserves	36,000	20,000	14,400	(b) Non-Current Invt			
(ii) Profit & Loss A/c	32,000	4,000	10,200	- In Sh of Q	1,70,000	-	-
(2) Current Liabilities:				- In Sh of R	36,000	1,06,000	-
Short Term Borrowings				(2) Current Assets:			
- R	6,600	-	-	(a) Inventories	24,000	-	-
-P	-	14,000	-	(b) Trade Receivables			
Trade Payables				- Sundry Debtors	36,600	32,000	63,000
- Sundry Creditors	14,000	10,000	-	(c) Short Term Loans & Adv.			
				-Q	16,000	-	-
				-P	-	-	6,600
Total	3,38,600	2,48,000	1,44,600	Total	3,38,600	2,48,000	1,44,600

Additional Information:

i. **Share Capital of all the Companies is divided into Shares of ₹ 100 each.**

ii. **P held 1,500 Shares of Q and 300 Shares of R. Q held 800 Shares of R.**

iii. **All Investments were made on 30.06.2014.**

iv. **On 01.01.2014, Q's books showed a Reserves Balance of ₹18,000 and Profit & Loss Account stood at ₹2,000 (Cr.). On the same date, books of R reflected the following balances: Reserves - ₹ 12,000, and P&L A/c - ₹ 1,680 (Cr.).**

v. **Dividends have not been declared by any Company during the year, nor are any proposed.**

vi. **Q sold goods costing ₹ 8,000 to P at the price of ₹ 8,800. These goods were still unsold on 31.12.2014.**

vii. **P remitted ₹ 2,000 to Q on 30.12.2014, but the same was not received by Q as at the Balance Sheet date.**

Prepare Consolidated Balance Sheet of the Group. [15]

Answer:

A. Basic Information

Company Status	Dates	Holding Status		
Holding Company = P	Acquisition: 30.06.2014		Q	R
Subsidiary = Q	Consolidation: 31.12.2014	(a) Holding Co.	(P) 75%	(P) 25%
Sub-Subsidiary = R			—	(Q) 66.67%
		(b) Minority Int.	25%	8.33%

Note: Shareholding Pattern is as under -

Company	Held by P	Held by Q	Total Holdings	Minority Interest	Total No. of Shares
Q	1,500 (75%)	N.A.	1,500 (75.00%)	500 (25.00%)	2,000 (100%)
R	300 (25%)	800 (66.67%)	1,100 (91.67%)	100 (8.33%)	1,200 (100%)

B. Analysis of Reserves and Surplus of Subsidiary Companies

(a) General Reserve

Q	R
On B/s date ₹ 20,000	On B/s date ₹ 14,400
1.1.14 ₹**18,000** Prev B/s **Capital**; Tfr in 2014 ₹**2,000**	1.1.14 ₹**12,000** Prev B/s **Capital**; Tfr in 2014 ₹**2,400**
1.1.14 to DOA ₹**1,000** **Capital**; DOA to DOC ₹**1,000** **Revenue**	1.1.14 to DOA ₹**1,200** **Capital**; DOA to DOC ₹**1,200** **Revenue**
Capital Profit– ₹**19,000**, Revenue Reserve –₹**1,000**	Capital Profit– ₹**13,200**, Revenue Reserve –₹**1,200**

(b) Profit & Loss Account

Q	R
On B/s date ₹ 4,000	On B/s date ₹ 10,200
1.1.14 ₹**2,000** Prev B/s **Capital**; Tfr in 2014 ₹**2,000**	1.1.14 ₹**1,680** Prev B/s **Capital**; Tfr in 2014 ₹**8,520**
1.1.14 to DOA ₹**1,000** **Capital**; DOA to DOC ₹**1,000** **Revenue**	1.1.14 to DOA ₹**4,260** **Capital**; DOA to DOC ₹**4,260** **Revenue**
Capital Profit– ₹**3,000**, Revenue Reserve –₹**1,000**	Capital Profit– ₹**5,940**, Revenue Reserve –₹**4,260**

Note: It has been assumed that the Profits arose evenly throughout the year.

C. Consolidation of Balances

Particulars	Total	Minority Interest	Pre-Acqn.	Post Acquisition	
R Ltd (Holding - 91.67% Minority - 8.33%)				Reserves	P&L
Equity Capital	1,20,000	10,000	1,10,000		
Reserves	14,400	1,200	12,100	1,100	
P&L A/c	10,200	850	5,445		3,905
Sub-Total	**1,44,600**	**12,050**	**1,27,545**	**1,100**	**3,905**

Q Ltd (Holding - 75%, Minority - 25%)					
Equity Capital	2,00,000	50,000	1,50,000		
Reserves	20,000	5,000	14,250	750	
P&L A/c	4,000	1,000	2,250		750
Stock Reserve (8,800 - 8,000) [Downstream]	(800)	(200)			(600)
Share in Post Acquisition Reserves of R Ltd					
(1,100 x Q's Share $\frac{66.67\%}{91.67\%}$ x 25%)		200		(200)	
(3,905 x Q's Share $\frac{66.67\%}{91.67\%}$ x 25%)		710			(710)
Sub Total		**56,710**	**1,66,500**	**550**	**(560)**
Total [Cr]		68,760	2,94,045	1,650	3,345
Cost of Investment [Dr.] 1,70,000+36,000+1,06,000)			(3,12,000)		
Parent's Balances				36,000	32,000
For Consolidated Balance Sheet [Direct Method]		**68,760**	**(17,955)**	**37,650**	**35,345**

Note:

i. Q's Share in Pre-Acquisition Reserve of R Ltd = 12,100 + 5,445 = 17,545

ii. Stock Reserve, i.e. Unrealized Profits on Closing Stock have been eliminated to the extent of Holding Company's Share in P&L and balance in Minority Interest.

D. Consolidated Balance Sheet of P and its subsidiaries Q and R as at 31.12.2014

	Particulars	WN	Direct	
			This Year	Prev. Yr
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital: 2,500 Equity Shares of ₹100 each		2,50,000	
	(b) Reserves & Surplus (37,650 + 35,345)		72,995	
	Minority Interest		68,760	
(2)	**Current Liabilities**			
(3)	Trade Payables - Creditors (14,000 + 10,000)		24,000	
	Total		**4,15,755**	
II	ASSETS			
(1)	Non-Current Assets			
	Fixed Assets (i) Tangible Assets (56 + 110 + 75)		2,41,000	
	(ii) Intangible Assets - Goodwill on Cons.		17,955	
	Current Assets			
(2)	(a) Inventories = 24,000 - 800 Stock Reserve		23,200	
	(b) Trade Receivables (A 36,600+B 32,000+C 63,000)		1,31,600	
	(c) Cash and Cash Equivalents - Cheque in Transit		2,000	
	Total		**4,15,755**	

Note: Inter Company Owings have been eliminated in full.

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

4. (a) Investors Mutual Fund is registered with SEBI and having its registered office at Pune. The fund is in the process of finalizing the annual statement of accounts of one of its open ended mutual fund schemes. From the information furnished below you are required to prepare a statement showing the movement of unit holders' funds for the financial year ended 31st March, 2014.

Particulars	**₹ '000**
Opening Balance of Net Assets	**12,50,000**
Net Income for the Year (Audited)	**85,000**
8,50,200 units issued during 2013-2014	**96,500**
7,52,300 units redeemed during 2013-2014	**71,320**
The Par value per unit is ₹ 100	

[5]

Answer:

Statement showing the Movement of Unit Holders' Funds for the year ended 31st March 2014

	Particulars	**₹ '000**
	Opening Balance of Net Assets	12,50,000
Add:	Par value of units issued (8,50,200 x ₹100)	85,020
	Net Income for the year	85,000
	Transfer from Reserve / Equalization fund (W.N)	15,390
		14,35,410
Less:	Par Value of units redeemed (7,52,300 x ₹ 100)	(75,230)
Closing balance of Net Assets (as on 31st March, 2014)		**13,60,180**

Working Note:

Particulars	**Issued**	**Redeemed**
No of units	8,50,200 Units	7,52,300 Units
Par value	85,020	75,230
Issue Proceeds / Redemption value	96,500	71,320
Profit transferred to Reserve / Equalization Fund	11,480	3,910
Balance in Reserve/Equalization Fund (Issued and Redeemed)	**15,390**	

4. (b) Prepare a value added statement for the year ended on 31.03.2014 and reconciliation of total value added with profit before taxation, from the profit and loss account of Flower Ltd. for the year ended on 31-03-2014.

Income	**(₹ in lakhs)**

Sales	**254.00**
Other income	**6.00**
Total	**260.00**
Expenditure:	
Operating cost	**222.00**
Excise duty	**11.20**
Interest on bank overdraft	**1.00**
Interest on 9% debentures	**15.00**
	249.20
Profit before depreciation	**10.80**
Depreciation	**4.10**
Profit before tax	**6.70**
Provision for tax	**2.40**
Profit after tax	**4.30**
Proposed dividend	**0.30**
Retained profit	**4.00**

The following additional information are given:

(i) Sales represents net sales after adjusting discounts, returns and sales tax.

(ii) Operating cost includes ₹82.00 lakhs as wages, salaries and other benefits to employees.

(iii) Bank overdraft is temporary. [10]

Answer:

Value Added Statement of Flower Ltd.

		₹ in lakhs
Sales		254.00
Less: Cost of bough in material and services:		
Operating cost (₹ 222.00 lakhs – ₹ 82 lakhs)	140.00	
Excise duty	11.20	
Interest on bank overdraft	1.00	(152.20)
Value added by trading activities		101.80
Add: Other income		6.00
Total Value Added		107.80

Application of value added

		₹ in lakhs	**%**

To pay Employees:			
Wages, salaries and other benefits		82.00	76.07
To pay Government: Corporate tax		2.40	2.23
To pay Providers of Capital:			
Interest on 9% debentures	15.00		
Dividend	0.30	15.30	14.19
To provide for Maintenance and Expansion of the Company			
Depreciation	4.10		
Retained profit	4.00	8.10	7.51
		107.80	100

Reconciliation between Total Value Added and Profit before Taxation:

	₹ in lakhs
Profit before tax	6.70
Add back:	
Depreciation	4.10
Wages, salaries and other benefits	82.00
Interest on debentures	15.00
Total Value Added	**107.80**

4. (c) The following particulars in respect of Stock Options granted by a Company are available.

Grant date	**April 1, 2012**
Number of Employees covered	**500**
Number of Options granted per employee	**100**
Fair Value of Option per share on grant date (₹)	**25**

The Vesting Period shall be determined as below:

i. If the Company earns ₹ 120 Crores or above after taxes in 2012-13, the Options will vest on 31.03.2013.

ii. If condition (a) is not satisfied but the Company earns ₹ 250 Crores or above after taxes in aggregate in 2012-13 and 2013-14, the Options will vest on 31.03.2014.

iii. If conditions i and ii are not satisfied but the Company earns ₹400 Crores or above after taxes in aggregate in 2012-13, 2013-14 and 2014-15, the Options will vest on 31.03.2015.

Position on 31.03.2013	**Position on 31.03.2014**

(a) Company earned ₹ 115 Crores after taxes in 2012-13 (b) Company expects to earn ₹140 Crores in 2013-14 after taxes (c) Expected vesting date: 31.03.2014 (d) No. of employees expected to be entitled to Option = 474	(a) Company earned ₹ 130 Crores after taxes in 2013-14 (b) Company expects to earn ₹ 160 Crores in 2014-15 after taxes (c) Expected vesting date: 31.03.2015 (d) No. of employees expected to be entitled to Option = 465
Position on 31.03.2015 (a) The Company earned ₹ 165 Crores after taxes in 2014-15 (b) No. of employees on whom Option actually vested = 450	

Compute the expenses to recognize in each year. [10]

Answer:

1. Year 2012-13

Profit for the Period	₹ 115 Crores
Therefore, Option will vest on	31.03.2014
Hence, vesting period is	2 Years
Fair Value of Option per share	₹25
Number of Shares actually vested under the Scheme = [474 Employees x 100	47,400
Total Fair Value = 47,400 Shares x ₹ 25	₹ 11,85,000
Value of Option recognized as expense in 2012-2013 = ₹ 11,85,000/2	**₹ 5,92,500**

2. Year 2013-14

Cumulative Profits for 2012-13 and 2013-14 (115 Cores + 130 Crores)	₹ 245 Crores
Therefore, Option will vest on	31.03.2011
Hence, vesting period is	3 Years
Fair Value of Option per share	₹25
Number of Shares expected to vest under the Scheme = 465 Employees x 100 Shares	46,500
Fair Value of Options expected to vest = 46,500 x ₹ 25	₹ 11,62,500
Cumulative value of Option to recognize as expense for Two Years = (11,62,500 / 3 Years) x 2 Years	7,75,000
Less: Value of Option recognized as expense in 2012-13	(5,92,500)
Value of Option recognized as expense in 2013-14	**₹ 1,82,500**

3. Year 2014-15

Fair Value of Option per share	₹25
Number of Shares expected to vest under the Scheme = 450 Employees x 100 Shares	45,000
Total Fair Value of the Options vesting = 45,000 x ₹ 25	₹ 11,25,000
Total Vesting Period	3 Years

Cumulative value of Option to recognize in 12-13,13-14 and 14-15	11,25,000
Less: Value of Option recognized as expense in 12-13 and 13-14	(7,75,000)
Value of Option recognized as expense in 2014-15	**₹ 3,50,000**

4. (d) XYZ Ltd. needs $ 3,00,000 on May 1, 2012 for repayment of loan installment and interest. As on December 1, 2011, it appears to the company that the dollar may be dearer as compared to the exchange rate prevailing on that date, $ 1 = ₹ 53.50. Accordingly, XYZ Ltd. enter into a forward contract with a banker for $ 3,00,000. Assume forward rate as on December 1, 2011 was $ 1 = ₹ 54 as against the spot rate of ₹ 53.50. Assume the spot rate as on 1st May, 2012 is $ 1 = ₹ 54.80. Journalize in the books of XYZ Ltd. [10]

Answer:

Journal Entries in the books of XYZ Co. Ltd.

1.12.2011	Premium on Forward Exchange Contract A/c To SWAP Bank A/c (Being Premium Recognised) [3,00,000 × (54-53.50)] Profit & Loss A/c To Premium on Forward Exchange Contract A/c (Being Premium written off.) [1,50,000 × 122/153]	Dr. Dr.	1,50,000 1,19,608	 1,50,000 1,19,608
1.05.2012	Loan A/c Exchange Difference A/c To Bank (Being Liability settled)	Dr. Dr.	1,60,50,000 3,90,000	 1,64,40,000
1.05.2012	SWAP Bank A/c To Exchange (Being amount of exchange difference transfer)	Dr.	3,90,000	 3,90,000
1.05.2012	Bank A/c To SWAP Bank A/c (Being SWAP settled)	Dr.	2,40,000	 2,40,000
1.05.2012	Profit & Loss A/c To Premium on FEC (Being Premium written off)	Dr.	30,392	 30,392

Question No. 5 (Answer any three):

(a) Write a note on the objectives of Indian Government Accounting Standard 4 (General Purpose Financial Statements of Government). [5]

(b) List the responsibilities of the Government Accounting Standards Advisory Board. [5]

(c) Discuss —

(i) The changes made in the set-up of Public Accounts Committee on 26th January, 1950.

(ii) Procedure of Appointment of Chairman of the Public Accounts Committee. [3+2=5]

(d) Discuss — Public Debt and Other Liabilities of Governments: Disclosure Requirements. [5]

Answer:

(a) The purpose of this Standard is to lay down the principles to be followed in presentation of general purpose financial reports of Governments and to prescribe the minimum requirements relating to structure and contents of financial statements of government prepared under cash basis of accounting.

The statement of receipts and disbursements during the year and information about cash flows of an Entity enable stakeholders to evaluate the likely sources and uses of cash and the ability of an Entity to generate adequate cash in the future. This information also indicates the expenditure priorities of the Entity in the delivery of goods and services as well as the impact of the taxation policies of the Entity. Stakeholders can then assess the sustainability of the Entity's activities (whether future budgetary resources will be sufficient to sustain public services and to meet obligations as they become due) and appraise financial accountability.

All Financial Statements need to be standardized to obtain optimal information, to ensure comparability with the Entity's own financial Statements of previous periods and with those of other entities. The basis and policies of accounting need to be uniform to permit meaningful consolidation to develop Whole of Government Accounts. Desirable attributes need to defined to obtain a basic standard for financial reporting.

To achieve these objectives, this Standard sets out the financial elements for the presentation of financial reports prepared under the cash basis of accounting. It also requires that the selection of accounting policy should ensure certain qualitative characteristics in the information being presented. Desirable attributes of financial reporting are required to heighten their value to the users.

General Purpose Financial Statements (GPFS) essentially consists of Finance Accounts and Appropriation Accounts. The Financial Statements referred to in this standard are the General Purpose Financial Reports (GPFR).

(b) Responsibilities of the Government Accounting Standards Advisory Board:

- To establish and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
- To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
- To keep the standards current and reflect change in the Governmental environment;
- To provide guidance on implementation of standards.
- To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
- To improve the common understanding of the common understanding of the nature and purpose of information contained in the financial reports.

(c) (i) The changes made in the set-up of Public Accounts Committee on 26th January, 1950:

From the inception in the year 1921 till early 1950, the Finance-member was appointed as the Chairman of the Public Accounts Committee and its Secretarial functions were looked after by the Finance Department (later Ministry of Finance).

With the coming into force of the Constitution of India on 26th January, 1950, the Committee became a Parliamentary Committee under the control of Speaker. Its Secretarial functions were transferred to the Parliament Secretariat (now Lok Sabha Secretariat).

(ii) Procedure of Appointment of Chairman of the Public Accounts Committee :

The Chairman of the Committee is appointed by the Speaker from amongst the members of Lok Sabha elected to the Committee. As a convention, starting from the Public Accounts Committee of 1967-68, a member of the Committee belonging to the main opposition party/group in the House is appointed as the Chairman of the Committee.

(d) Introduction:

In terms of Article 292 of the Constitution, the executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by Law. Article 293(1) of the Constitution provides a similar provision in respect of State Governments. Section 48A(1) of the Government of Union Territory Act 1963 and Section 47A(1) of Government of NCT of Delhi Act 1991, also provides for borrowing upon the security of the Consolidated Fund of the Union Territory concerned or Consolidated Fund of the Capital within such limits, if any, as may be fixed by Parliament by law and the stipulations indicated therein.

Objective

The objective of the IGAS is to lay down the principles for identification, measurement and disclosure of public debt and other obligation of Union and the State Governments including Union Territories with legislatures in their respective financial statements. It ensures consistency with international practices for accounting of public debt in order to ensure transparency and disclosure in the financial statements of Government for the benefit of various stake holders.

Scope

The proposed IGAS shall apply to the financial statements prepared by the Union and State Governments and Union Territories with legislature. The IGAS shall also cover "other obligations" as defined in paragraph 4 of this Standard relating to definitions. The IGAS shall not include in its ambit, guarantees and other contingent liabilities and non-binding assurances.