# 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<br><br>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<br><br>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<br><br>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<br><br>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<br><br>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<br><br>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]**

**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 |
| | | (b) Trade Receivables –Debtors | 10,00,000 |
| (2) Non-Current Liabilities: | | (c) Cash & Cash Equivalents | 5,00,000 |
| Long-Term Borrowings – 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]**

**(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]**

**(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]**

**(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]**

**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]**

**(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]**

**(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]**

**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]**

**(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]**

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

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

**(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]**

**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]**