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

Full Marks: 100 **Time allowed-3hrs**

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) P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd.

How would you assess the situation from the viewpoint of AS 18 on Related Party Disclosures? [5]

(b) Non-Current Assets held for Sale and Discontinued Operations – Objectives [5]

Answer:

1. (a)

P Ltd. has direct economic interest in R Ltd to the extent of 14%, and through Q Ltd. in which it is the majority shareholders, it has further control of 12% in R Ltd. (60% of Q Ltd's 20%). These two taken together (14% +12%) make the total control of 26%.

Para 10 of AS 18 'Related Party Disclosures', defines related party as one that has at any time during the reporting period, the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Here, Control is defined as ownership directly or indirectly of more than one-half of the voting power of an enterprise; and *Significant Influence* is defined as participation in the financial and/or operating policy decisions of an enterprise but not control of those policies.

In the present case, control of P Ltd. in R Ltd. directly and through Q Ltd., does not go beyond 26%. However, as per para 12 of AS 18, significant influence may be exercised as an investing party (P Ltd.) holds, directly or indirectly through intermediaries 20% or more of the voting power of the R Ltd. As R Ltd. is a listed company and regularly supplies goods to P Ltd. therefore, related party disclosure, as per AS 18, is required.

1. (b)

The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, the IFRS requires:

(a) Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and

(b) Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income.

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

2.(a) Sun Limited agreed to absorb Moon Limited on 31st March 2012 whose summarized Balance Sheet stood as follows:

Equity and Liabilities	₹	Assets	₹
Shareholders' Funds:		Non-Current Assets:	
Share capital		Fixed Assets	10,50,000
1,20,000 Shares of no each fully paid up	12,00,000		
		Non-current Investments:	
		Investments	-
Reserves & Surplus			
General reserve	1,50,000	Current Assets:	
Non-Current Liabilities:			
Secured Loan	-	Stock in Trade	1,50,000
Unsecured Loan	-	Sundry Debtors	3,00,000
Current Liabilities :			
Sundry Creditors	1,50,000		
	15,00,000		15,00,000

The consideration was agreed to be paid as follows:

(i) A payment in cash of ₹5 per share in Moon Ltd. and

(ii) The issue of shares of ₹10 each in Sun Ltd. on the basis of two equity shares (valued at ₹15) and one 10% cumulative preference share (valued at ₹10) for every five shares held in Moon Ltd.

The whole of the share capital consists of shareholdings in exact multiple of five except the following holding:

P	174	
Q	114	
R	108	
S	42	
Other Individuals	12	(Twelve members holding one share each)

It was agreed that Sun Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in Moon Ltd. i.e. ₹65 for five shares of ₹50 paid.

Prepare a statement showing the determination of fractional shares and no. of equity shares to be issued by Sun Ltd. [5]

Answer:

2. (a) Schedule showing determination of fractional shares

	Holding of shares (A)	Exchangeable in nearest multiple of five (B)	Exchange in equity shares (C) = (B)/5x2	Exchange in Preference shares (D) = (B)/5x1	Non-exchangeable Shars (E)=(A)-(B)
P	174	170	68	34	4

Q	114	110	44	22	4
R	108	105	42	21	3
S	42	40	16	8	2
Other individuals	12	-	-	-	12
	450	425	170	85	25

Shares Exchangeable in Equity Shares of Sun Ltd.

	No. of shares		No. of shares
1,20,000-450 (Total A above)	1,19,550	2/5 there of	47,820
450-25 (Total E Above)	425	2/5 there of	170
	1,19,975		47,990

2. (b) Triloka Ltd. was incorporated to take over Satyalok Ltd, Kailash Ltd and Vaikunth Ltd on the basis of their Balance Sheets as on 31st March subject to the following terms and conditions–

1. **Goodwill is to be valued at 3 years' Purchase of Average Super Profit for three years. Such average is to be calculated after adj.of Depreciation at 10% on the amount of increase/decrease on Revaluation of Fixed Assets. Income Tax is to be ignored.**
2. **Assets are to be revalued.**
3. **Normal Profit on Capital Employed is to be taken at 10%, Capital Employed being considered on the basis of Net Revaluation amounts of Tangible Assets.**
4. **Equity Shares of ₹10 each fully paid up in XYZ Ltd are to be distributed in the ratio of Average Profit after adjustment of Depreciation on Revaluation as stated in (1) above.**
5. **10% Debentures of ₹100 each fully paid-up are to be issued by Triloka Ltd for the balances due.**
6. **Issue of Equity Shares and Debentures for this purpose is to be in the ratio of 3:1.**

The summarised Balance Sheets as at 31st March and the relevant information are given below.

Equity and Liabilities	SLtd	KLtd	VLtd	Assets	SLtd	KLtd	VLtd
(1) Shareholders' Funds:				(1) Non-Current Assets:			
(a) Share Capital				Fixed Assets			
Equity SC (₹ 10)	6,00,000	7,00,000	3,00,000	(i) Tangible Assets	8,00,000	6,00,000	5,00,000
(b) Res & Surplus	1,00,000	50,000	1,00,000	(ii) Intangible Assets			
(2) Non-Current Liab:				- Goodwill	-	50,000	-
Long Term Borrowings				(2) Current Assets:	3,00,000	2,50,000	1,00,000
-10% Debentures	2,00,000	-	1,00,000				
(3) Current Liabilities:							
- Trade & Exp Creditors	2,00,000	1,50,000	1,00,000				
Total	11,00,000	9,00,000	6,00,000	Total	11,00,000	9,00,000	6,00,000

	Satyalok	Kailash	Vaikunth
Revaluation of Tangible Block	10,00,000	5,00,000	6,00,000

Revaluation of Current Assets	**3,50,000**	**1,40,000**	**80,000**
Average Annual Profit for 3 years before charging Debenture Interest	**1,80,000**	**1,44,000**	**78,000**

Calculate the number of Equity Shares and Debentures to be issued to each of the Companies.

Assume that amounts required for Preliminary Expenses (₹ 50,000) and for payment of the existing Debentures in the two companies at par were provided by the promoters against issue of Equity Shares of ₹ 10 each. [10]

Answer:

1. Basic Information

Selling Co : Satyalok Ltd, Kailash Ltd, Vaikunth Ltd	Date of B/S: 31st Mar	**Nature of Amalgamation:** Purchase (since the Assets are not taken over at BV & Purchase Consideration discharged is other than by way of Equity Shares)
Buying Co : Triloka Ltd	Date of Amg: 31st Mar	

2. Calculation of Capital Employed, Goodwill and Purchase Consideration:

Particulars	Satyalok Ltd	Kailash Ltd	Vaikunth Ltd
(a) Balance Sheet Value of Net Tangible Block	8,00,000	6,00,000	5,00,000
(b) Revaluation of Tangible Block	10,00,000	5,00,000	6,00,000
(c) Adjustment in Value of Tangible Block - Incr. / (Deer.)	2,00,000	(1,00,000)	1,00,000
(d) Depreciation at 10% on the same to be adjusted	20,000	(10,000)	10,000
(e) Revaluation of Current Assets	3,50,000	1,40,000	80,000
(f) Revaluation of Tangible Assets & Current Assets (b) + (e)	13,50,000	6,40,000	6,80,000
(g) 10% Debentures as per Balance Sheet	2,00,000	-	1,00,000
(h) Trade and Expense Creditors as per Balance Sheet	2,00,000	1,50,000	1,00,000
(i) Tangible Net Assets / Capital Employed (f) - (g) - (h)	9,50,000	4,90,000	4,80,000
(j) Avg. Annual Profit before charging Debenture Interest	1,80,000	1,44,000	78,000
(k) Interest on Debentures at 10% (g x 10%)	20,000	Nil	10,000
(l) Avg. Annual Profit after charging Deb.Interest (j) - (k)	1,60,000	1,44,000	68,000
(m) Less/Add: Adjustment in respect of Depreciation amount increased /decreased on revaluation (c × 10%)	(-) 20,000	(+) 10,000	(-) 10,000
(n) Adjusted Average Annual Profits (l - m)	1,40,000	1,54,000	58,000
(o) Normal Profit at 10% on Capital Employed (i x 10%)	95,000	49,000	48,000
(p) Super Profit (n) - (o)	45,000	1,05,000	10,000
(q) Goodwill at 3 years purchase of Super Profits	1,35,000	3,15,000	30,000
(r) Purchase Consideration = Net Assets + G/w = (i) + (q)	10,85,000	8,05,000	5,10,000

3. Settlement of Purchase Consideration

- Total Purchase Consideration as above is (₹10,85,000 + ₹ 8,05,000 + ₹ 5,10,000) = ₹ 24,00,000.
- This is to be distributed in the ratio of 3: 1 between Equity Shares and Debentures.
- Hence, the amount for which Equity Shares are to be issued are ₹ 24,00,000 x 3/4 = ₹18,00,000.
- Debentures shall be issued for the balance purchase consideration i.e. for a value of ₹ 6,00,000.

- Since the Equity Shares should be issued in the ratio of Adjusted Average Annual Profits, the breakup of Purchase Consideration is given below -

Break up of Purchase Consideration

Particulars	Satyalok Ltd	Kailash Ltd	Vaikunth Ltd	Total
(a) Equity Shares of ₹10 [in Profit Ratio, i.e. 140:154:58 as shown in item (n) above]	7,15,900	7,87,500	2,96,600	18,00,000
(b) 10% Debentures of ₹ 100 each (for the balance of Purchase consideration)	3,69,100	17,500	2,13,400	6,00,000
(c) Total Purch. Consideration [as per item (r) above]	10,85,000	8,05,000	5,10,000	2,40,000
(d) Number of Shares = a ÷ 10	71,590	78,750	29,660	1,80,000
(e) Number of Debentures = b ÷ ₹100	3,691	175	2,134	

Note: Additional Shares issued by Triloka Ltd to Promoters – (a) for payment of Preliminary Expenses ₹50,000, and (b) for repayment of Debentures ₹3,00,000 = Total ₹ 3,50,000 i.e. 35,000 Shares of ₹ 10 each.

2. (c) The business of Hiranyaksha Ltd was being carried on continuously at losses. The following are the extracts from the Balance Sheet of the Company as on 31st March -

Equity and Liabilities	**₹**	**Assets**	**₹**
(1) Shareholders' Funds:		**(1) Non-Current Assets:**	
(a) Share Capital		**(a) Fixed Assets:** **(i) Tangible Assets**	
(i) 30,000 Equity Shares of ₹ 10 fully paid	**3,00,000**	**- Plant**	**3,00,000**
(ii) 2,000 8% Cum Pref. Sh of ₹ 100 fully paid	**2,00,000**	**- Loose Tools**	**10,000**
(b) Reserves & Surplus		**(ii) Intangible Assets - Goodwill**	**50,000**
(i) Securities Premium Account	**90,000**	**(b) Non-Current Assets**	
(ii) Profit & Loss Account	**(2,00,000)**	**- Preliminary Expenses**	**5,000**
(2) Non-Current Liabilities: - Long Term Borrowings		**(2) Current Assets:**	
- Unsecured Loan (From Directors)	**50,000**	**(a) Inventories**	**1,50,000**
(3) Current Liabilities:		**(b) Trade Receivables -Debtors**	**2,50,000**
(a) Trade Payables - Sundry Creditors	**3,00,000**	**(c) Cash & Cash Equivalents**	
(b) Other Current Liabilities		**-Cash**	**10,000**
- Outstanding Expenses	**70,000**	**-Bank**	**35,000**
(incl Directors Remuneration ₹ 20,000)			
Total	**8,10,000**	**Total**	**8,10,000**

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]

Answer:

1. Journal Entries

	Particulars	Debit	Credit
1.	Equity Share Capital (₹ 10) A/c Dr. To Equity Share Capital (₹ 2) A/c (Being Equity Shares of ₹ 10 each converted into Equity Shares of ₹ 2 each as per Company's Resolution dated.... and approved by the Court)	3,00,000	 3,00,000
2.	Equity Share Capital (₹ 2) A/c (₹ 3,00,000 x 90%) Dr. To Shares Surrendered A/c (Being 90% of Equity Shares surrendered as per scheme of reconstruction)	2,70,000	 2,70,000
3.	8% Cumulative Preference Share Capital A/c Dr. To 9% Cumulative Preference Share Capital A/c (Being 8% Cumulative Preference Shares converted into 9% Cumulative Preference Shares under the Scheme of Reconstruction)	2,00,000	 2,00,000
4.	Shares Surrendered A/c Dr. To Equity Share Capital (₹ 2) A/c (Being 17,500 Equity Shares, out of those surrendered, issued to Sundry Creditors on their surrendering 1/5th of their claim, as per the scheme of reconstruction)	35,000	 35,000

5.	Capital Reduction A/c Dr. To Cash / Bank (Being expenses of reconstruction paid, debited to Capital Reduction A/c)	10,000	 10,000
6.	Shares Surrendered A/c Dr. To Capital Reduction A/c (Being cancellation of remaining surrendered shares (2,70,000 - 35,000 issued to Creditors) according to the scheme of reconstruction)	2,35,000	 2,35,000
7.	Unsecured Loan A/c Dr. Sundry Creditors A/c (3,00,000 x 1/5) Dr. Outstanding Expenses A/c Dr. To Capital Reduction A/c (Being amounts sacrificed by various parties as per the Reconstruction Scheme, transferred to Capital Reduction Account)	50,000 60,000 20,000	 1,30,000
8.	Capital Reduction A/c Dr. To Goodwill A/c To Loose Tools A/c To Sundry Debtors A/c To Stock-in-trade A/c To Profit and Loss A/c To Preliminary Expenses A/c To Plant A/c (balancing figure) (Being Expenses of Reconstruction, various losses and amounts written off various Assets debited to Capital Reduction Account as per the scheme of reconstruction, the balance of the amount credited to Plant account)	3,55,000	 50,000 8,000 15,000 20,000 2,00,000 5,000 57,000
9.	Bank A/c Dr. To Equity Share Capital (₹ 2) A/c (Being 50,000 Equity Shares of ₹ 2 each issued as fully paid)	1,00,000	 1,00,000

Note: Transfer of 100 shares by the Dissenting Shareholder to the Director need not be journalized.

2. (d) The Balance Sheet of Sreejith Ltd having an Authorised Capital of ₹ 1,000 Crores as on 31st March is –

Equity and Liabilities	₹ Crores	Assets	₹ Crores
(1) Shareholders' Funds:		**(1) Non-Current Assets:**	
(a) Share Capital		**(a) Fixed Assets:**	
- Equity Shares of ₹ 10 fully paid in cash	**250**	**(i) Tangible Assets**	
		Gross Block 800	
(b) Reserves & Surplus – (Revenue)	**750**	**Less: Depreciation 200**	**600**
(2) Non-Current Liabilities:		**(b) Non-Current Investments**	
Long Term Borrowings		**at Cost**	**400**
(i) Secured against		**(Market Value ₹ 1,000 Crores)**	
– Fixed Assets	**300**	**(2) Current Assets:**	**3,000**
– Working Capital	**100**		
(ii) Unsecured Loans	**600**		
(2) Current Liabilities:	**2,000**		
Total	**4,000**	**Total**	**4,000**

Note: Capital Commitments: ₹ 700 Crores.

The Company consists of 2 Divisions –

1. **Establishment Division whose Gross Block was ₹ 200 Crores and Net Block was ₹ 30 Crores, Current Assets were ₹ 1,500 Crores and Working Capital was ₹ 1,200 Crores, the entire amount being financed by Shareholders' Funds.**
2. **New Project Division to which the remaining Fixed Assets, Current Assets and Current Liabilities related.**

The following scheme of reconstruction was agreed upon:

1. **Two new Companies Sunrise Ltd and Moonrise Ltd are to be formed. The Authorised Capital of Sunrise Ltd is to be ₹ 1,000 Crores. The Authorised Capital of Moonrise Ltd is to be ₹ 500 Crores.**
2. **Moonrise Ltd is to take over investments at ₹ 800 Crores and Unsecured Loans at Balance Sheet value. It is to allot Equity Shares of ₹ 10 each at par to the members of Sreejith Ltd in satisfaction of the amount due under the arrangement.**
3. **Sunrise Ltd is to take over the Fixed Assets and Net Working Capital of the new project division along with the Secured Loans and Obligation for Capital Commitments for which Sreejith Ltd is to continue to stand guarantee at book values. It is to allot One Crore Equity Shares of ₹ 10 each as consideration to Sreejith Ltd. Sunrise Ltd made an issue of Unsecured Convertible Debentures of ₹ 500 Crores carrying interest at 15% per annum and having a right to convert into Equity Shares of ₹ 10 each at par five years hence. This issue was made to the members of Sunrise Ltd as a right who grabbed the opportunity and subscribed in full.**
4. **Sreejith Ltd is to guarantee all Liabilities transferred to the 2 Companies.**
5. **Sreejith Ltd is to make a Bonus Issue of Equity Shares in the ratio of one Equity Share for every Equity Share held by making use of the Revenue Reserves.**

Assume that the above scheme was duly approved by the Honourable High Court and that there are no other transactions, you are asked to (Ignore taxation):

- **Pass Journal Entries in the Books of Sreejith Ltd. [10]**

Answer:

1. Calculation of Assets / Liabilities transferred

Particulars	Establishment Division	New Project Division	Total
1. Fixed Assets: Gross Block	200	600	800
Less: Depreciation	170	30	200
Net Block	30	570	600
2. Current Assets	1,500	1,500	3,000
Less: Current Liabilities	(balancing figure) **300**	1,700	2,000
Net Current Assets	1,200	(balancing figure) **(200)**	1,000

2. Purchase Consideration

(a) For Transfer to Moonrise (Net Assets) = Investments 800 **Less** Unsecured Loan 600 = ₹ **200 Crores**

Discharged to Members of Sreejith Ltd by issue of 20 Crore Shares of ₹ 10.

(b) For Transfer to Sunrise Ltd (Payment) = ₹ **10 Crores**

Discharged to Sreejith Ltd by issue of 1 Crore Shares of ₹ 10 each.

3. Journal of Sreejith Ltd (₹ in Crores)

Particulars		Debit	Credit
1. Moonrise Ltd A/c	Dr.	800	
To Investments A/c			400
To Members A/c			400
(Being transfer of Investments at agreed value of 1 800 Crores under the scheme of reconstruction approved by the High Court)			
2. Unsecured Loans A/c	Dr.	600	600
To Moonrise Ltd A/c			
(Being Unsecured Loans taken over by Moonrise Ltd under the scheme of reconstruction approved by the High Court)			
3. Members A/c	Dr.	200	200
To Moonrise Ltd A/c			
(Being allotment by Moonrise Ltd of 20 Crore Equity Shares of ₹ 10 each to the members of the Company)			
4. Members A/c	Dr.	200	200
To Capital Reserve A/c			
(Being balance in Members A/c transferred to Capital Reserve)			
5. Sunrise Ltd A/c	Dr.	10	
Provision for Depreciation A/c	Dr.	30	
Secured Loans against Fixed Assets A/c	Dr.	300	
Secured Loans against Working Capital A/c	Dr.	100	
Current Liabilities A/c	Dr.	1,700	
To Fixed Assets A/c			600
To Current Assets A/c			1,500
To Capital Reserve A/c (balancing figure)			40
(Being Assets and Liabilities of New Project Division transferred to Sunrise Ltd along with Secured Loans and Capital Commitments of ₹ 700 Crores, the difference between Consideration and the Book Values at which transferred Assets and Liabilities appeared being credited to Capital Reserve)			
6. Equity Shares of Sunrise Ltd A/c	Dr.	10	
To Sunrise Ltd A/c			10
(Being 1 Crore Equity Shares of ₹ 10 received from Sunrise Ltd in full discharge of consideration on transfer of assets and liabilities of New Project Division)			
7. Revenue Reserves A/c	Dr.	250	
To Equity Share Capital A/c			250
(Being allotment of 25 Crores Equity Shares of ₹ 10 each as fully paid Bonus Shares to the members of the Company by using Revenue Reserves in the ratio of one Equity Share for every share held)			

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

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

3. (a) From the following information determine the amount of unrealized profits to be eliminated and the apportionment of the same, if S Ltd. Holds 75% of the equity shares of T Ltd.

(i) Sales by S Ltd to T Ltd-

- **Goods costing ₹50,000 at a profit of 20% on sale price. Entire stock was lying unsold as on the Balance Sheet date.**
- **Goods costing ₹70,000 at a profit of 25% on cost price. 40% of the goods were included in closing stock of T Ltd.**

(ii) Sales by T Ltd. to S Ltd.-

- **Goods sold for ₹75,000 on which T made profit of 25% on cost. Entire stock was at S's godown as on the Balance Sheet date.**
- **Goods sold for ₹90,000 on which T made profit of 15% on sale price. 70% of the values of goods were included in closing stock of S. [10]**

Answer:

Transaction	**Sale by S Ltd.(Holding) to T Ltd.(Subsidiary)**	
Nature of transaction	Downstream Transaction	
Profit on transfer	Cost ₹50,000 × Profit on sale 20% / Cost on sale 80%=₹12,500	Cost ₹ 70,000 × Profit on cost 25% = ₹17,500
% of stock included in closing stock	100%	40%
Unrealized Profits to be eliminated(transferred to Stock Reserve)	₹12,500 × 100% = ₹12,500	₹17,500 × 40% = ₹7,000
Share of Majority- reduced from Group Reserves	100% × ₹12,500 = ₹12,500	100% × ₹7,000 = ₹7,000
Share of Minority	Unrealized profit on downstream transactions is fully adjusted against group reserves. Minority Interest is not relevant.	

Transaction	**Sale by T Ltd.(Subsidiary) to S Ltd.(Holding)**	
Nature of transaction	Upstream Transaction	
Profit on transfer	Sale ₹75000 × Profit on cost 25%/ sale to cost 125%= ₹15000	Sale ₹90,000 × profit on cost 15%= ₹13500
% of stock included in closing stock	100%	70%
Unrealized Profits to be eliminated(reduced from closing stock)	₹15,000 × 100% = ₹15,000	₹13,500 × 70% =₹9450
Share of Majority- reduced from Group Reserves	Share of Majority 75% × Unrealized Profit ₹15,000= ₹11,250	Share of Majority 75% × Unrealized Profit ₹9,450=

		₹7,088
Share of Minority- reduced from Minority Interest.	Share of Minority 25% × Unrealized Profit ₹15,000= ₹3,750	Share of Minority 25% × Unrealized Profit ₹9,450= ₹2,362

3. (b) The summarized balance sheets of two companies, Major Ltd. and Minor Ltd. as at 31st December, 2012 are given below:

Particulars	Major Ltd. ₹	Minor Ltd. ₹
Assets:		
Plant and Machinery	**4,14,000**	**1,00,800**
Furniture	**14,000**	**9,200**
18,000 Ordinary shares in Minor Ltd.	**2,40,000**	**-**
4,000, Ordinary shares in Major Ltd.	**-**	**48,000**
Stock in Trade	**96,000**	**2,28,000**
Sundry Debtors	**1,40,000**	**1,70,000**
Cash at Bank	**34,000**	**26,000**
	9,38,000	**5,82,000**
Liabilities:		
Ordinary shares of ₹ 10 each	**3,60,000**	**2,00,000**
7.5% Preference shares of ₹ 10 each	**3,00,000**	**1,60,000**
Reserves	**52,000**	**60,000**
Sundry Creditors	**1,06,000**	**1,22,000**
Profit and Loss Account	**1,20,000**	**40,000**
	9,38,000	**5,82,000**

Major Ltd. acquired the shares of Minor Ltd. on 1st July, 2012. As on 31st December, 2011, the plant and machinery stood in the books at ₹ 1,12,000, the reserve at ₹ 60,000 and the profit and loss account at ₹ 16,000. The plant and machinery was revalued by Major Ltd. on the date of acquisition of shares of Minor Ltd. at ₹ 1,20,000 but no adjustments were made in the books of Minor Ltd.

On 31st December, 2011, the debit balance of profit and loss account was ₹ 45,500 in the books of Major Ltd.

Both the companies have provided depreciation on all their fixed assets at 10% p.a.

You are required to prepare a Consolidated Balance Sheet as on 31st December 2012 as per Schedule III. [15]

Answer:

Consolidated Balance Sheet of Major Ltd., and its subsidiary Minor Ltd.
as on 31st December, 2012

Particulars	Notes No.	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	6,20,000
(b) Reserves and Surplus	2	1,69,610

(2) Minority Interest	3	2,05,090
(3) Current Liabilities		
(a) Trade Payables (1,06,000 + 1,22,000)		2,28,000
(b) Other current liabilities (Preference dividend of Major Ltd.)		22,500
Total		**12,45,200**
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	4	5,51,200
(2) Current assets		
(a) Inventories ₹ (96,000+2,28,000)		3,24,000
(b) Trade receivables ₹ (1,40,000+1,70,000)		3,10,000
(a) Cash & Cash equivalents ₹ (34,000+26,000)		60,000
Total		**12,45,200**

Notes to Accounts

				₹
1.	**Share Capital**			
	36,000 Equity shares of ₹ 10 each of Major Ltd.		3,60,000	
	Less : Shares held by Minor Ltd.		(40,000)	
			3,20,000	
	30,000, 7.5% Preference shares of ₹ 10 each fully paid of Major Ltd.		3,00,000	6,20,000
2.	**Reserves and Surplus**			
(a)	Reserves	52,000		
	Less: Share of Minor Ltd.	(17,042)	34,958	
(b)	Profit & Loss account	1,20,000		
	Less: Preference dividend	(22,500)		
		97,500		
	Less: Share of Minor Ltd.	(12,659)		
		84,841		
	Add: Share of revenue profit of Minor Ltd.	16,433	1,01,274	
(c)	Capital Reserve of Major Ltd.	41,378		
	Less: Goodwill of Minor Ltd.	(8,000)	33,378	1,69,610
3.	**Minority Interest**			
	Preference shares of Minor Ltd.		1,60,000	
	Preference dividend paid by Minor Ltd.		12,000	
	Equity shares (10%)		20,000	
			1,92,000	
	Capital profit (W.N. iv)		11,264	
	Revenue profit (W.N. v)		1,826	2,05,090
4.	**Tangible Assets**			

	Plant & Machinery			
	Major Ltd.	4,14,000		
	Minor Ltd. (1,00,800 + 13,600 – 400)	1,14,000	5,28,000	
	Furniture (14,000 + 9,200)		23,200	5,51,200

Working Notes:

(i) (a) Analysis of profits of Minor Ltd. (Pre-allocation of inter-company's share)

		Capital Profit ₹	Revenue Profit ₹
Reserves		60,000	
Profit and Loss as on 1.1.2012		16,000	
Profit for the year (40,000 – 16,000)	24,000		
Less: Preference dividend (as per para 27 of AS 21)	(12,000)		
	12,000	6,000	6,000
Profit on upward revaluation (W.N. vii)		13,600	
Additional depreciation on upward revaluation (W.N. viii)			(400)
		95,600	5,600

(b) Analysis of Profits of Major Ltd.

		Capital Profit ₹	Revenue Profit ₹
Reserves during the year		26,000	26,000
Profit and Loss as on 1.1.2012		(45,000)	
Profit for the year (1,20,000 + 45,500)	1,65,500		
Less: Preference dividend	(22,500)		
	1,43,000	71,500	71,500
		52,000	97,500

(ii) Capital profits of Major Ltd. & Minor Ltd. (post allocation of inter-company's share)

Suppose capital profits of Major Ltd. = a

and capital profits of Minor Ltd. = b

Total Capital profits of Major Ltd. = $52{,}000 + \frac{9}{10}b$ (1)

Total Capital profits of Minor Ltd. = $95{,}600 + \frac{1}{9}a$ (2)

Putting values of equation (2) in (1), we get

$$a = 52{,}000 + \frac{9}{10}\left[95{,}600 + \frac{1}{9}a\right]$$

$$a = 52{,}000 + \frac{9}{10} \times \frac{8{,}60{,}400 + a}{9}$$

$$a = 52{,}000 + 86{,}040 + \frac{a}{10}$$

$$a - \frac{a}{10} = 1{,}38{,}040$$

$$9a = 13{,}80{,}400$$

$$a = \frac{13{,}80{,}400}{9}$$

$$a = 1{,}53{,}378$$

$$b = 95{,}600 + \frac{1}{9}(1{,}53{,}378)$$

$$b = 1{,}12{,}642$$

(iii) Revenue profits of Major Ltd. and Minor Ltd. (post allocation of inter-company's share)

Suppose revenue profits of Major Ltd. = x

and revenue profits of Minor Ltd. = y

Total Revenue profits of Major Ltd. = $97{,}500 + \frac{9}{10}y$ (3)

Total Revenue profits of Minor Ltd. = $5{,}600 + \frac{1}{9}x$ (4)

By solving the above equations (3) and (4) in line with the equations (1) and (2) of capital profit, we will get

x = 1,13,933 and y = 18,259

		Major Ltd. ₹	Minor Ltd. ₹
(iv)	**Capital Profits**		
	As per W.N.(ia) & (ib)	52,000	95,600
	Adjustment as per W.N.(ii) (1,53,378/9)	(17,042)	17,042
		34,958	1,12,642
	Minority Interest (10%)		(11,264)
	Share of Major Ltd.		1,01,378
(v)	**Revenue Profits**		
	As per W.N.(ia) &(ib)	97,500	5,600
	Adjustment as per W.N.(iii)	(12,659)	12,659
		84,841	18,259
	Minority interest of Minor Ltd.	-	(1,826)
	Share of Major Ltd. in Minor Ltd.	16,433	16,433
		1,01,274	
(vi)	**Cost of Control**		
	(a) Cost of investment of Major Ltd. in Minor Ltd.		2,40,000
	Less: Paid up value of shares (18,000 x ₹ 10)	1,80,000	
	Capital Profits	1,01,378	(2,81,378)

	Capital Reserve		41,378
	(b) Cost of investment of Minor Ltd. in Major Ltd.		48,000
	Less: Paid up value of shares held		(40,000)
	Goodwill		8,000
(vii)	**Plant and Machinery as on 1.1.2012**		1,12,000
	Less: Depreciation upto 30th June, 2012		
	(1,12,000 x 10% x 6/12)		(5,600)
	Value as on 1.7.2012		1,06,400
	Revaluation of Plant and Machinery on 1.7.2012		1,20,000
	Profit on upward revaluation		13,600
(viii)	**Additional depreciation on upward Revaluation of Plant and Machinery**		
	Depreciation for remaining 6 months		
	(1,20,000 × 10% × 6/12)		6,000
	Less: Depreciation already charged		
	(1,12,000 × 10% × 6/12)		(5,600)
			400

3. (c) Hema Ltd. acquired 60% of Shares of Seema Ltd as on 30th June 2013. As on 31st December 2012, Balance Sheet of Seema Ltd shows a balance in General Reserves ₹ 2,00,000 and in Profit and Loss Account ₹ 20,000. Subsequently Hema Ltd purchased another 10% Shares of Seema Ltd on 30th September 2013. Finally Hema Ltd purchased another 20% Shares as on 30th November 2013. Given below the Balance Sheets of Hema Ltd and Seema Ltd as on 31st December 2013 –

Equity & Liabilities	Hema	Seema	Assets	Hema	Seema
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital	10,00,000	6,00,000	(a) Fixed Assets – Tangible	16,00,000	10,00,000
(b) Reserves & Surplus			Less: Acc Depn.	(4,00,000)	(2,00,000)
(i) General Reserve	4,00,000	1,00,000	Net Block	12,00,000	8,00,000
(ii) P & L Account	2,00,000	1,00,000	(b) Non-Current Invt.	6,00,000	2,00,000
(2) Non-Current Liabilities:			(2) Current Assets:		
Long Term Borrowings			(a) Inventories	4,00,000	3,00,000
– Loans	3,00,000	4,00,000	(b) Trade Receivables - Drs	3,00,000	2,00,000
			(c) Cash & Cash Equiv	1,00,000	1,00,000
(3) Current Liabilities:					
(a) Trade Payables – Crs	4,00,000	2,00,000			
(b) Other Current Liabilities – Proposed Dividend	2,00,000	1,20,000			
(c) Short Term Provisions – Provision for Tax	1,00,000	80,000			
Total	26,00,000	16,00,000	Total	26,00,000	16,00,000

Other Information –

1. **The first trench of Investment in Seema Ltd was made by Hema Ltd for ₹ 3,00,000. The second trench of Investment was made by Hema Ltd for ₹ 80,000 and the last trench of investment was made for ₹ 1,50,000.**

2. **Seema Ltd declared and paid Bonus Shares at one for every two Shares held. For this purpose the book closure date was 15the July to 31st July 2013.**

3. **Hema Ltd sold a Machinery costing ₹ 4,00,000 to Seema Ltd on 15th September 2013 on which the former made a Profit of ₹ 1,00,000. Seema Ltd charged Depreciation at 20% on the Plant on time proportion basis.**

Prepare a Consolidated Balance Sheet for Hema Ltd and its subsidiary Seema Ltd as on 31.12.2013. **[15]**

Answer:

1. Basic Information

Company Status	Date of Acquisition	Holding Status
Holding Company = Hema Ltd Subsidiary = Seema Ltd	Lot 1 = 60% Shares = 30.06.2013 Lot 2 = 10% Shares = 30.09.2013 Lot 3 = 20% Shares = 30.11.2013	Holding Company = 90% Minority Interest = 10%

Date of Consolidation = 31.12.2013

2. Analysis of Reserves & Surplus of Seema Ltd

(a) General Reserve

Balance on 31.12.2013 = ₹ 1,00,000

Balance on 1.1.2013	2,00,000	Transfer during 2013 1,00,000			
Less: Bonus Issue	(2,00,000)				
	NIL	**Upto 30.6.13**	**1.7.13 to 30.9.13**	**1.10.13 to 30.11.13**	**1.12.13 to 31.12.13**
		6 Months	3 Months	2 Months	1 Months
		1,00,000×6/12	1,00,000×3/12	1,00,000×2/12	1,00,000×1/12
		₹ 50,000	**₹ 25,000**	**₹ 16,667**	**₹ 8,333**

Apportionment						**Total**
Minority Interest (10%)	NIL	5,000	2,500	1,667	833	10,000
Group Interest (90%)						
Pre Acqn.	NIL	90% = 45,000	30% = 7,500	20% = 3,333	–	55,833
Post Acqn.	NIL	–	60% = 15,000	70% = 11,667	90% = 7,500	34,167

(b) Profit & Loss Account

Balance on 31.12.2013 = ₹ 1,00,000

Balance on 1.1.2013	20,000		Transfer during 2013 (Bal. Fig)	**80,000**
		Add:	Depreciation on Machinery	29,167
			(5 Lakhs × 3.5 Mths/12 × 20%)	**1,09,167**

Upto 30.6.13	**1.7.13 to 30.9.13**	**1.10.13 to 30.11.13**	**1.12.13 to 31.12.13**

	6 Months	3 Months	2 Months	1 Months
	109167×6/12	109167×3/12	109167×2/12	109167×1/12
Amt.	**₹ 54,584**	**₹ 27,292**	**₹ 18,195**	**₹ 9,096**
Less: Depn.	–	₹ 4,167	₹ 16,667	₹ 8,333
	–	(29167×0.5/3.5)	(29167×2.0/3.5)	(29167×1.0/3.5)

Apportionment		**Bal. ₹ 54,584**	**₹ 23,125**	**₹ 1,528**	**₹ 763**	**Total**
Minority Interest (10%)	2,000	5,458	2,313	153	76	10,000
Group Interest (90%)						
Pre Acqn.	90% = 18,000	90% = 49,126	30% = 6,937	20% = 305	–	74,368
Post Acqn.	–	–	60% = 13,875	70% = 1,070	90% = 687	15,632

Note: Except for Depreciation on internally transferred asset, Profits are assumed to have been earned evenly in the year.

(c) Proposed Dividend : Total ₹ 1,20,000

Upto 30.6.13	**1.7.13 to 30.9.13**	**1.10.13 to 30.11.13**	**1.12.13 to 31.12.13**
6 Months	3 Months	2 Months	1 Months
120000×6/12	120000×3/12	120000×2/12	120000×1/12
₹ 60,000	**₹ 30,000**	**₹ 20,000**	**₹ 10,000**

Apportionment					**Total**
Minority Interest (10%)	6,000	3,000	2,000	1,000	12,000
Group Interest (90%)					
Pre Acqn.	90% = 54,000	30% = 9,000	20% = 4,000	NIL	67,000
Post Acqn.	NIL	60% = 18,000	70% = 14,000	90% = 9,000	41,000

3. Consolidation of Balances

Particulars	**Total**	**Minority Interest**	**Pre-Acqn.**	**Post Acquisition**	
Seema Ltd (Holding 90%, Minority 10%)				**Gen. Res.**	**P&L A/c**
Equity Capital	6,00,000	60,000	5,40,000		
General Reserves	1,00,000	10,000	55,833	34,167	
Profit and Loss A/c	1,00,000	10,000	74,368		15,632
Share of Proposed Dividend	1,20,000	12,000	67,000		41,000
Minority Interest		**92,000**			
Total [Cr]			**7,37,201**	**34,167**	**56,632**
Cost of Investment [Dr.]			(5,30,000)		
Parent's Balances				4,00,000	2,00,000
Unrealized Profit on Downstream Sale of Machinery					(94,167)
For Consolidated Balance Sheet		**92,000**	**2,07,201 Cap. Res.**	**4,34,167 Gen. Res.**	**1,62,465 P&L A/c**

Note: Unrealized Profit on Sale of Machinery

	Profit on sale of Machinery	1,00,000	
Less:	Depreciation on Profit (₹1,00,000 × 20% × 3.5/12)	(5,833)	₹ 94,167

4. Consolidated Balance Sheet of Hema Ltd and its Subsidiary Seema Ltd as at 31.12.2013

	Particulars	Note	This Year	Prev. Year
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital (..... Equity Shares ₹ ...... each)		10,00,000	
	(b) Reserves & Surplus	**1**	8,03,833	
(2)	**Minority Interest**		92,000	
(3)	**Non-Current Liabilities**			
	Long Term Borrowings – Loan Funds (3,00,000 + 4,00,000)		7,00,000	
(4)	**Current Liabilities**			
	(a) Trade Payables – Creditors (4,00,000 + 2,00,000)		6,00,000	
	(b) Short Term Provisions	**2**	3,80,000	
	Total		**35,75,833**	
II	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Fixed Assets: Tangible Assets (12,00,000+8,00,000 – Unrealised Profit 94,167)		19,05,833	
	(b) Non-Current Investments = (6,00,000 – 5,30,000 + 2,00,000)		2,70,000	
(2)	**Current Assets**			
	(a) Inventories = 4,00,000 + 3,00,000		7,00,000	
	(b) Trade Receivables – Debtors (3,00,000 + 2,00,000)		5,00,000	
	(c) Cash and Cash Equivalents = 1,00,000 + 1,00,000		2,00,000	
	Total		**35,75,833**	

Notes to the Balance Sheet

Note 1: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Capital Reserve on Consolidation	2,07,201	
(b) Other Reserves – General Reserve	4,34,167	
(c) Surplus (Balance in P & L A/c)	1,62,465	
Total	**8,03,833**	

Note 2: Short Term Provisions

Particulars	This Year	Prev. Year
(a) Provision for Tax = 1,00,000 + 80,000	1,80,000	
(b) Proposed Dividend – Hema Ltd	2,00,000	
Total	**3,03,833**	

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

4. (a) List the specific commercial advantages of TBL reporting. [5]

Answer:

Specific commercial advantages include:

- enhancement of reputation and brand
- securing a social licence to operate
- attraction and retention of high calibre employees
- improved access to investors
- reduced risk profile
- identification of potential cost savings
- increased scope for innovation
- aligning stakeholder needs with management focus, and
- creation of sound basis for stakeholder dialogue

4. (b) ABC Ltd grants 1,000 employees stock options on 1.4.2012 at ₹ 40, when the market price is ₹160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2014. 600 options are exercised on 30.6.2015. 100 vested options lapse at the end of the exercise period.

Pass the Journal Entries giving suitable narrations. [10]

Answer:

Journal Entries in the Books of ABC Ltd.

Date	Particulars		Dr. ₹	Cr. ₹
31.3.2013	Employees compensation expenses A/c	Dr.	48,000	
	To Employees stock option outstanding A/c			48,000
	(Being compensation expenses recognized in respect of the employees stock option i.e. 1,000 options granted to employees at a discount of ₹120 each, amortised on straight line basis over 2.5 years)			
	Profit and Loss A/c	Dr.	48,000	
	To Employees compensation expenses A/c			48,000
	(Being expenses transferred to profit and loss account at the end of the year)			
31.3.2014	Employees compensation expenses A/c	Dr.	48,000	
	To Employees stock option outstanding A/c			48,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 1,000			

	options granted to employees at a discount of ₹120 each, amortised on straight line basis over 2.5 years)			
	Profit and Loss A/c To Employees compensation expenses A/c (Being expenses transferred to profit and loss account at the end of the year)	Dr.	48,000	 48,000
31.3.2015	Employees stock option outstanding A/c (W.N.1) To General Reserve A/c (W.N.1) (Being excess of employees compensation expenses transferred to general reserve account)	Dr.	12,000	 12,000
30.6.2015	Bank A/c (600 × ₹ 40) Employee stock option outstanding A/c (600×₹120) To Equity share capital A/c (600×₹100) To Securities premium account (600× ₹150) (Being 600 employees stock option exercised at an exercise price of ₹ 40 each)	Dr. Dr.	24,000 72,000	 6,000 90,000
01.10.2015	Employee stock option outstanding A/c To General reserve account (Being Employees stock option outstanding A/c transferred to General Reserve A/c, on lapse of 100 at the end of exercise of option period)	Dr.	12,000	 12,000

Working Note:

On 31.3.2015, ABC Ltd. will examine its actual forfeitures and make necessary adjustments, if any to reflect expenses for the number of options, that have actually vested. 700 employees stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

	₹
No. of options actually vested (700 × ₹ 120)	84,000
Less: Expenses recognized ₹ (48,000 + 48,000)	96,000
Excess expenses transferred to general reserve	(12,000)

4. (c) Following is the Profit and Loss Account and Balance Sheet for M/s Henry Ltd.

(All figures are in ₹ Crores)

	2013	**2014**
Turnover	**652**	**760**
Pre-tax accounting profit	**134**	**168**
Taxation	**46**	**58**
Profit after tax	**88**	**110**
Dividends	**30**	**36**

Retained earnings	**58**	**74**

Balance Sheet extracts are as follows:

	2013	**2014**
Fixed Assets	**240**	**312**
Net current assets	**260**	**320**
Total	**500**	**632**
Equity Share holders funds	**390**	**472**
Medium and long-term bank loan	**110**	**160**

The Companies performance in regard to turnover has increased by 17% alongwith increase in pre-tax profit by 25% but shareholders are not satisfied by the company's performance in the last 2 years. You are required to calculate economic value added as suggested by M/s Stern Stewert & Co., USA, so that reasons of non-satisfaction can be evaluated. You are also given

		2013	**2014**
1.	**Pre-tax cost of debt**	**9%**	**10%**
2.	**Cost of equity**	**15%**	**17%**
3.	**Tax rate**	**35%**	**35%**
4.	**Interest expense**	**₹ 8**	**₹ 12**

[10]

Answer:

Calculation of Return On Operating Capital

NOPAT	**2013**	**2014**
PBT	134	168
Add: Intt Expenses	8	12
	142	180
Less: Taxes @ 35%	49.7	63
NOPAT (A)	**92.3**	**117**
Operating Capital		
Eq. Shareholder's Funds	390	472
Long Term Debt	110	160
(B)	**500**	**632**
ROOC = A/BX 100	18.46%	18.51%
Calculation of WACC	**2013**	**2014**
Kd	9% (1-0.35)x110/550	10% (1-0.35)x160/632
	1.287%	1.645%
Ke	15% x 390/500	17% x 472/632
	11.7%	12.7%

	12.99%	14.34%
EVA		
ROOC	18.46%	18.51%
Less: WAAC	12.99%	14.34%
Spread	5.47%	4.17%
EVA = Spread x Op. Cap.	27.35Cr.	26.35Cr.

Since EVA has declined in Yr. 2014 by 1 Crore this can be attributed as reason for non-satisfaction.

4. (d) (i) A Company has a capital base of ₹ 1 crore and has earned profits to the tune of ₹ 11 lakhs. The Return on Investment (ROI) of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by ₹ 2.5 lakhs over and above the target profit.

Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him. [6]

(ii) Discuss the objectives of XBRL India. [4]

Answer:

(i)

Capital Base	=	₹	1,00,00,000
Actual Profit	=	₹	11,00,000
Target Profit @ 12.5%	=	₹	12,50,000

Expected Profit on employing the particular executive

= ₹ 12,50,000 + ₹ 2,50,000 = ₹ 15,00,000

Additional Profit = Expected Profit – Actual Profit

= ₹ 15,00,000 – ₹ 11,00,000 = ₹ 4,00,000

$$\text{Maximum bid price} = \frac{\text{Additional Profit}}{\text{Rate of Return on Investment}} = \frac{4,00,000}{12.5} \times 100 = ₹\ 32,00,000$$

Maximum salary that can be offered = 12.5% of ₹ 32,00,000 i.e., ₹ 4,00,000

Maximum salary can be offered to that particular executive upto the amount of additional profit i.e. ₹ 4,00,000.

(ii) The development of XBRL technology in India started mainly around the period 2005-07. India is probably the first among developing countries to introduce XBRL standard in its reporting system.

XBRL India is the provisional jurisdiction of XBRL International and is facilitated by the Institute of Chartered Accountants of India (ICAI). XBRL India is governed by a Steering Committee which is headed by the President, ICAI.

Its objectives are:

- To promote and encourage the adoption of XBRL in India as the standard for electronic business reporting in India

- To facilitate education and marketing of XBRL
- To develop and manage XBRL taxonomies
- To keep the developed XBRL taxonomies updated with regard to international developments
- To represent Indian interests within XBRL International
- To contribute to the international development of XBRL

Question No. 5 (Answer any three):

(a) Describe the working of the Public Accounts Committee. [5]

(b) Discuss the background of Government Accounting Standards Advisory Board. [5]

(c) Discuss the scope of Foreign Currency transactions and Loss or Gain by Exchange Rate Variation (IGAS 7). [5]

(d) Explain the Consolidated Fund of India. [5]

Answer:

5. (a)

The representatives of the Ministries appear before the Committee when examining the Accounts and Audit Reports relating to their Ministries. The Committee proceeds by way of interrogation of witnesses. The Comptroller and Auditor General is the "friend, philosopher and guide" of the Committee. He attends the sittings of the Committee and assists it in its deliberations.

The Committee may appoint one or more Sub-Committees/ Sub Groups to examine any particular matter. At the beginning of its term, the Committee appoints a few Working Groups/Sub Committees to facilitate the examination of the various Accounts and Audit Reports and Sub-Committee to consider the action taken by the Government on the recommendations made by the Committee in its earlier Reports. If it appears to the Committee that it is necessary for the purpose of its examination that an on the- spot study should be made, the Committee may, either in its entirety or by dividing itself into Study Groups decide to undertake tours to make an on-the-spot study of any project or establishment. All discussions held during tour by the Committee/Study Groups, with the representatives of the establishment, Ministries/Departments, non-official organisations, Labour Unions etc. are treated as confidential and no one having access to the discussion, directly or indirectly is to communicate to the Press or any unauthorized person, any information about matters taken up during the discussions.

5. (b)

Government Accounting Standards Advisory Board (GASAB) has been constituted by Comptroller and Auditor General of India (CAG), with the support of Government of India through a notification dated 12th August, 2002.

The decision to set-up GASAB has been taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace with the International trends.

The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending instead of just identifying resources for public scheme funding.

The accounting systems, the world over, are being revisited with an emphasis on transition from rule to principle based standards and migration from cash to accrual based system of accounting.

GASAB, as a nodal advisory body in India, is taking similar action to establish and improve standards of government accounting and financial reporting and enhance accountability mechanisms.

5. (c)

1. The Accounting Authority which prepares and presents the financial statements of the Government under the cash basis of accounting, as defined in the Government Accounting Rule 21 of GAR 1990 and Government Financial Rule 68 of GFR 2005 should apply this Standard:
   (a) in accounting and disclosure for transactions in foreign currencies;
   (b) in accounting and disclosure for financial effects of exchange variations in terms of loss or gain by exchange rate variation, and
   (c) in disclosure of foreign currency external debts and the rate(s) applied for disclosure.
2. Financial statements should not be described as complying with this Standard unless they comply with all its requirements.
3. This Standard shall apply to foreign currency transactions of the Union Government as well as that of the State Governments.
4. This Standard deals with presentation of expenditure and revenue in terms of loss or gain by exchange rate variations arising from foreign currency transactions. It also deals with disclosure of foreign currency external debt.
5. This Standard does not deal with disclosure requirements of external guarantees. The requirements of disclosure of details of subsisting external guarantees in terms of Indian rupees on the date of financial statements have been dealt with in IGAS1 "Guarantees given by Governments: Disclosure Requirements'.
6. The Reserve Bank of India is the custodian of foreign currency and foreign exchange reserves and this Standard does not deal with foreign currency reserves.

5. (d)

Consolidated Fund of India

Subject to assignment of certain taxes to the States,

- all revenues received by the Government of India,
- all loans raised by the Government and
- all moneys received by that Government in repayment of loans

Shall form one consolidated fund to be called "the Consolidated Fund of India"

• No moneys shall be appropriated out of the Consolidated Fund of India except in accordance with law.

• No money can be issued out of Consolidated Fund of India unless the expenditure is authorised by an Appropriation Act.