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]

Question No. 2: Answer to Question No. 2(a) which 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]

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]

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]

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]**

Question No. 3: Answer to question No. 3(a) which 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]**

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]

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]**

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

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

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]**

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]

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]

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]