# 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<br>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<br>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<br>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<br>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.**

1. (a) An enterprise reports quarterly, estimates an annual income of ₹ 10 lakhs. Assume tax rates on 1st ₹ 5,00,000 at 30% and on the balance income at 40%. The estimated quarterly income are ₹ 75,000, ₹ 2,50,000, ₹ 3,75,000 and ₹ 3,00,000.

Calculate the tax expense to be recognized in each quarter. **[5]**

(b) Vishnu Company has at its financial year ended 31st March, 2015, fifteen law suits outstanding none of which has been settled by the time the accounts are approved by the directors. The directors have estimated the possible outcomes as below:

| Result | Probability | Amount of loss |
|---|---|---|
| For first ten cases: | | |
| Win | 0.6 | |
| Loss-low damages | 0.3 | 90,000 |
| Loss-high damages | 0.1 | 1,60,000 |
| For remaining five cases: | | |
| Win | 0.5 | |
| Loss-low damages | 0.3 | 60,000 |
| Loss-high damages | 0.2 | 95,000 |

The directors believe that the outcome of each is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss. **[5]**

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

2. (a) The following are the Balance Sheets of Big Ltd & Small Ltd for the year ending 31st March (₹ Crores)

| Particulars | Big Ltd | Small Ltd |
|---|---|---|
| Equity Share Capital – in Equity Shares of ₹ 10 each | 50 | 40 |
| Preference Share Capital – in 10% Preference Shares of ₹ 100 each | – | 60 |
| Reserves and Surplus | 200 | 150 |
| Total Own Funds | 250 | 250 |
| Loans – Secured | 100 | 100 |
| Total Funds Employed | 350 | 350 |

| | | | |
|---|---|---|---|
| Applied for: | Fixed Assets at Cost Less Depreciation<br>Current Assets Less Current Liabilities | 150<br>200 | 150<br>200 |
| Total Application of Funds | | 350 | 350 |

**The Present Worth of Fixed Assets of Big Ltd and Small Ltd is ₹ 200 Crores and ₹ 429 Crores respectively. Goodwill of Big Ltd is ₹ 40 Crores and that of Small Ltd is₹ 75 Crores.**

**Small Ltd absorbs Big Ltd by issuing Equity Shares at par in such a way that Intrinsic Net Worth is maintained.**

**Goodwill Account is not to appear in the books. Fixed Assets are to appear at old figures.**

**Draft a statement of Valuation of Shares on Intrinsic Value Basis. [5]**

**2. (b) Uma Limited agrees to acquire, as a going concern, the business of the Vidya Limited, on the basis of the Vendor's Balance Sheet as 31st December, which is as follows:**

| Equity and Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| (1) Shareholders' Funds: | | (1) Non-Current Assets: | |
| (a) Share Capital | | (a) Fixed Assets: (i) Tangible Assets | |
| - 20,000 Equity Shares called up of ₹ 30 each | 6,00,000 | - Freehold Property | 2,50,000 |
| (b) Reserves & Surplus (i) Reserve Fund<br>(ii) Profit & Loss A/c | 1,25,000<br>60,000 | - Plant & Machinery | 50,000 |
| | | (b) Non-Current Investments - 6% Govt Paper | 10,000 |
| (2) Current Liabilities: | | (2) Current Assets: | |
| Trade Payables - Sundry Creditors | 75,000 | (a) Inventories<br>(b) Trade Receivables (Sundry Debtors 2,30,000 - Reserve 10,000) | 3,00,000<br><br>2,20,000 |
| | | (c) Cash & Cash Equivalents | 30,000 |
| Total | 8,60,000 | Total | 8,60,000 |

**Note: Authorised Capital - 25,000 Shares of ₹ 50 each and Issued Capital-20,000 Shares of ₹ 50 each.**

**Reserve of ₹ 10,000 is created in respect of Bad Debts.**

**Uma Limited took over all Assets and Liabilities of the Vendor Company, subject to the retention out of such Assets of ₹15,000 to provide for Cost of Liquidation, Income-Tax etc. and to satisfy any dissenting Shareholders.**

**The consideration for the Sale is the allotment to the Shareholders in the Vendor Company of one Share of ₹100 (₹50 paid-up) in Uma Ltd for every two shares in Vidya Limited. The Market Value of Uma Ltd's Shares, which are ₹ 50 paid-up, at date of sale is ₹ 70 each.**

**The Liquidator of the Vendor Company had paid out of ₹ 15,000 retained, costs of Liquidation amounting to ₹ 2,500, Income-Tax ₹ 7,500 and Dissenting Shareholders of 100 Shares at ₹ 32.50 per share, i.e. ₹ 3,250.**

**The Sale and Purchase were carried through in terms of the agreement. Pass the necessary entries in the books of Vidya Ltd. [10]**

**2. (c) (i)The following is the Balance Sheet of A Ltd.**

| Liabilities | ₹ |
|---|---|

| | | |
|---|---|---|
| **Equity Share Capital** | | **4,00,000** |
| **Reserves and Surplus** | | **8,00,000** |
| **Secured Loan** | | **4,00,000** |
| **Unsecured Loans** | | **12,00,000** |
| | | **28,00,000** |

| **Assets** | **₹** | **₹** |
|---|---|---|
| **Fixed Assets** | | **14,00,000** |
| **Investments** | | **8,00,000** |
| **(Market Value ₹ 18,00,000)** | | |
| **Current Assets** | **8,00,000** | |
| **Less: Current liabilities** | **(2,00,000)** | **6,00,000** |
| | | **28,00,000** |

**The company consists of three divisions. The scheme was agreed upon, according to which a new company AD Ltd. is to be formed. It will takeover investments at ₹ 18,00,000 and unsecured loans at balance sheet value. It is to allot equity shares of ₹ 10 each at par to the shareholders of A Ltd. in satisfaction of the amount due under the arrangement. The scheme was duly approved by the High Court. Pass journal entries in the books of A Ltd. [6]**

**(ii) Describe the treatment of Negative Goodwill in amalgamation as purchase. [4]**

**2. (d) Long Ltd & Short Ltd were amalgamated on and from 1st April. A new Company Moderate Ltd was formed to take over the business of the existing companies. The Balance Sheets of Long Ltd and Short Ltd on the date of amalgamation are given below - (₹ in Lakhs)**

| Equity and Liabilities | Long | Short | Assets | Long | Short |
|---|---|---|---|---|---|
| (1) Shareholders' Funds: | | | (1) Non-Current Assets: | | |
| (a) Share Capital | 850 | 725 | (a) Fixed Assets - Tangible | | |
| (i) Equity Shares of ₹100 | | | Assets | | |
| (ii) 14% Pref. Shares of ₹100 | 320 | 175 | (i) Land & Building | 460 | 275 |
| (b) Reserves & Surplus | | | (ii) Plant & Machinery | 325 | 210 |
| (i) Revaluation Reserve | 125 | 80 | (b) Non-Current Investments | 75 | 50 |
| (ii) General Reserve | 240 | 160 | (2) Current Assets: | | |
| (iii) Investment Allowance Reserve | 50 | 30 | (a) Inventories | 325 | 269 |
| (iv) Profit & Loss Account | 75 | 52 | (b) Trade Receivables | | |
| | | | (i) Debtors | 305 | 270 |
| (2) Non-Current Liabilities: | | | (ii) Bills Receivable | 25 | - |
| Long Term Borrowings | | | (c) Cash & Cash Equivalents | 385 | 251 |
| (i) Secured Loans - Debentures (₹ 100) | 50 | 28 | | | |
| (ii) Unsecured Loans - Public Deposit | 25 | — | | | |
| (3) Current Liabilities: | | | | | |
| Trade Payables (i) Sundry Creditors | 145 | 75 | | | |
| (ii) Bills Payable | 20 | - | | | |
| Total | 19,00 | 13,25 | Total | 19,00 | 13,25 |

**Other information -**

**13% Debenture holders of Long Ltd & Short Ltd are discharged by Moderate Ltd by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.**

**Preference Shareholders of the two Companies are issued equivalent number of 15% Preference Shares of Moderate Ltd at a price of ₹ 125 per share (Face Value - ₹ 100)**

**Moderate Ltd will issue 4 Equity Shares for each Equity Share of Long Ltd and 3 Equity Shares for each Equity Share of Short Ltd. The Shares are to be issued at ₹ 35 each having a Face Value of ₹ 10 per share.**

**Investment Allowance Reserve is to be maintained for two more years.**

**Calculate the securities premium amount and also the value of goodwill/capital reserve on the basis of the following assumption that it is the nature of Purchase. [10]**

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

**3. (a) The Balance Sheets of Labh Ltd and Nasht Ltd as at 31st December are given below – (₹ 000s)**

| Equity and Liabilities | Labh | Nasht | Assets | Labh | Nasht |
|---|---|---|---|---|---|
| (1) Shareholders' Funds: | | | (1) Non-Current Assets: | | |
| (a) Share Capital | 25,00 | 6,00 | (a) Fixed Assets | 40,00 | 5,00 |
| (b) Reserves & Surplus | | | (b) Non-Current Investments | | |
| (i) General Reserve | 16,00 | - | -60% Stake in Nasht | 5,00 | - |
| (ii) Profit & Loss Account | 14,00 | (9,50) | (c) Other Non-Current Assets | | |
| (2) Non-Current Liabilities: | | | - Preliminary Expenses | - | 50 |
| Long Term Borrowings - 8% Debentures | 5,00 | 4,00 | (2) Current Assets: | | |
| (3) Current Liabilities: | | | (a) Inventories | 25,00 | 2,00 |
| (a) Short Term Borrowings - | | | (b) Trade Receivables | | |
| Bank OD | 20,00 | 7,00 | | | |
| (b) Trade Payables - Sundry Crs | 10,00 | 3,00 | - Sundry Debtors | 20,00 | 3,00 |
| Total | 90,00 | 10,50 | Total | 90,00 | 10,50 |

**When Labh Ltd acquired the Shares in Nasht Ltd, the P&L A/c of Nasht reflected a balance of ₹2,00,000 (Dr.). Prepare a statement showing the consolidation of balances and also calculate the amount of minority interest under the following situations-**

**1. Minority Shareholders are not under any express obligation to make good the Losses.**

**2. Minority Shareholders are required to make good their Share of Losses subject to a maximum of (a) ₹ 1,00(000's), and (b) ₹2,00(000's). [10]**

**3. (b) Guru Ltd acquired control in Sishya Ltd a few years back when Sishya Ltd had ₹ 25,000 in Reserve and ₹ 14,000 (Cr.) in Profit & Loss Account. Plant Account (Book Value ₹ 66,000) of Sishya Ltd was revalued at ₹ 62,000 on the date of purchase. Equity Dividend of ₹ 7,500 was received by Guru Ltd out of pre-acquisition Profit and the amount was correctly treated by Guru Ltd. Debenture Interest has been paid upto date.**

**Following are the Balance Sheets of Guru Ltd and Sishya Ltd as at 31st December (₹ 000s) -**

| Equity and Liabilities | Guru | Sishya | Assets | Guru | Sishya |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| (1) Shareholders' Funds: | | | (1) Non-Current Assets: | | |
| (a) Share Capital | | | (a) Fixed Assets - (i) Tangible | | |
| (i) Equity Shares of (₹ 10) | 500 | 100 | - Land & Buildings | 200 | 50 |
| (ii)6% Pref. Shares of (₹ 100) | 100 | 50 | - Plant & Machinery | 105 | 100 |
| (b) Reserves & Surplus | | | (ii) Intangible - Goodwill | 50 | 30 |
| (i) General Reserve | 30 | 30 | (b) Non-Current Invt - in Sishya | | |
| (ii)Profit & Loss Account | 40 | 12 | - 300 Preference Shares | 28 | NIL |
| (2) Non-Current Liabilities: | | | - 7,500 Equity Shares | 85 | NIL |
| Long Term Borrowings | | | - Debentures (FV ₹50,000) | 45 | NIL |
| - 6% Debentures | NIL | 100 | (2) Current Assets: | | |
| (3) Current Liabilities: | | | (a) Inventories | 130 | 100 |
| (a) Short Term Borrowings | | | (b) Trade Receivables | | |
| - Due to Sishya Ltd | 10 | NIL | (i) Debtors | 90 | 50 |
| (b) Trade Payables (i) Sundry Crs | 90 | 60 | (ii) Bills Receivable | 30 | 10 |
| (ii) Bills Payable | 20 | 25 | (c) Cash & Cash Equivalents<br>(d) Short Term Loans & Adv | 27 | 25 |
| | | | - Due from Guru Ltd | NIL | 12 |
| Total | 790 | 377 | Total | 790 | 377 |

**Prepare Consolidated Balance Sheet as at 31st December from the above, and following additional information -**

1. **Cheque of ₹ 2,000 sent by Guru Ltd to Sishya Ltd was in transit.**
2. **Bills Receivable of Sishya Ltd are due from Guru Ltd.**
3. **Balance Sheet of Sishya Ltd was prepared before providing for 6 months dividend on Preference Shares, the first half being already paid.**
4. **Both the Companies have proposed Preference Dividend only, but no effect has been given in the accounts.**
5. **Stock of Guru includes ₹ 6,000 purchased from Sishya on which Sishya made 20% Profit on Cost. Stock of Sishya includes 7 10,000 purchased from Guru on which Guru made 10% Profit on Selling Price.**
6. **Since acquisition, Sishya has written off 30% of the Book Value of Plant as on date of acquisition by way of depreciation.** **[15]**

**3. (c) The Balance Sheets of A Ltd and B Ltd as on the dates of last closing of Accounts are as under –** **(Amount in ₹)**

| Equity and Liabilities | A (as on 31.03.2013) | B (as on 31.12.2012) | Assets | A (as on 31.03.2013) | B (as on 31.12.2012) |
|---|---|---|---|---|---|
| (1) Shareholders' Funds: | | | (1) Non-Current Assets: | | |
| (a) Share Capital | | | (a) Fixed Assets | | |
| - Equity Shares of ₹ 10 each | 11,00,000 | 5,00,000 | (i) Tangible | | |
| (b) Reserves & Surplus | 4,50,000 | 2,05,000 | - At Cost | 8,45,000 | 5,26,500 |
| (2) Non-Current Liabilities: | | | | | |
| Long Term Borrowings | | | Less: Depn | (1,95,000) | (1,21,500) |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 6,50,000 | 4,05,000 |
| -15% ₹ 100 Non-Convt Deb | - | 3,00,000 | (b) Non-Current Invt | | |
| (3) <u>Current Liabilities:</u> | | | (In B Ltd) | | |
| (a) Trade Payables | 4,80,000 | 2,80,000 | (i) 40,000 Shares | 8,00,000 | - |
| (b) Other Current Liabilities | 1,00,000 | 40,000 | (ii) 1,000 Debentures | 1,50,000 | - |
| (c) Short Term Provisions | | | (2) <u>Current Assets:</u> | | |
| - Tax | 1,50,000 | 2,50,000 | (a) Inventories | 2,00,000 | 3,50,000 |
| | | | (b) Trade Receivables | 2,50,000 | 4,65,000 |
| | | | (c) Cash & Cash Equiv | 2,30,000 | 3,55,000 |
| Total | 22,80,000 | 15,75,000 | Total | 22,80,000 | 15,75,000 |

**Note: Reserves & Surplus consists of Accumulated Profits & Reserves.**

**The following information is also available -**

1. On 8th February, 2013 there was a fire at the factory of B Ltd resulting in Inventory worth ₹20,000 being destroyed. B received 75% of the loss as Insurance.
2. The same fire resulted in destruction of a Machine having a written down value of ₹ 1,00,000. The Insurance Company admitted the Company's claim to the extent of 80%. The Machine was insured at its Fair Value of ₹ 1,50,000.
3. On 13th March, 2013 A sold goods costing ₹ 1,50,000 to B at a mark-up of 20%. Half of these goods were resold to A, who in turn was able to liquidate the entire stock of such goods before closure of accounts on 31st March, 2013. As on 31st March, 2013 B's accounts payable show ₹ 60,000 due to A on the two transactions.
4. A acquired the holdings in B on 1st January, 2011 when the reserves and accumulated Profits of B Ltd stood at ₹ 75,000.
5. Both Companies have not provided for tax on current year Profits. The Current year taxable Profits are ₹ 33,000 and ₹ 66,000 for A Ltd and B Ltd respectively. The tax rate is 33%.
6. The incremental profits earned by B Ltd for the period January, 2013 to March 2013 over that earned in the corresponding period in 2012 was ₹ 56,000. Expect for the Profits that resulted from the transactions with A in the aforesaid period the entire Profits have been realised in cash before 31st March. 2013.

**You are requested to consolidate the accounts of the two Companies and prepare a Consolidated Balance Sheet of A Limited and its Subsidiary as at 31st March, 2013. [15]**

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

**4. (a) State the potential XBRL applications. [5]**

**4. (b) Pilot Ltd. supplies the following information using which you are required to calculate the economic value added.**

| | | |
|---|---|---|
| Financial Leverage | 1.4 times | |
| Capital (equity and debt) | Equity shares of ₹ 1,000 each | 34,000 (number) |
| | Accumulated profit | ₹ 260 lakhs |
| | 10 percent Debenture of ₹10 each | 80 lakhs (number) |

| | | |
|---|---|---|
| Dividend expectations of equity shareholders<br>Prevailing Corporate Tax rate | 17.50%<br>30% | |

**[10]**

**4. (c) Dravid Investment Ltd. deals in equity derivatives. Their current portfolio comprises of the following instruments:**

**Infy ₹ 5,600 Call Expiry June 2014 2,000 unit bought at ₹ 197 each (cost)**

**Infy ₹ 5,700 Call Expiry June 2014 3,600 unit bought at ₹ 131 each (cost)**

**Infy ₹ 5,400 Put Expiry June 2014 4,000 unit bought at ₹ 81 each (cost)**

**What will the profit or loss to Dravid Investments Ltd. in the following situations?**

**(i) Infy closes on the expiry day at ₹ 6,041**

**(ii) Infy closes on the expiry day at ₹ 5,812**

**(iii) Infy closes on the expiry day at ₹ 5,085** **[10]**

**4. (d) (i) One major step involved in reporting process is setting the direction for TBL reporting. – Discuss.** **[6]**

**(ii) From the following details, compute according to Lev and Schwartz (1971) model, the value of human resources of skilled employees group.**

| | | |
|---|---|---|
| (1) | Annual average earning of an employee till the retirement age | ₹ 1,00,000 |
| (2) | Age of Retirement | 65 years |
| (3) | Discount rate | 15% |
| (4) | No. of employees in the group | 20 |
| (5) | Average age | 62 years |

**[4]**

**Question No. 5 (Answer any three):**

**(a) Discuss the functions of the Public Accounts Committee.** **[5]**

**(b) Describe the role of CAG.** **[5]**

**(c) List the benefits of Cash Flow Statements – IGAS 3.** **[5]**

**(d) Describe the constitution of the Board Secretariat of GASAB.** **[5]**