PAPER – 18 - CORPORATE FINANCIAL REPORTING

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

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

Paper – 18 - Corporate Financial Reporting

This paper contains 5 questions, divided in sub-questions. Each question represents the specified weightage in sections as prescribed syllabus for this paper. Answers must be given against all questions. However, students are requested to read the instructions against each individual question also. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

Question No. 1 is compulsory.

(a) What are the related party disclosure requirements as per AS-18? [5]
(b) (i) List the types of Shares based transactions as per IFRS-2 [3]
(ii) State the scope of IFRS-6 (Exploration for and Evaluation of Mineral Assets) [2]

Answer:

(a) As per AS-18**,** Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:

(i) the name of the transacting related party;
(ii) a description of the relationship between the parties;
(iii) a description of the nature of transactions;
(iv) volume of the transactions either as an amount or as an appropriate proportion;
(v) any other elements of the related party transactions necessary for an understanding of the financial statements;
(vi) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and
(vii) amounts written off or written back in the period in respect of debts due from or to related parties.

(b) (i) Share based transactions are of three types –

1. Equity-settled transactions for goods or services acquired by an entity
2 Cash settled but price or value of the goods or services is based on equity instruments of the entity and.
3. Transactions for goods or services acquired by the entity in which either the entity can settle or supplier can claim settlement by equity instruments of the entity.

(ii) An entity shall apply the IFRS to exploration and evaluation expenditures that it incurs.

The IFRS does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

An entity shall not apply the IFRS to expenditures incurred:

(a) before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.
(b) after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

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

(a) Given below are the Balance Sheets of M Ltd. and N Ltd. as on 31st December 2014 (in ₹000)

Equity and Liabilities	M Ltd.	N Ltd.
(1) Shareholders' funds		
(a)Share Capital	10,000	12,000
(b) Reserves and Surplus		
(i) General Reserve	5,000	4,000
(ii)Export Profit Reserve (Note)	2,000	3,000
Non-Current Liabilities		
Long Term Borrowings		
14% Debentures	5,000	5,000
Current Liabilities		
Trade Payables - Sundry Creditors	2,000	1,000
Short Term Provisions	4,500	5,000
Total	28,500	30,000
Assets		
Non-current Assets		
Fixed Assets	16,500	18,000
Non-Current Investments	5,000	—
Current Assets		
Inventories	5,000	5,000
Trade Receivables(Drs)	1,500	6,500
Cash & Cash Equivalents	500	500
Total	28,500	30,000

Note: This is a Statutory Reserve as per Income Tax Law.

Share of M Ltd and N Ltd are ₹ 10 each. MN Ltd has been formed for the purpose of Amalgamation which took over M Ltd and N Ltd and in exchange, Shares of MN Ltd were issued. Expenses for Amalgamation were ₹ 100 (000s). 14% New Debentures are to be issued to the Debenture holders of M Ltd and N Ltd.
Show the Purchase Consideration based on Net Assets of Transferor Companies. [5]

Answer:

Calculation of Purchase Consideration based on Net Assets of Transferor Companies

Particulars	M Ltd	N Ltd
Sundry Assets Less: Creditors, Provision & Debentures	28,500 (11,500)	30,000 (11,000)
Net Assets Less: General Reserve + Export Profit Reserve	17,000 7,000	19,000 7,000
Gross Purchase Consideration payable	10,000	12,000
Purchase Consideration apportioned (₹ 10,000 + ₹ 12,000 = Total ₹ 22,000) [apportioned based on Net Assets Ratio]	$22,000 \text{ x } \frac{17,000}{36,000} = 10,390$	$22,000 \text{ x } \frac{19,000}{36,000} = 11,610$
Paid-up Capital of the Transferor Companies	10,000	12,000
Difference between Purchase Consideration and Paid-up Capital of Transferor Companies	390	(390)
Nature of Difference	Excess	Lower
Treatment / Adjustment (as per EAC Opinion)	General Reserve	Capital Reserve

Note: Since the Scheme of takeover requires that Issued Capital should not be increased, the Purchase Consideration is restricted to ₹ 22,000, even though Net Assets Value is more at ₹ 36,000.

(b) A Ltd. and M Ltd. decide to amalgamate and to form a new company AM Ltd. The following are their summarised balance sheets as at 31.3.2015:

Equity and Liabilities	**A Ltd. (₹)**	**M Ltd. (₹)**
(1)Shareholders' funds		
(a)Share Capital (₹ 100) each	**10,00,000**	**6,00,000**
(b) Reserves and Surplus		
General Reserve	**1,00,000**	**50,000**
Investment Allowance Reserve	**40,000**	**30,000**
Non-Current Liabilities		
12% Debentures (₹100 each)	**3,00,000**	**1,00,000**
Current Liabilities		
Trade payables	**60,000**	**20,000**
Total	**15,00,000**	**8,00,000**
Assets		
Non-current Assets		
Fixed Assets	**7,50,000**	**2,00,000**
Non-current investments		
1,500 Shares in M	**3,50,000**	**—**
4,000 Shares in A	**—**	**5,00,000**
Current Assets	**4,00,000**	**1,00,000**
Total	**15,00,000**	**8,00,000**

Calculate the amount of purchase consideration for A Ltd. and M Ltd. and draw up the balance sheet of AM Ltd. after considering the following:

(i) Assume amalgamation is in the nature of purchase.

(ii) Fixed assets of A Ltd. are to be reduced by ₹ 50,000 and that of M Ltd. are to be taken at ₹ 3,00,000.

(iii) 12% debentureholders of A Ltd. and M Ltd. are discharged by AM Ltd. by issuing such number of its 15% debentures of ₹ 100 each so as to maintain the same amount of interest.

(iv) Shares of AM Ltd. are of ₹ 100 each.

Also show, how the investment allowance reserve will be treated in the Financial Statement assuming the Reserve will be maintained for 3 years. [10]

Answer:

(b) Calculation of Purchase consideration

(i) Value of Net Assets of A Ltd. and M Ltd. as on 31st March, 2015

		A Ltd. (₹)		M Ltd. (₹)
Assets taken over:				
Fixed Assets	7,00,000		3,00,000	
Current Assets	4,00,000	11,00,000	1,00,000	4,00,000
Less: Liabilities taken over:				
Debentures (WN)	2,40,000		80,000	
Trade payables	60,000	(3,00,000)	20,000	(1,00,000)
		8,00,000		3,00,000

(ii) Value of Shares of A Ltd. and M Ltd.

A Ltd. holds 1,500 shares in M Ltd. i.e. 1/4th of the shares of M Ltd.

The value of shares of A Ltd. is ₹ 8,00,000 plus 1/4 of the value of the shares of M Ltd.

M Ltd. holds 4,000 shares in A Ltd. i.e. 2/5th of the shares of A Ltd.

Similarly, the value of shares of M Ltd. is ₹ 3,00,000 plus 2/5 of the value of shares of A Ltd.

Let 'a' denote the value of shares of A Ltd. and 'm' denote the value of shares of M Ltd. then

a = 8,00,000 + 1/4 m; and

m = 3,00,000 + 2/5 a.

Substituting the value of m,

a = 8,00,000 + 1/4 (3,00,000 + 2/5 a)

a =8,00,000 + 75,000 + 1/10 a

9/10 a =8,75,000

a = 9,72,222

m = 3,00,000 + 2/5 (9,72,222)

m = 6,88,889

(iii) Amount of Purchase Consideration

	A Ltd. (₹)	M Ltd. (₹)
Total value of shares (as determined above)	9,72,222	6,88,889
Less: Internal investments:		
2/5 for shares held by M Ltd.	(3,88,889)	----
1/4 for shares held by A Ltd.	----	(1,72,222)
Amount due to outsiders	5,83,333	5,16,667

Purchase Consideration will be satisfied by AM Ltd. as follows:

	A Ltd. (₹)	M Ltd. (₹)
In shares (of ₹ 100 each)	5,83,300	5,16,600
In cash	33	67

(iv) Net Amount of Goodwill/Capital Reserve

	₹	₹
Total Purchase Consideration		
A Ltd.	5,83,333	
M Ltd.	5,16,667	11,00,000
Less: Net Assets taken over		
A Ltd.	8,00,000	
M Ltd.	3,00,000	(11,00,000)
		Nil

(Alternatively, the calculations may be made separately for both the companies)

Balance Sheet of AM Ltd.
as at 31st March, 2015

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
(1)Shareholder's Funds		
(a) Share Capital	1	10,99,900
(b) Reserves and Surplus	2	70,000
(2) Non-Current Liabilities		
Long-term borrowings	3	3,20,000
(3) Current Liabilities		
Trade payables		80,000
Total		15,69,900
II. Assets		
(1) Non-current assets		
(a) Fixed assets	4	10,00,000
(b) Other non-current assets	5	70,000
(2) Current assets		4,99,900
Total		15,69,900

Notes to Accounts

S.N.	Particulars	(₹)	(₹)
1.	Share Capital		
	10,999 shares of ₹ 100 each		10,99,900
	(All the above shares are allotted as fully paid-up for consideration other than cash)		
2.	Reserves and surplus		
	Investment Allowance Reserve		70,000
3.	Long Term Borrowings		
	15% Debentures (W.N.)		3,20,000
4.	Other non-current assets		
	Amalgamation Adjustment Account		70,000
5.	Current assets [4,00,000 + 1,00,000]	5,00,000	
	Less. Purchase consideration paid in cash ₹ (33+67)	(100)	
			4,99,900

Working Note:
Calculation of Debentures to be issued

	A Ltd.	M Ltd.
12% Debentures	3,00,000	1,00,000
Interest on Debentures @ 12 % (a)	36,000	12,000
AM Ltd. Debentures rate of interest (b)	15%	15%
Debenture Value to earn above calculated interest (a / b)	2,40,000	80,000

(c) The business of H Ltd. was carried on continuously at losses. The following are the extracts from the Balance Sheet of the company as on 31st March,2015

Equity and Liabilities	**H Ltd. (₹)**
(1) Shareholders' funds	
(a) Share Capital (₹ 100) each	
30,000 Equity Shares of ₹10 fully paid	**3,00,000**

2,000 8% Cum Preference Share of ₹100 fully paid	2,00,000
(b) Reserves and Surplus	
Securities Premium Account	90,000
Profit & Loss Account	(2,05,000)
Non-Current Liabilities	
Long Term Borrowings	
Unsecured Loan (From Directors)	50,000
Current Liabilities	
Trade payables	3,00,000
Outstanding Expenses (including Directors Remuneration ₹ 20,000)	70,000
Total	8,05,000
Assets	
Non-current Assets	
Fixed Assets	
Tangible Assets	
Plant	3,00,000
Loose Tools	10,000
Intangible Assets	
Goodwill	50,000
Current Assets	
Inventories	1,50,000
Trade Receivables - Debtors	2,50,000
Cash & Cash Equivalents	
Cash	10,000
Bank	35,000
Total	8,05,000

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:

S.N.	Particulars	Debit (₹)	Credit (₹)
(a)	**<u>For Sub Division of Shares</u>** Equity Share Capital (₹ 10 each) A/c Dr. Dr. To Equity Share Capital (₹2 each) 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
(b)	**<u>For Surrender of Shares</u>** Equity Share Capital (₹ 2) A/c Dr. To Shares Surrendered A/c (Being 90% of Equity shares surrendered as per scheme of reconstruction)	2,70,000	 2,70,000
(c)	**<u>For Conversion of Preference Share Capital</u>** 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
(d)	**<u>For Surrendered shares issued to creditors under reconstruction</u>** scheme 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
(e)	**<u>For Expenses Paid</u>** Expenses A/c Dr. To Bank A/c (Being expenses of reconstruction paid)	10,000	 10,000
(f)	**<u>For Cancellation of unissued surrendered shares</u>** Shares Surrendered A/c Dr. To Capital Reduction A/c (Being cancellation of remaining surrendered shares According to scheme of reconstruction.)	2,35,000	 2,35,000
(g)	**<u>For Amount sacrificed by Directors</u>** Unsecured Loan A/c Dr. Sundry Creditors A/c 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

(h)	**For Assets Written off** 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 Expenses A/c To Plant A/c (Being expenses of reconstruction, various losses and amounts written off Various assets debited to capital reduction account as per scheme of Reconstruction balance amount credited to Plant account.)	 3,65,000	 50,000 8,000 15,000 20,000 2,05,000 10,000 57,000
(i)	**For Issue of Shares Applications received** Bank A/c Dr. To Share Application A/c Allotment of Shares Share Application A/c Dr. To Share Capital A/c (Being 50000 equity shares of ₹ 2 each issued as fully paid as per Board's Resolution dated ……..)	 1,00,000 1,00,000	 1,00,000 1,00,000

Note 1 : a. Cancellation of Preference dividend need not be journalised; on cancellation it cease to be contingent liability and hence no further disclosure.

b. Preference shareholders have to forego policy rights presently enjoyed at par with Equity Shareholders.

Note 2 : The transfer of 100 shares by the dissentient shareholders to the director concerned need not be journalised.

Note 3 : It has been assumed that the share premium account is to be kept in fact since the scheme is silent about it.

(d) Red Ltd. and Blue Ltd. propose to amalgamate. Their balance sheets as at 31st March, 2015 were as follows:

Equity and Liabilities	**Note**	**Red Ltd. (₹)**	**Blue Ltd. (₹)**
Shareholders' funds			
Share Capital			
Equity share capital (in shares of ₹10 each)		**26,25,000**	**10,50,000**
Reserves and Surplus	**1**	**15,75,000**	**2,62,500**
Current Liabilities:			
Trade Payables - Creditors		**5,25,000**	**2,62,500**
Total		**47,25,000**	**15,75,000**
Assets			
Non-current Assets:			
Fixed Assets (less depreciation)		**21,00,000**	**5,25,000**
Investments (Face value of ₹5.25 lakhs, 6% Tax free G.P notes)		**5,25,000**	
Current Assets:			
Inventories		**10,50,000**	**6,82,500**

Trade receivables - Debtors		**8,92,500**	**3,15,000**
Cash and cash equivalents		**1,57,500**	**52,500**
Total		**47,25,000**	**15,75,000**

Note 1: Reserves and Surplus	**Red Ltd. (₹)**	**Blue Ltd. (₹)**
General Reserves	**10,50,000**	**1,05,000**
Profit and Loss Account	**5,25,000**	**1,57,500**

Their Net Profit (after taxation) were as follows:

Year	**Red Ltd.**	**Blue Ltd.**
2012-13	**(₹)6,82,500**	**(₹)2,36,250**
2013-14	**(₹)6,56,250**	**(₹)2,10,000**
2014-15	**(₹)7,87,500**	**(₹)2,94,000**

Normal trading profit may be considered as 15% on closing capital invested. Goodwill may be taken as 4 year's purchase of average super profit. The stock of Red Ltd. and Blue Ltd. are to be taken at ₹ 10,71,000 and ₹ 7,45,500 respectively for the purpose of amalgamation. Green Ltd. is formed for the purpose of amalgamation of two companies. Assume Tax Rate 30%.

(i) Ascertain the number of shares to be issued by Green Ltd. in the form of equity shares of ₹10 each.

(ii) Draft the opening balance sheet of Green Ltd. after amalgamation [10]

Answer:

(i) Computation of shares to be issued by Green Ltd.

Computation of Net Assets of amalgamating companies

	Red Ltd. (₹)	**Blue Ltd. (₹)**
Goodwill (W.N 2)	5,48,800	2,20,500
Fixed Assets	21,00,000	5,25,000
6% investments (Non- trade)	5,25,000	----
Inventories	10,71,000	7,45,500
Debtors	8,92,500	3,15,000
Cash and cash equivalents	1,57,500	52,500
	52,94,800	18,58,500
Less: Creditors	5,25,000	2,62,500
Net Assets	47,69,800	15,96,000
No. of Equity Shares	262500	105000
Intrinsic value of a share	₹18.17067	₹15.20
No of shares to be issued by Green Ltd. to		
Red Ltd. 1,50,000 X 18.208/10	476980 shares	
Blue Ltd. 60,000 X 15.12/10		159600 shares

In total 476980 + 159600 i.e. 636580 shares will be issued by Green Ltd.

Ratio of exchange of shares will be as follows:
A. Holders of 262500 equity shares of Red Ltd. will get 476980 shares in Green Ltd.
B. Similarly, holders of 105000 equity shares of Blue Ltd. will get 159600 shares in Green Ltd.

(ii)

Green Ltd. (Opening Balance Sheet)
as on 01.04.2015

Equity and Liabilities	Note	Current Year	Previous Year
Shareholders' funds			
Share Capital			
Equity share capital (in shares of ₹10 each)		63,65,800	
Current Liabilities:			
Trade Payables-Creditors(5,25,500 + 2,62,500)		7,87,500	
Total		71,53,300	
Assets			
Non-current Assets:			
Fixed Assets (less depreciation)			
Tangible assets(21,00,000 + 5,25,000)		26,25,000	
Intangible assets(5,48,800 + 2,20,500)		7,69,300	
Investments (Face value of ₹ 5.25 lakhs, 6% Tax free G.P notes)		5,25,000	
Current Assets:			
Inventories(10,71,000+7,45,500)		18,16,500	
Trade receivables-debtors(8,92,500+ 3,15,000)		12,07,500	
Cash and cash equivalents(1,57,500+52,500)		2,10,000	
Total		71,53,300	

Working Notes:

A. Calculation of Closing trading capital employed on the basis of net assets

	Red Ltd. (₹)	Blue Ltd. (₹)
Fixed Assets	21,00,000	5,25,000
Inventories	10,71,000	7,45,500
Debtors	8,92,500	3,15,000
Cash and cash equivalents	1,57,500	52,500
	42,21,000	16,38,000
Less: Creditors	5,25,000	2,62,500
Net Assets	36,96,000	13,75,500

B. Calculation of value of Goodwill

Average trading profit

	Red Ltd. (₹)	Blue Ltd. (₹)
2012-13	6,82,500	2,36,250
2013-14	6,56,250	2,10,000
2014-15	7,87,500	2,94,000
Profit after tax	21,26,250	7,40,250
Profit before tax	30,37,500	10,57,500
Add: Under valuation of closing stock	21,000	63,000
	30,58,500	11,20,500
Average of 3 years' profit before tax	10,19,500	3,73,500
Less: Income from non-trade investments (5,25,000 X 6%)	31,500	--
Average profit before tax	9,88,000	3,73,500
Less: 30% tax	2,96,400	1,12,050
Average profit after tax	6,91,600	2,61,450

Super Profits

	Red Ltd. (₹)	Blue Ltd. (₹)
Average trading profit Less: Normal Profit Red Ltd. ₹ 36,96,000 X 15% Blue Ltd. ₹ 13,75,500 X 15%	6,91,600 5,54,400 --	2,61,450 -- 2,06,325
	1,37,200	**55,125**

Value of Goodwill

	Red Ltd. (₹)	Blue Ltd. (₹)
Value of Goodwill at 4 years' purchase of super profits	5,48,800	2,20,500

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

(a) The Balance Sheet of Golden and Silver Limited as on 31.3.2015 are given below:

Equity and Liabilities	Note	Golden Ltd.(₹)	Silver Ltd.(₹)
Shareholders' funds			
Share Capital			
Equity share capital		**2,40,000**	**2,40,000**
Reserves and Surplus	**1**	**64,000**	**71,000**
Current Liabilities:			
Trade Payables - Creditors		**8,000**	**15,000**
Other current liabilities		**4,000**	**10,000**
Total		**3,16,000**	**3,36,000**
Assets			
Non-current Assets:			
Fixed Assets		**88,000**	**1,68,000**
Investments		**1,80,000**	**10,000**
Current Assets:			
Inventories		**20,000**	**80,000**
Trade receivables - Debtors		**12,000**	**30,000**
Cash and cash equivalents		**8,000**	**16,000**
Other current assets		**8,000**	**32,000**
Total		**3,16,000**	**3,36,000**

Note 1: Reserves and Surplus	Golden Ltd. (₹)	Silver Ltd. (₹)
General Reserves	**40,000**	**32,000**
Profit and Loss Account	**24,000**	**39,000**

Additional information:

(i) On 1.10.2012, Golden Ltd. acquired 16,000 shares of ₹10 each at the rate of ₹11 per share.

(ii) Balances to General reserve and Profit and Loss account of Silver Ltd. stood on 1.4.2012 at ₹60,000 and ₹32,000 respectively.

(iii) All the dividends declared and paid relating to the past years had been properly adjusted for to arrive at the Profit and Loss Account Balance.

(iv) On 1.3.2015, bonus shares were issued by Silver Ltd. at the rate of one fully paid share for every five held and effect has been given to that in the above accounts. The bonus was declared from general reserves from out of profits earned prior to 1.4.2012.

(v) On 1.10.2012, Fixed assets was revalued at ₹2,16,000, but no adjustment had been made in the books.

(vi) Depreciation had been charged @ 10% p.a. on the book value as on 1.4.2012 (on straight line method), there being no addition or sale since then.

(vii) Out of Current profits ₹4,000 have been transferred to General reserve every year.

(viii) Bills receivable of Golden Ltd. include ₹4,000 bills accepted by Silver Ltd. Bills discounted by Golden Ltd., but not yet matured include ₹3,000 accepted by Silver Ltd.

(ix) Sundry creditors of Golden Ltd. include ₹4,000 due to Silver Ltd. Sundry debtors of Silver Ltd. include ₹8,000 due from Golden Ltd.

(x) It is found that Golden Ltd. has remitted a cheque of ₹4,000, which has not yet been received by Silver Ltd.

Show the analysis of pre and post acquisition profit and reserves as on 31.03.2015 for the purpose of consolidation. [10]

Answer:

Interest of Golden Ltd in Silver Ltd.	₹
Share capital of Silver Ltd. on 31.3.2015 Less: Issue of Bonus Shares $\frac{1}{6} \times ₹2,40,000$	2,40,000 40,000
Share capital before Bonus issue	2,00,000
No. of Equity Shares before Bonus issue $\frac{2,00,000}{10}$ No. of shares held by Golden Ltd.	20,000 16,000
Interest of Golden Ltd. in Silver Ltd $\frac{16,000}{20,000} \times 100$	80%
Minority shareholders' Interest	20%

Analysis of Profit of Silver Ltd.

		Capital Profit (₹)	**Revenue Reserve (₹)**	**Revenue Profit (₹)**
General Reserve on 31.3.2015 (After Bonus issue)	32,000			
Add: Bonus issue	40,000			
Balance (before bonus issue) ₹ 1,80,000 – (16,000 shares x ₹ 11)	72,000			
General Reserve on 1.4.2012	60,000			
Less: Bonus issue	40,000	**20,000**		
Increase in General Reserve (Transfer of ₹4000 p.a. for 3 years) (72,000 – 60,000)	12,000	**2,000**	**10,000**	
Profit and Loss Account (39,000 – 12,000)	27,000	**4,500**		**22,500**
Additional depreciation written back due to revaluation of fixed assets $12,000 \times \frac{10}{100} \times 2.5$				**3,000**
		26,500	**10,000**	**25,500**
Share of Golden Ltd. (80%)		21,200	**8,000**	**20,400**
Share of Minority Shareholders (20%)		5,300	**2,000**	**5,100**
		26,500	**10,000**	**25,500**

Loss on Revaluation has been calculated as follows:	
Value of Assets on 1.4.2012 (1,68,000 X$\frac{100}{70}$)	2,40,000
Less : Depreciation for 6 months (2,40,000X$\frac{10}{100}$X$\frac{1}{2}$)	12,000
Valuation of Assets on 1.10.2012	2,28,000
Less: Re-valued value of Assets	2,16,000
Loss on Revaluation	12,000
It has been assumed that Profit of ₹27,000 for the year 2014-2015, has been earned evenly in 3 years, (year 2012-13, 2013-14 and 2014-15) hence profit per year would be $\frac{27,000}{3}$ = ₹9000.Half of the profit of ₹9,000 for the year 2012-13 would be pre-acquisition (Capital Profit) and Remaining half i.e. ₹4500 would be post-acquisition profit (Revenue profit).	

(b) HJ Ltd. made an offer to acquire all the Shares of LJ Ltd., to be satisfied by the allotment of 5 Shares in HJ Ltd. at ₹ 25 per Share for every 4 Shares in LJ Ltd. By the date of expiration of the offer, which was on 1.1.2014, Shareholders owning 75% of the Shares LJ Ltd. accepted the offer and the acquisition was effective from that date.
The accounting date of LJ Ltd. was on 31st March in each year, but to conform with HJ Ltd. the accounts were prepared to 30.06.2014, covering the Fifteen Months to the date.
The draft summarized accounts of the Companies on 30.06.2014 which do not include any of Shares in LJ Ltd. were as follows –

Equity and Liabilities	**HJ (₹)**	**LJ(₹)**
(1) Shareholders' Funds:		
(a) Share Capital -Authorised	**3,00,000**	**75,000**
- Issued & Fully paid (₹ 10)	**1,50,000**	**60,000**
(b) Reserves & Surplus		
- General Reserve	**55,000**	**---**
- Profit & Loss A/c	**62,000**	**20,000**
(2) Current Liabilities:		
(a) Other Current Liabilities	**27,000**	**7,000**
(b) Short Term Provisions		
- Provision for Taxation	**33,000**	**6,000**
Total	**3,27,000**	**93,000**
Assets	**HJ(₹)**	**LJ(₹)**
(1) Non-Current Assets:		
(a) Fixed Assets - Tangible		
(i) P & M at Cost	**50,000**	**12,000**
Less: Depreciation	**18,000**	**3,000**
	32,000	**9,000**
(ii)Freehold Prop,(at cost)	**2,00,000**	**38,000**
(b) Non-Current Investments		
(Quoted Invt at Cost)	**7,000**	**-**
(2) Current Assets:		
(a) Inventories	**32,000**	**21,000**
(b) Trade Receivables - Drs	**41,000**	**17,000**
(c)Cash & Cash Equivalents	**15,000**	**8,000**
Total	**3,27,000**	**93,000**

Profit & Loss Account - Period ending 30.06.2014

Particulars	HJ	LJ
Period	**12 Months**	**15 Months**
Balance brought forward	**14,000**	**12,000**
Add: Profit for the period	**80,000**	**18,000**
Total	**94,000**	**30,000**
Taxation for the period	**32,000**	**6,000**
Interim Dividend paid, 30th Nov 2013	**---**	**4,000**
Balance Carried forward	**62,000**	**20,000**
Total	**94,000**	**30,000**

The Directors of HJ Ltd recommended a final dividend of 20% to the Shareholders on register as on 30.06.2014. The Directors of LJ Ltd proposed a final dividend of 12.50% payable on 30.09.2014.
You are required to prepare the Consolidated Balance Sheet of HJ Ltd and LJ as on 30.06.2014. [15]

Answer:

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = HJ Subsidiary = LJ	Acquisition: 01.01.2014 Consolidation: 30.06.2014	Holding Company = 75% Minority Interest = 25%

2. Computation of Purchase Consideration - Cost of Investment in LJ in HJ's books

Particulars	₹
Number of Shares Acquired (75% of 6,000 Shares)	4,500
Exchange Ratio (5 Shares in HJ Ltd for 4 Shares of LJ Ltd)	
Number of Shares issued by HJ Ltd (5/4 x 4,500)	5,625
Issue Price Per Share	25
Total Purchase Consideration (5,625 Shares x ₹ 25 Per Share)	1,40,625
Part of Equity Share Capital (5,625 Shares x ₹ 10 Per Share)	56,250
Part of Securities Premium (5,625 Shares x ₹ 15 Per Share)	84,375

3. Analysis of Profit and Loss Account of LJ Ltd

Balance on 30.06.2014 ₹ 20,000
Less: Proposed Dividend (₹ 60,000 x 12.5%) ₹ 7,500
Corrected Balance ₹ 12,500

Balance on 01.04.2013 (Preceding B/ Sheet) ₹ 12,000
Capital Profit
- Group Interest-Pre = 12,000 x 75% = 9,000
- Minority Interest = 12,000 x 25% = 3,000

Profit for 15 Months (01.04.13 to 30.06.14 i.e. upto consolidation) (balancing figure) ₹ 500
- 01.04.13 to 31.12.13: ₹ 500 x 9/15 = ₹ 300 — Capital Profit
  - GI-Pre = 300x75% =225
  - MI = 300x25% =75
- 01.03.14 to 30.06.14: ₹ 500 x 6/15 = ₹ 200 — Revenue Profit
  - GI-Pre = 200x75% =150
  - MI = 200x25% =50

Total Capital Profits: ₹ 12,000 + 300 = ₹ 12,300, Total Revenue Profits: ₹ 200

4. Consolidation of Balances

Particulars	Total	Minority Interest	Pre-Acquisition	Post Acquisition	
LJ (Holding 75%, Minority 25%)				Gen. Res.	P&L A/c
Equity Capital	60,000	15,000	45,000		
Profit and Loss A/c	12,500	3,125	9,225		150
Share of Proposed Dividend	7,500	1,875	3,375 7500x(9/15)x75%]		2,250 7,500x(6/15)x75%]
Minority Interest		20,000			
Total [Cr]			57,600	---	2,400
Cost of Investment [Dr.]			(1,40,625)		
Parent's Balances				55,000	62,000
Proposed Dividend [(₹1,50,000x20%)+ New Shares ₹56,250 x 20% x 6/12)]					(35,625)
For Consolidated Balance Sheet		20,000	83,025 (Goodwill)	55,000	28,775

5. Consolidated Balance Sheet of HJ Ltd. and its subsidiary LJ Ltd. as at 30.06.2014

	Particulars as at 30th June	Note	This Year	Prev. Year
I	EQUITY AND LIABILITIES			
(1)	Shareholders' Funds:			
	(a) Share Capital	1	2,06,250	
	(b) Reserves & Surplus	2	1,68,150	
(2)	Minority Interest		20,000	
(3)	Current Liabilities			
	(a) Other Current Liabilities (27,000 + 7,000)		34,000	
	(b) Short Term Provisions	3	74,625	
	Total		5,03,025	
II	ASSETS			
(1)	Non-Current Assets			
	(a) Fixed Assets (i) Tangible Assets	4	2,79,000	
	(ii)Intangible Assets - Goodwill on Consolidation		83,025	
	(b) Non-Current Investments - Quoted at Cost		7,000	
(2)	Current Assets			
	(a) Inventories = 32,000 + 21,000		53,000	
	(b) Trade Receivables = 41,000 + 17,000		58,000	
	(c) Cash & Cash Equivalents = 15,000 + 8,000		23,000	
	Total		5,03,025	

Notes to the Balance Sheet

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: ....Equity Shares of ₹ 10 each		
Issued, Subscribed & Paid up: [₹ 1,50,000 + (5,625 Shares x ₹ 10)] (Of the above, 5,625 Shares were issued for Non-Cash Consideration)	2,06,250	
Total	2,06,250	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Securities Premium	84,375	
(b) Other Reserves - General Reserve	55,000	
(c) Surplus (Balance in P & L A/c)	28,775	
Total	1,68,150	

Note 3: Short Term Provisions

Particulars	This Year	Prev. Year
(a) Proposed Dividend (HJ)	35,625	
(b) Provision for Taxation (33,000 + 6,000)	39,000	
Total	74,625	

Note 4: Tangible Assets

Particulars	This Year	Prev. Year
(a) Freehold Property (2,00,000 + 38,000)	2,38,000	
(b) Plant & Machinery (32,000 + 9,000)	41,000	
Total	2,79,000	

(c) Following are the Balance Sheets of Mumbai Limited, Delhi Limited, Amritsar Limited and Kanpur Limited as at 31st March,2015:

Liabilities	M Ltd.	D Ltd.	A Ltd.	K Ltd.
Share Capital (₹ 100 face value)	1,00,00,000	80,00,000	40,00,000	1,20,00,000
General Reserve	40,00,000	8,00,000	5,00,000	20,00,000
Profit & Loss Account	20,00,000	8,00,000	5,00,000	6,40,000
Sundry Creditors	6,00,000	2,00,000	1,00,000	1,60,000
	1,76,00,000	98,00,000	51,00,000	1,48,00,000
Assets				
Investments:				
30,000 shares in D Ltd.	70,00,000	---	---	---
10,000 shares in A Ltd.	22,00,000	---	---	---
5,000 shares in A Ltd.	---	10,00,000	---	---
Shares in K Ltd. @ ₹ 120	72,00,000	36,00,000	12,00,000	---
Fixed Assets	---	40,00,000	30,00,000	1,40,00,000
Current Assets	2,00,000	12,00,000	9,00,000	8,00,000
	1,76,00,000	98,00,000	51,00,000	1,48,00,000

Balance in General Reserve Account and Profit & Loss Account, when shares were purchased in different companies were:

	M Ltd.	D Ltd.	A Ltd.	K Ltd.
General Reserve Account	20,00,000	4,00,000	2,00,000	12,00,000
Profit & Loss Account	12,00,000	4,00,000	1,00,000	1,20,000

Required:

Prepare the consolidated Balance Sheet of the group as at 31st March, 2015 (Calculations may be rounded off to the nearest rupee). [15]

Answer:

Name of the Company: M Ltd. and its subsidiary D Ltd., A Ltd. and K Ltd.

Consolidated Balance Sheet as at 31st March,2015

Ref No.	Particulars		Note No.	As at 31st March,2015	As at 31st March,2014
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**		-	
		(a) Share capital	1	1,00,00,000	-
		(b) Reserves and surplus	2	80,64,375	-
		(c)Money received against share warrants		-	-
				-	-
	2	**Minority Interest**		62,50,625	-
	3	**Non-current liabilities**		-	
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	10,60,000	-
		(c) Other current liabilities			-
		(d) Short-term provisions			-
					-
		TOTAL (1+2+3+4)		2,53,75,000	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	2,10,00,000	-
		(ii) Intangible assets	5	12,75,000	-
		(iii) Capital work-in-progress			-
		(iv) Intangible assets under development			-
		(v) Fixed assets held for sale			-
		(b) Non-current investments			

Ref No.		Particulars	Note No.	As at 31st March,2015	As at 31st March,2014
				₹	₹
		(c) Deferred tax assets (net)			-
		(d) Long-term loans and advances			-
		(e) Other non-current assets			-
					-
	2	**Current assets**			
		(a) Current investments			-
		(b) Inventories			-
		(c) Trade receivables			-
		(d) Cash and cash equivalents	6	31,00,000	-
		(e) Short-term loans and advances			-
		(f) Other current assets			-
					-
		TOTAL (1+2)		2,53,75,000	-

Annexure

Note 1. Share Capital	**As at 31st March, 2015 (₹)**	**As at 31st March, 2014(₹)**
Authorised,issued, Subscribed and paid –up Share Capital:		
1,00,000 Equity Shares of ₹100 each	1,00,00,000	
Total	1,00,00,000	

Note 2. Reserves and Surplus	**As at 31st March, 2015 (₹)**	**As at 31st March, 2014(₹)**
General Reserves	51,02,083	
Profit & Loss A/c	29,62,292	
Total	80,64,375	

Note 3. Trade Payables	**As at 31st March, 2015 (₹)**	**As at 31st March, 2014(₹)**
Sundry Creditors (6,00,000+2,00,000+1,00,000+1,60,000)	10,60,000	
Total	10,60,000	

Note 4. Tangible Assets	**As at 31st March, 2015 (₹)**	**As at 31st March, 2014(₹)**
Fixed Assets (40,00,000+30,00,000+1,40,00,000)	2,10,00,000	
	2,10,00,000	

Note 5. Intangible Assets	As at 31st March, 2015 (₹)	As at 31st March, 2014(₹)
Goodwill (WN iv)	12,75,000	
Total	12,75,000	

Note 6. Cash and Cash Equivalents	As at 31st March, 2015 (₹)	As at 31st March, 2014(₹)
Cash at Bank	31,00,000	
Total	31,00,000	

(i) Analysis of profits of K Ltd.

	Capital Profit (₹)	Revenue Reserve (₹)	Revenue Profit (₹)
General Reserve on the date of purchase of shares	12,00,000		
Profit and Loss A/c on the date of purchase of shares	1,20,000		
Increase in General Reserve		8,00,000	
Increase in profit			5,20,000
	13,20,000	8,00,000	5,20,000
Less : Minority Interest (1/6)	2,20,000	1,33,333	86,667
	11,00,000	6,66,667	4,33,000
Share of M Ltd. (1/2)	6,60,000	4,00,000	2,60,000
Share of D Ltd. (1/4)	3,30,000	2,00,000	1,30,000
Share of A Ltd. (1/12)	1,10,000	66,667	43,333

(ii) Analysis of profits of A Ltd.

	Capital Profit (₹)	Revenue Reserve (₹)	Revenue Profit (₹)
General Reserve on the date of purchase of shares	2,00,000		
Profit and Loss A/c on the date of purchase of shares	1,00,000		
Increase in General Reserve		3,00,000	
Increase in Profit & Loss A/c			4,00,000
Share in K Ltd.		66,667	43,333
	3,00,000	3,66,667	4,43,333
Less : Minority Interest (1/4)	75,000	91,667	1,10,000
	2,25,000	2,75,000	3,32,500
Share of M Ltd. (1/2)	1,50,000	1,83,333	2,21,667
Share of D Ltd. (1/4)	75,000	91,667	1,10,833

(iii) Analysis of profits of D Ltd.

	Capital Profit (₹)	Revenue Reserve (₹)	Revenue Profit (₹)
General Reserve on the date of purchase of shares	4,00,000		
Profit and Loss A/c on the date of purchase of shares	4,00,000		
Increase in General Reserve		4,00,000	
Increase in Profit & Loss A/c			4,00,000
Share in K Ltd.		2,00,000	1,30,000
Share in A Ltd.		91,667	1,10,833
	80,00,000	6,91,667	6,40,833
Less : Minority Interest (1/4)	2,00,000	1,72,917	1,60,208
Share of M Ltd. (1/2)	6,00,000	5,18,750	4,80,625

(iv) Cost of control

	(₹)	(₹)
Investment in		
D Ltd.	70,00,000	
A Ltd.	32,00,000	
K Ltd.	1,20,00,000	
	2,22,00,000	
Paid up value of investments in		
D Ltd.	60,00,000	
A Ltd.	30,00,000	
K Ltd.	1,00,00,000	(1,90,00,000)
Capital profits in		
D Ltd.	6,00,000	
A Ltd.	2,25,000	
K Ltd.	11,00,000	(19,25,000)
Goodwill		12,75,000

(v) Minority interest

	(₹)	(₹)
Share Capital:		
D Ltd. (1/4)	20,00,000	
A Ltd. (1/4)	10,00,000	
K Ltd. (1/6)	20,00,000	
		50,00,000
Share in profits & reserves (Pre and Post-Acquisitions)		
D Ltd.	5,33,125	
A Ltd.	2,77,500	
K Ltd.	4,40,000	12,50,625
		62,50,625

(vi) General Reserve — M Ltd.

	(₹)
Balance as on 31.12.2015 (given)	40,00,000
Share in	
D Ltd.	5,18,750
A Ltd.	1,83,335
K Ltd.	4,00,000
	51,02,083

(vii) Profit and Loss Account — M Ltd.

	(₹)
Balance as on 31.12.2015 (given)	20,00,000
Share in	
D Ltd.	4,80,625
A Ltd.	2,21,667
K Ltd.	2,60,000
	29,62,292

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

(a) List the specific commercial advantages included in Triple Bottom Line Reporting. [5]

Answer:

(a) The business case for TBL reporting centres on improved relationships with key stakeholders such as employees, customers, investors and shareholders.

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

(b) Aro Ltd. furnishes the following Profit and Loss Account-

Profit and Loss Account for the year ended 31st March 2015

Particulars	Notes	₹(000)
INCOME:		
Turnover	**1**	**89,616**
Other Income		**3,126**

Sub-Total		**92,742**
EXPENDITURE:		
Operating Expenses	**2**	**80,223**
Interest on 8% Debentures		**2,961**
Interest on Cash Credit	**3**	**453**
Excise Duty		**5,856**
Sub-Total		**89,493**
Profit before Depreciation		**3,249**
Less: Depreciation		**(1,026)**
Profit before tax		**2,223**
Less: Provision for tax	**4**	**(1,128)**
Profit after tax		**1,095**
Less: Transfer to fixed assets replacement reserve		**(195)**
Profit available for distribution		**900**
Less: Dividend Paid		**(375)**
Retained Profit		**525**

Notes:
1. **Turnover is based on Invoice Value and net of sales tax.**
2. **Salaries, wages and other employee benefits amounting to ₹44,283(000) are included in Operating Expenses.**
3. **Cash credit represents a temporary source of finance. It has not been considered as a part of capital.**
4. **Transfer of ₹162 (000) to the credit of deferred tax account is included in provision for tax.**

Prepare value added statement for the year ended 31st March 2015 and reconcile total value added with profit before taxation. [10]

Answer:

(b)

Value Added Statement of Aro Ltd.

Particulars	₹(000)	₹(000)	₹(000)
Turnover			89,616
Less: Operating Expenses [Total ₹80,223 – salaries ₹44,283]			(35,940)
Value added by Trading Activities			53,676
Less: Interest on Cash Credit			(453)
Add: Other Income			3,126
Total value Added			56,349
Applied as follows-			
1. To Employees Salaries, Wages etc.		44,283	78.6%
2.To Government Excise Duty	5,856		
Income tax (1,128 - 162)	966	6,822	12.1%
3. To Financiers Interest on Debentures		2,961	5.3%
4. To Shareholders Dividends		375	0.7%
5. To Earnings retained for expansion and replacement			
Retained Profit	525		
Depreciation	1,026		
Deferred tax credit	162		
Fixed Asset Replacement Reserve	195	1,908	3.3%
Total Application		56,349	100%

Reconciliation of Total Value Added with Profit before taxation

Particulars	₹(000)	₹(000)
Profit before taxation		2,223
Add: Depreciation	1,026	
Interest on Borrowings	2,961	
Excise Duty paid to Government	5,856	
Salaries and Wages to Employees	44,283	54,126
Total Value Added		56,349

(c) Drimid Investment Ltd. deals in equity derivatives. Their current portfolio comprises of the following instruments:
I Ltd. ₹ 5600 Call Expiry June 2014 2,000 unit bought at ₹ 197 each (cost)
I Ltd. ₹ 5700 Call Expiry June 2014 3,600 unit bought at ₹ 131 each (cost)
Infosys ₹ 5400 Put Expiry June 2014 4,000 unit bought at ₹ 81 each (cost)
What will the profit or loss to Drimid Investments Ltd. in the following situations?
i. I Ltd. closes on the expiry day at ₹ 6,041
ii. I Ltd. closes on the expiry day at ₹ 5,812
iii. I Ltd. closes on the expiry day at ₹ 5,085 **[10]**

Answer:

(c)

Payoff/unit at I Litd's Closing price

	I Ltd.	Closing	Price	I Ltd.ss	Closing	Price
Instrument	Units	Cost	Strike	(i) At 6,041	(ii) At 5,812	(iii) At 5,085
5600 Call	2000	197	5,600	441	212	NIL
5700 Call	3600	131	5,700	341	112	NIL
5400 Put	4000	81	5,400	NIL	NIL	315

	Profit per unit			Profit Amount		
	I Ltd.	Closing	Price	I Ltd.	Closing	Price
Instrument	6,041	5,812	5,085	6,041	5,812	5,085
5600 Call	244	15	-197	4,88,000	30,000	-3,94,000
5700 Call	210	-19	-131	7,56,000	-68,400	-4,71,600
5400 Put	-81	-81	234	-3,24,000	-3,24,000	9,36,000
				9,20,000	-3,62,400	70,400

(d) (i) A factory started its activities on 1st April, 2014. From the following data, compute the value of closing stock on 30th April, 2014.

- **Raw Materials purchased during April - 40,000 kg at ₹24 (out of which Excise Duty = ₹ 4 per kg). Stock on hand as on 30th April – 2,500 kg.**
- **Production during April – 7,000 units (of which 5,000 units were sold). In addition to the production, 500 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).**
- **Wages and Production Overheads - ₹60**
- **Selling Price - ₹ 220 per unit (of which Excise Duty is ₹20 per unit).** **[6]**

Answer:

Particulars	Computation	₹
1. Raw Material Valuation (net of Input Excise Duty)	2,500kg x ₹ 20 per kg	50,000
2. WIP Valuation (net of RM input duty)	(₹100 + 60% of ₹60) x 500 units	68,000
3. Finished Goods Valuation (including ED on SP)	(RM 100 + Lab & OH 60 + ED 20) = ₹180 x (7,000 units – 5,000 units)	3,60,000
Total		**4,78,000**

Computation of Cost per unit of production:

- Raw Materials: (40,000 – 2,500) = 37,500 kg for 7,500 units total = 5 kg x ₹ 20 (net of ED) = ₹100
- Wages and Production Overhead = ₹60 per completed unit (given)

(ii) Discuss the disclosure requirement as per AS-27 'Financial Reporting of Interest in Joint Ventures'. [4]

Answer:

Disclosure requirement under AS 27

In Separate Financial Statements and Consolidated Financial Statement —

- aggregate amount of contingent liability of the venturer in relation to its interest in the joint venture and share of the venturer in each contingent liability incurred jointly with other venturers.
- Contingent liability that has arisen on account of contingent liability of other venturers.
- Share in contingent liabilities of the joint ventures themselves.
- Aggregate amount of any capital commitment of the venturer and share of the venturer in the capital commitment incurred jointly with other venturers.
- Venturers share of capital commitments of the joint ventures themselves.
- The list of all joint ventures and description of interest in significant joint ventures.
- In its separate financial statements the venturer should disclose the aggregate amount of each assets, liabilities, income and expenses related to interest in jointly controlled entities.

Question No. 5 (Answer any three):

(a) List the functions of the Public Accounts Committee. [5]
(b) Write a note on Consolidated Fund of India. [5]
(c) Describe Audit Boards set up under the supervision and control of the CAG. [5]
(d) "The Secretariat of GASAB is constituted by officers of various Accounts and Finance streams belonging to Civil Services". List them. [5]

Answer:

(a) The Public Accounts Committee examines the accounts showing the appropriation of the sums granted by Parliament to meet the expenditure of the Government of India, the Annual Finance Accounts of the Government of India and such other accounts laid before the House as the Committee may think fit. Apart from the Reports of the Comptroller and Auditor General of India on Appropriation Accounts of the Union Government, the Committee also examines the various Audit Reports of the Comptroller and Auditor General on revenue receipts, expenditure by various Ministries/ Departments of Government and accounts of autonomous bodies. The Committee, however, does not examine the accounts relating to such public undertakings as are allotted to the Committee on Public Undertakings.

While scrutinising the Reports of Comptroller and Auditor General on Revenue Receipts, the Committee examines various aspects of Government's tax administration. The Committee, thus, examines cases involving under-assessments, tax-evasion, non-levy of duties, mis-classifications etc., identifies loopholes in the taxation laws and procedures and make recommendations in order to check leakage of revenue.

(b) 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.

(c) Audit Boards are set up under the supervision and control of the CAG to undertake comprehensive appraisals of the performance of the Companies and Corporations subject to audit by CAG. Each Audit Board consists of the Chairman (Deputy Comptroller and Auditor General), two or three whole-time members of the rank of Principal Directors of Audit under CAG and two technical or other experts in the area of performance of the Company or Corporation, who are part-time members. The part-time members are appointed by the Government of India (in the respective Ministry or Department controlling the Company or Corporation) with the concurrence of the CAG. The reports of the CAG based on such performance appraisals by the Audit Board and other reviews are issued to the Government as separate reports in addition to the annual reports.

(d) The Secretariat of GASAB is constituted by officers of various Accounts and Finance streams belonging to Civil Services .They are listed below:

1. Indian Audit and Accounts Service (IA&AS)

2. Indian Civil Accounts Service (ICAS)
3. Indian Defence Accounts Service (IDAS)
4. Indian Post and Telecom Accounts Service (IP&TAFS)
5. Indian Railway Accounts Service (IRAS)