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]**

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]**

(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]**

(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]**

(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]**

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]**

(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]**

(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]**

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]**

(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]**

(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]**

(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]**

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

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]**