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) List the disclosure and presentation requirements of AS-24 on discontinuing operations? [5]

(b) (i) M Ltd. has equity capital of ₹40,00,000 consisting of fully paid equity shares of ₹10 each. The net profit for the year 2013-14 was ₹60,00,000.It has also issued 36,000, 15% convertible debentures of ₹50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. Compute the diluted earnings. [3]

(ii)State the basic principles of IFRS 5 on Non-Current Assets held for Sale and Discontinuing Operations. [2]

Answer:

(a) Disclosures requirement as per AS 24 (Discontinuing Operations):

Initial disclosure event

Information about planned discontinuance must be disclosed in the first set of financial statement immediately after the "initial disclosure event", initial disclosure event is the event out of these two and whichever occurs earlier –

- Entering into an agreement to sell substantially all the assets of the discontinuing operation.
- Approving and announcing of the discontinuance plan.

Presentation and Disclosure

Initial disclosure:

First disclosure after initial disclosure event occurs about the discontinuing operations:
Description of the discontinuing operation.
Business or geographical segments in which it is reported.
Date and nature of initial disclosure event.
Timing of expected completion of discontinuance.
Carrying amount of total assets and liabilities to be disposed of.
Amount of revenue and expense attributable to discontinuing operation.
Amount of pre-tax profit or loss and tax expense attributable to discontinuing operation.
Net cash flows after initial disclosure event occurs about the discontinuing operations.

Other disclosure:

When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation, the following other informations are also disclosed.

- Amount of gain or loss recognized on the disposal of assets or settlement of liabilities and related income-tax.
- Net selling price from the sale of those net assets for which the enterprise has entered into binding sale agreements and the expected timing thereof and carrying amount of those assets.

(b) (i) Computation of Diluted Earning:

Interest on Debentures @ 15% for the year	$36{,}000 \times ₹50 \times \frac{15}{100}$
	=₹2,70,000
Tax on interest @ 30%	= ₹81,000
Diluted Earnings (adjusted net profit)	= (₹60,00,000 + ₹2,70,000 - ₹81,000)
	= ₹61,89,000

(ii) The basic principles of IFRS 5 on Non-Current Assets held for Sale and Discontinuing Operations are:

- The basic principle of classifying ' non-current assets held for sale and disposal groups' is that the carrying value is expected to be realised through a sale transaction rather than through continuing use.
- Assets should be available for immediate sale in their present conditions subject to only the terms and conditions which are usual and customary for sales of such assets. Sale must highly probable.

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

(a) Discuss the treatment of Statutory Reserves in case of Amalgamation as per AS – 14. [5]

Answer:

Statutory Reserves are those reserves, which are created as per the particular statute/law, under that law, the reserve is created and this law puts some restriction on utilisation and maintenance of reserves for a particular period.

- Separate accounting adjustment/entry is not required for statutory reserves in the case of merger as all reserves are also recorded in the transferee book including statutory reserves.
- However in case of amalgamation by way of purchase, the reserves being internal liabilities, are not recorded in the books of transferee.
- Therefore in the case of purchase to comply with the requirements of particular statute, the statutory reserves created in the books of transferor company is to be maintained for some more years in the transferee company books. As per the standard to fulfill the requirement of maintenance of statutory reserves the transferee company shall record the statutory reserves in its books by debiting to Amalgamation Adjustment Account and crediting Statutory Reserve.

- Amalgamation adjustment account shall be disclosed in balance sheet under the head of Non-current assets subhead "Other non-current assets" and statutory reserves under the head "Reserves and surplus".
- When the maintenance of statutory reserves is no longer required, the entry passed should be reversed

Statutory Reserves Dr.

To Amalgamation Adjustment Account

(b) Owings The following is the Balance Sheet of Perfect Ltd as on 30th June –

Equity and Liabilities	₹
(1) Shareholders' Funds:	
(a) Share Capital - 20,000 Shares of ₹ 10 each	**2,00,000**
(b) Reserves & Surplus - General Reserve	**20,000**
(2) Non-Current Liabilities:	
Long Term Borrowings Loan from Bank	**1,40,000**
(3) Current Liabilities:	
Trade Payables - Sundry Creditors	**80,000**
Total	**4,40,000**
Assets	₹
(1) Non-Current Assets:	
(a) Fixed Assets:	
(i) Tangible Assets	
- Land & Building	**1,00,000**
- Plant & Machinery	**1,45,000**
(ii) Intangible Assets - Goodwill	**25,000**
(b) Other Non-Current Assets	
- Preliminary Expenses	**16,000**
(2) Current Assets:	
(a) Inventories	**50,000**
(b) Trade Receivables	**70,000**
(c) Cash & Cash Equivalents	**34,000**
Total	**4,40,000**

The balance of Perfect Ltd is taken over by Best Ltd. as on that date on the following terms:

(i) All Assets except Cash at Bank are taken over at Book Value less 10% subject to (ii) below.

(ii) Goodwill is to be valued at 4 years' Purchase of the excess of average (five years) Profits over 8% of the combined amount of Share Capital and General Reserve.

(iii) Trade Creditors are to be taken over subject to a discount of 5%.

(iv) Loan from Bank is to be repaid by Perfect Ltd.

(v) The Purchase Consideration is to be discharged in Cash to the extent of ₹1,50,000 and the balance in fully paid Equity Shares of ₹10 each valued at ₹ 12.50 per Share.

The average of the five years Profit is ₹ 30,100. The expenses of Liquidation amount to ₹ 2,000.

Show:
- **Work out the purchase consideration and**
- **Journal Entries in the books Best Ltd.**

[10]

Answer:

A. Basic Information

Selling Co : Perfect Ltd	**Date of B/S:** 30th June	**Nature of Amalgamation:**
Buying Co : Best Ltd.	**Date of Amalgm:** 30th June	Purchase (since the Assets are not taken over at Book Value & Purchase Consideration discharged is by other than shares)

B. Purchase Consideration

Particulars			₹
i.	**Calculation of Goodwill:**	Average of 5 years Profit (given)	30,100
	Less:	Normal Profit 8% of Capital + Reserves i.e. ₹ 2,20,000	17,600
		Super Profit	12,500
		Goodwill at 4 years purchase 12,500 × 4	**50,000**
ii.	**Calculation of Purchase Consideration**		
	Assets taken over -	Land & Building	1,00,000
		Plant & Machinery	1,45,000
		Stock	50,000
		Debtors	70,000
		Total Assets Taken Over	**3,65,000**
	Less:	Allowance at 10% of Assets Value	36,500
		Balance Assets Value	**3,28,500**
	Add:	Goodwill as calculated above	50,000
		Total Value of Assets taken over	3,78,500
	Less:	Sundry Creditors less 5% discount =(80,000 - 5% thereon)	76,000
		Net Purchase Consideration	**3,02,500**
iii.	**Discharge of Purchase Consideration:**	Payable in Cash	1,50,000
		Given in Shares - 12,200 Shares of ₹ 10/- each valued at ₹12.50 per share	1,52,500

C. In the Books of Perfect Ltd.

Dr. Realisation Account Cr.

Particulars	₹	Particulars	₹
To Sundry Assets transferred: Goodwill	25,000	By Sundry Creditors	80,000
Land & Building	1,00,000	By Superb Ltd. - Pure. Consideration	3,02,500
Plant & Machinery	1,45,000	By Sundry Shareholders A/c (Loss)	**9,500**
Stock	50,000		
Debtors	70,000		
To Bank (Expenses)	2,000		
Total	**3,92,000**	**Total**	**3,92,000**

Dr. **Bank Account** Cr.

Particulars	₹	Particulars	₹
To balance b/d To Best Ltd - amount paid	34,000 1,50,000	By Realisation A/c - Expenses By Loan from Bank By Sundry Shareholders	2,000 1,40,000 **42,000**
Total	**1,84,000**	**Total**	**1,84,000**

Dr. **Sundry Shareholders Account** Cr.

Particulars	₹	Particulars	₹
To Preliminary Expenses To Loss-on Realisation To Bank To Shares in Best Ltd.	16,000 9,500 42,000 1,52,500	By Share Capital By General Reserve	2,00,000 20,000
Total	**2,20,000**	**Total**	**2,20,000**

(c) The following was the Balance Sheet of Mukta Ltd. as on 31st December –

Equity and Liabilities	₹
(1) Shareholders' Funds:	
(a) Share Capital	
24,000 Shares of ₹10 each	**2,40,000**
Less: Calls Unpaid (₹ 3 per Share on 6,000 Sh)	**(18,000)**
(b) Reserves & Surplus - P & L A/c	
As per Last B/Sheet (Loss b/fd) (44,000)	
Add: Profit for the Year 2,400	**(41,600)**
(2) Current Liabilities:	
(a) Trade Payables - Sundry Creditors	**30,850**
(b) Short Term Provisions - Provision for Taxation	**8,000**
Total	**2,19,250**
Assets	**₹**
(1) Non-Current Assets:	
(a) Fixed Assets:	
(i) Tangible Assets	
- Land & Buildings	**41,000**
- Machinery	**1,01,700**
(ii) Intangible Assets - Goodwill	**20,000**
(b) Other Non-Current Assets	
- Preliminary Expenses	**3,000**
Current Assets:	
(2) (a) Inventories	**20,550**
(b) Trade Receivables - Book Debts	**30,000**
(c) Cash & Cash Equivalents	**3,000**
Total	**2,19,250**

Note: Authorised Capital is ₹4,00,000 being 40,000 Equity Shares of ₹10 each.

The Directors have had a valuation made for the Machinery and find it overvalued by ₹20,000. It is proposed to write down this asset to its true value and to extinguish the deficiency in the Profit and Loss Account and to write off Goodwill and Preliminary Expenses, by adoption of the following course -

(i) Forfeit the Shares on which the Call is outstanding.

(ii) Reduce the Paid-up Capital by ₹3 per Share.

(iii) Reissue the Forfeited Shares at ₹ 5 per Share.

(iv) Utilize the Provision for Taxes, if necessary.

The Shares on which the Calls were in Arrears were duly Forfeited and reissued on payment of ₹5 per Share. Give the Journal Entries and the Balance Sheet of the Company after carrying out the above scheme. [10]

Answer:

A. Journal Entries

	Particulars		Debit	Credit
i.	Equity Share Capital A/c	Dr.	60,000	
	To Calls in Arrears A/c			18,000
	To Share Forfeiture A/c			42,000
	(Being 3,000 Shares forfeited for non-payment of calls)			
ii.	Equity Share Capital (₹10) A/c	Dr.	1,80,000	
	To Equity Share Capital (₹7)			1,26,000
	To Reconstruction A/c			54,000
	(Being par value and paid up value of Equity Shares brought down to ₹7 per share under the reconstruction scheme approved)			
iii.	Bank A/c	Dr.	30,000	
	Share Forfeiture A/c (balancing figure)	Dr.	12,000	
	To Equity Share Capital			42,000
	(Forfeited shares reissued at ₹5 per share as ₹7 paid up. Balance adjusted against Shares Forfeiture Account)			
iv.	Share Forfeiture A/c	Dr.	30,000	
	To Capital Reserve A/c			30,000
	(Balance in Share Forfeiture Account transferred to Capital Reserve)			
v.	Reconstruction A/c	Dr.	54,000	
	Capital Reserve A/c	Dr.	30,000	
	Provision for Taxation A/c (balancing figure)	Dr.	600	
	To Profit and Loss A/c			41,600
	To Preliminary Expenses A/c			3,000
	To Machinery A/c			20,000
	To Goodwill A/c			20,000
	(Being balance in Reconstruction A/c and Capital Reserve A/c utilized to eliminate overvaluation of assets and write off balances in Preliminary Expenses A/c and Profit and Loss A/c)			

B. Balance Sheet of Ambika Ltd. (and Reduced) as at 31st December

I	EQUITY AND LIABILITIES	Note	This Year	Prev. Yr

(1)	**Shareholders' Funds:** Share Capital	**1**	1,68,000	
(2)	**Current Liabilities**			
	(a) Trade Payables - Creditors		30,850	
	(b) Short Term Provisions - Provision for Taxation (8,000 - 600)		7,400	
	Total		**2,06,250**	
II	**ASSETS**			
(1)	**Non-Current Assets** Fixed Assets (Tangible Assets)	**2**	1,22,700	
(2)	**Current Assets**			
	(a) Inventories		20,550	
	(b) Trade Receivables - Book Debts		30,000	
	(c) Cash & Cash Equivalents - (3,000 + 30,000)		33,000	
	Total		**2,06,250**	

Notes to the Balance Sheet:

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: 40,000 Equity Shares of ₹ 10 each	4,00,000	
Issued, Subscribed & Paid up: 24,000 Equity Shares of ₹ 7 each	1,68,000	

Note: Reconciliation of Shares (Quantity & Value) will be provided by the Company along with annual Financial Statements.

Note 2: Tangible Assets

Particulars	This Year	Prev. Year
(a) Land & Buildings	41,000	
(b) Machinery	81,700	
Total	**1,22,700**	

(d) Sea Fish Ltd. was hugely unsuccessful and had to be reconstructed. For this purpose, Testy Sea Foods Ltd. was incorporated with an Authorised Capital of ₹ 5,00,000 broken into 50,000 Shares of ₹10 each. The Shareholders of Sea Fish Ltd. were to receive 2 shares of ₹10 each credited as ₹ 6 paid for every 3 Shares held. The balance of ₹ 4 was to be paid as to ₹ 2 application and ₹ 2 on allotment.

The Trial Balance of Sea Fish Ltd. on the date of reconstruction was as follows-

Particulars	₹	₹
Share Capital 50,000 Shares of ₹ 10 each, fully paid		**5,00,000**
Patent Rights	**2,50,000**	
Sundry Debtors / Creditors	**1,45,000**	**1,50,000**
Stock	**70,000**	
Cash at Bank	**15,000**	
Preliminary Expenses	**20,000**	
Profit & Loss A/c	**1,50,000**	
Total	**6,50,000**	**6,50,000**

Preferential Creditors amount to ₹20,000 and were to be settled in full in Cash. The Balance amounts due to other Creditors were to be settled as under:

Creditors for ₹ 80,000 **₹ 50,000 in Cash**

Creditors for ₹ 50,000 ₹ 50,000 in 10% Debentures

Liquidation Expenses amounted to ₹ 3,000 which met by Testy Sea Foods Ltd.
Fractions of Shares in all amounted to 133.33 Shares in terms of Shares of Tasty Sea Foods Ltd. for which cash was paid. The other Shares were duly allotted and all payments due in respect of them received by Testy Sea Foods Ltd.
5,000 of the unissued shares offered, were taken up and paid for in Cash by the General Public.
Give the journal entries in the books of Testy Sea Food Ltd. and calculate the balance of Cash and Cash Equivalent to be shown in the balance sheet after reconstruction. The value of Patent Rights can be adjusted to the required extent. [10]

Answer:

A. Computation of purchase Consideration

Number of Shares outstanding in Sea Fish Ltd.	50,000
Number of Shares to be issued by Testy Sea Foods Ltd.	
Two Shares of Testy Sea Foods Ltd. for three shares of Marsh $2 \times \frac{50,000}{3}$	33,333.33
Hence, Purchase Consideration [33,333.33 Shares × ₹ 6]	₹2,00,000
Issuable by Cash [133.33 Shares × ₹ 6]	₹800
Issuable by Equity Shares [33,200 × ₹6]	**₹1,99,200**

B. Journal Entries in the books of Testy Sea Foods Ltd.

	Particulars	Debit	Credit
i.	Business Purchase A/c Dr. To Liquidator of Sea Fish Ltd. (Being Business of Sea Fish Ltd. purchased for ₹ 2,00,000)	2,00,000	 2,00,000
ii.	Patent Rights (Balancing Figure) A/c Dr. Stock-in-Trade Dr. Cash at Bank Dr. Trade Debtors Dr. To Creditors To Business Purchase (Being incorporation of Assets and Liabilities of Sea Fish Ltd. and the balance amount adjusted against Patent Rights Account)	90,000 70,000 15,000 1,45,000	 1,20,000 2,00,000
iii.	Bank A/c Dr. To Share Application money (Being Share Application Money on 33,200 Shares received @ ₹2 per Share)	66,400	 66,400
iv.	Liquidator of Sea Fish Ltd. Dr. Share Application money Dr. To Equity Share Capital To Bank (Being amt due to Liquidator of Sea Fish Ltd. discharged by Issue of Equity Shares of ₹10 each, ₹6 paid up and by Cash and transfer of Share Application money to Share Capital)	2,00,000 66,400	 2,65,600 800

v.	Equity Share Allotment Dr. To Equity Share Capital (Being Allotment Money of ₹ 2 per Share due on 33,200 Shares)	66,400	66,400
vi.	Bank A/c Dr. To Equity Share Allotment (Being Share Allotment Money received on 33,200 Shares @ ₹ 2 per Share)	66,400	66,400
vii.	Sundry Creditors Dr. To Bank To 10% Debentures (Being amount due to Sundry Creditors settled by payment in Cash and issue of 10% Debentures)	1,20,000	70,000 50,000
viii.	Patent A/c Dr. To Bank (Being expenses of liquidation of Sea Fish Ltd. incurred)	3,000	3,000
ix.	Bank A/c Dr. To Share Application Money (Being application money received on 5,000 Shares at ₹ 10 per Share from Public Issue)	50,000	50,000
x.	Share Application Money A/c Dr. To Equity Share Capital (Being Shares Application Money transferred to Equity Share Capital)	50,000	50,000

C. Computation of Cash and Cash Equivalents:

	Particulars	₹	₹
	Opening Balance		15,000
Add:	Share Application Money	66,400	
	Equity Share Allotment	66,400	
	Share Application Money	50,000	1,82,800
Less:	Liquidators Sea Fish Ltd.	(800)	
	Payment to Sundry Creditors	(70,000)	
	Liquidation Expenses	(3,000)	(73,800)
	Total		**1,24,000**

D. Balance Sheet of Testy Sea Foods Ltd. (after take over)

	Particulars as at 31st March	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES**			
(1)	Shareholders' Funds: Share Capital	**1**	3,82,000	
(2)	Non-Current Liabilities Long Term Borrowings (Debentures)		50,000	
	Total		4,32,000	
II	**ASSETS**			
(1)	**Non-Current Assets**			
(2)	Fixed Assets: - Intangible Assets - Patents (90,000 + 3,000)		93,000	
	Current Assets			
	(a) Inventories		70,000	
	(b) Trade Receivables - Debtors		1,45,000	
	(c) Cash & Cash Equivalents		1,24,000	
	Total		4,32,000	

Notes to the balance Sheet: **Note 1: Share Capital**

Particulars	This Year	Prev. Year
Authorised: 50,000 Equity Shares of ₹ 10 each	5,00,000	
Issued, Subscribed & Paid up: 38,200 Equity Shares of ₹10 each (Of the Above, 33,200 Shares of ₹6 each were issued for Non-Cash Consideration)	3,82,000	
Total	3,82,000	

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

(a) P Ltd. own 80% of S and 40% of J. J is Jointly Controlled Entity. Balance Sheet of four Companies as on 31.03.2015 are-

(₹ in lakhs)

I. Equity &Liabilities	**P**	**S**	**J**
Share Capital ₹1 equity share	**1,000**	**400**	**800**
Reserves and Surplus – Retained earnings	**3,400**	**3,400**	**3,600**
Trade payables-creditors	**200**	**300**	**250**
Total	**4,600**	**4,100**	**4,650**
II. Assets			
Non-current assets – fixed assets	**1,000**	**800**	**1,400**
Non-current Investments			
Investment in S	**800**	**-**	**-**
Investment in J	**600**	**-**	**-**
Current assets	**2,200**	**3,300**	**3,250**
Total	**4,600**	**4,100**	**4,650**

P Ltd acquired Shares in S many years ago when retained earnings of S were ₹520. P Ltd acquired its shares in J at the beginning of the year when retained earnings of J were ₹400.
The Balance of Goodwill relating to S had been written off three years ago. The value of Goodwill in J remains unchanged. Prepare the Consolidated Balance Sheet of P Ltd as on 31.03.2015 as per AS-21 and 27. **[10]**

Answer:

A. Basic Information

Company	**S Ltd.**	**J Ltd.**
Nature	Subsidiary	Jointly Controlled Entity
Nature of Consolidation	Total Consolidation	Proportionate Consolidation
1 Group Interest	80%	40%
Minority Interest	20%	Not Applicable

B. Analysis of Reserves

S Ltd	
DOC 3400	
DOA	DOA to DOC
520	2880
Pre	Post

J Ltd	
DOC 3600	
DOA	DOA to DOC
400	3200
Pre	Post

C. Consolidation of Balances

(Credit balance in Positive; Debit balance in Negative)

Particulars	Minority of S	Invst. in S (Pre Acqn.)	Invst. in 3 (Pre Acqn.)	Retained Profits
Balance as per Balance Sheet	-	(800)	(600)	
Share in Equity Capital	80 [400 × 20%]	320 [400 × 80%]	320 [800 × 40%]	3,400 -
Share in Pre Acquisition Profits	104 [520 × 20%]	416 [520 × 80%]	160 [400 × 40%]	-
Capital Reserve / (Goodwill) Share in Pre Acquisition Value (320 + 320)	-	**(64)**	**(120)**	
Share in Post Acquisition Reserves				
From S	576 [2880 × 20%]			2304 [2880 × 80%]
From J [3200 x 40%]				1280
Goodwill Adjusted Earlier		64		(64)
For Consolidated Balance Sheet	**760**	**-**	**(120)**	**6,920**
	Minority Interest		**Goodwill**	**Retained Earnings**

D. Consolidated Balance Sheet of P as on 31.03.2014.

(₹ in lakhs)

	Particulars as at 31st March	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds**:			
	(a) Share Capital (1,000 Equity Shares of ₹ 1 each)		1,000	
	(b) Reserves & Surplus Surplus (Balance in P&L A/c)		6,920	
(2)	**Minority Interest**		760	
(3)	**Current Liabilities**			
	Trade Payables Creditors [P 200 + S 300 + J (0.4 × 250)]		600	
	Total		**9,280**	

II	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Fixed Assets:			
	(i) Tangible Assets [P 1,000 + S 800 + J(0.4 × 1,400)]		2,360	
	(ii) Intangible Assets - Goodwill on Consolidation (120 + 120)		240	
(2)	**Current Assets** = [P 2,200 + S 3,300 + J (0.4 x 3,250)]		6,800	
	Total		**9,280**	

(b) The Balance Sheets of Ping-Pong Ltd. and its subsidiary Pluto Ltd. as on 31st March, 2015

(₹ in lakhs)

Equity and Liabilities	Ping-Pong Ltd.	Pluto Ltd.	Assets	Ping-Pong Ltd.	Pluto Ltd.
(1) Shareholders' Funds:			**(1) Non-Current Assets:**		
(a) Share Capital			**(a) Fixed Assets -**		
(i) Equity Shares of ₹10 each	**48.00**	**20.00**	**(i) Tangible**		
(ii) 10% Pref. Shares of ₹ 10 each	**7.00**	**3.80**	**- Plant & Machinery**	**12.00**	**5.00**
(b) Reserves & Surplus			**- Motor Vehicles**	**9.50**	**7.50**
(i) General Reserve	**5.50**	**4.20**	**- Furniture & Fittings**	**6.50**	**4.00**
(ii) Profit & Loss Account	**10.00**	**6.00**	**(ii) Intangible - Goodwill**	**4.50**	**3.00**
(2) Current Liabilities:			**(b) Non-Current Investments**	**26.00**	**4.50**
(a) Short Term Borrowings			**(2) Current Assets:**		
- Bank Overdraft	**1.20**	**0.70**	**(a) Inventories**	**4.50**	**7.20**
(b) Trade Payables			**(b) Trade Receivables**		
(i) Creditors	**4.30**	**4.80**	**(i) Debtors**	**9.30**	**7.80**
(ii) Bills Payable	**-**	**1.60**	**(ii) Bills Receivable**	**1.45**	**-**
			(c) Cash & Cash Equivalents	**2.25**	**2.10**
Total	**76.00**	**41.10**	**Total**	**76.00**	**41.10**

Details of information:

Nature of Shares	Nos. acquired	Date of Acquisition	Cost of Acquisition
Preference Shares	**14,250**	**01.04.2012**	**3,10,000**
Equity Shares	**80,000**	**01.04.2013**	**9,50,000**
Equity Shares	**70,000**	**01.04.2014**	**8,00,000**

Other information:

(i) On 1.04.2014 Profit and Loss Account and General Reserve of Pluto Ltd. had credit balances of ₹ 3,00,000 and ₹ 2,00,000 respectively.

(ii) Dividend @ 10% was paid by Pluto Ltd. for the year 2013-2014 out of its Profit and Loss A/c balance as on 1.04.2014. Ping-Pong Ltd. credited its share of dividend to its Profit and Loss A/c.

(iii) Pluto Ltd. allotted Bonus Shares out of General Reserve at the rate of 1 Share for every 10 Shares held. Accounting thereof has not yet been made.

(iv) Bills Receivable of Ping-Pong Ltd. were drawn upon Pluto Ltd.

(v) During the year 2014-2015 Ping-Pong Ltd. purchased goods from Pluto Ltd for ₹1,00,000 at a Sale Price of ₹1,20,000. 40% of these goods remained unsold at close of the year.

(vi) On 1.04.2014 Motor Vehicles of Pluto Ltd. were overvalued by ₹1,00,000. Applicable Depreciation rate is 20%.

(vii) Dividends recommended for the year 2014-2015 in the Holding and the Subsidiary Companies are 15% and 10% respectively.

Prepare consolidated Balance Sheet as on 31st March 2015. [15]

Answer:

A. Basic Information

Company Status	Date of Acquisition	Holding Status
Holding Company = Ping-Pong Subsidiary = Pluto	Lot 1 = 80,000 Shares = 01.04.2013 Lot 2 = 70,000 Shares = 01.04.2014	Holding Company = 75% Minority Interest = 25%

Date of consolidation = 31.03.2015

Note: Consolidation is applicable only from the date on which a Company becomes Subsidiary of another Company. In this Case, only from the acquisition of second lot, Pluto Ltd. becomes the Subsidiary of Ping-Pong Ltd. and hence Reserves as on 01.04.2014 are pre-acquisition and Reserves during 2014-2015 are post-acquisition.

B. Analysis of Reserves & Surplus of Pluto Ltd.

General Reserve

Balance as per Balance Sheet	=	4,20,000
Less: Bonus issue 1/10 × ₹ 20,00,000	=	(2,00,000)
Corrected balance on Balance Sheet date	=	2,20,000

As on 01.04.14 (date of controlling acqn.)	2,00,000
Less: Bonus Issue out of this	(2,00,000)
Balance Capital Profit	NIL

from 01.4.14 to B/s Date (upto Consolidation)

₹2,20,000 Revenue Reserves

Group Interest-Pre	Minority Interest
= 2,20,000 ×75%	= 2,20,000 × 25%
= 1,65,000	= 55,000

Profit & Loss Account

Balance as per balance sheet	6,00,000
Less: Pref. dividend (10% × ₹3,80,000)	(38,000)
Less: Equity dividend (10% × ₹20 Lakhs)	(2,00,000)
Corrected balance on Balance Sheet date	3,62,000

As on 01.04.14 (date of controlling acqn.) 3,00,000
Less: Dividend for FY 13-14 (20,000 ×10%) (2,00,000)
Balance **capital Profit** **1,00,000**

Group Interest-Pre
= 1,00,000 ×75%
= 75,000

Minority Interest
= 1,00,000 × 25%
= 25,000

from 01.4.14 to B/s Date (upto Consolidation) ₹**2,62,000**

Group Interest- Post
= 2,62,000 × 75%
=1,96,500

Minority Interest
2,62,000 × 25%
= 65,500

Gain/ Loss on revaluation of Assets:

- Loss on revaluation of Machinery **= (₹1,00,000)** **Capital profit**
- Depreciation Gain on revaluation Loss **= ₹20,000** **revenue Profit**

C. Consolidation of Balances

Particulars	Total	Minority Interest	Pre-Acqn.	Post Acquisition	
Pluto Ltd. (Holding 75%, Minority 25%)				**Gen. Res.**	**P&L A/c**
Equity Capital (20,00,000 + Bonus 2,00,000)	22,00,000	5,50,000	16,50,000		
Preference Share Capital (62.5% : 37.5%)	3,80,000	2,37,500	1,42,500		
General Reserves	2,20,000	55,000		1,65,000	
Profit and Loss A/c	3,62,000	90,500	75,000		1,96,500
Proposed Equity Dividend	2,00,000	50,000			1,50,000
Proposed Preference Dividend	38,000	23,750			14,250
Loss on Revaluation of Machinery	(1,00,000)	(25,000)	(75,000)		
Depreciation Gain on Revaluation Loss	20,000	5,000			15,000
Stock Reserve [(Price 1,20,000 - Cost 1,00,000) × 40%]	(8,000)	(2,000)			(6,000)
Minority Interest		**9,84,750**			
Total [Cr]			17,92,500	**1,65,000**	**3,69,750**
Cost of Investment [Dr.]			(19,80,000)		
Parent's Balances				5,50,000	1,30,000
For Consolidated Balance Sheet			**G.w (1,87,500)**	**7,15,000**	**4,99,750**

Note - Parent's P&L A/c balance and Cost of Investment

Particulars		Invest.	P&L A/C
Balance as per Balance Sheet			
Equity Shares (₹ 9,50,000 + ₹8,00,000)	17,50,000		
Preference Shares	3,10,000	20,60,000	10,00,000
Less: Dividend out of Pre-acquisition profits (₹ 8,00,000 x 10%)		(80,000)	(80,000)
Proposed Equity Dividend (₹ 48,00,000 × 15%)			(7,20,000)
Proposed Preference Dividend (₹7,00,000 × 10%)			(70,000)
For Consolidation of Balances		**19,80,000**	**1,30,000**

D. Consolidated Balance Sheet of Ping-Pong Ltd. and its Subsidiary Pluto Ltd. as at 31.03.2014

	Particulars as at 31st March	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds**:			
	(a) Share Capital	**1**	55,00,000	
	(b) Reserves & Surplus	**2**	12,14,750	
(2)	**Minority Interest**		9,84,750	
(3)	**Current Liabilities**			
	(a) Trade Payables	**3**	9,25,000	
	(b) Other Current Liabilities – Bank overdraft (120 + 70)		1,90,000	
	(c) Short term Provisions - proposed Dividend (720 + 70)		7,90,000	
	Total		**96,04,500**	
II	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Fixed Assets: (i) Tangible Assets	**4**	43,70,000	
	(ii) Intangible Assets	**5**	9,37,500	
	(b) Non-Current Investments = 2,600 + 450 – 2,060		9,90,000	
(2)	**Current Assets**			
	(a) Inventories = 450 + 720 – 8 Stock Reserve		11,62,000	
	(b) Trade receivables	**6**	17,10,000	
	(c) Cash and Cash Equivalents = 225 + 210		4,35,000	
	Total		**96,04,500**	

Notes to the Balance Sheet

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: ....Equity Shares of ₹ 10 each and ₹10% Preference Shares		
Issued, Subscribed & Paid up: 4,80,000 Equity Shares of ₹ 10 each 70,000 10% Preference Shares of ₹ 10 each	48,00,000 7,00,000	
Total	**55,00,000**	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Other Reserves - General Reserve	7,15,000	
(b) Surplus (Balance in P & L A/c)	4,99,750	

Total	**12,24,750**	

Note 3: Trade Payables

Particulars	This Year	Prev. Year
(a) Sundry Creditors = 430 + 480	9,10,000	
(b) Bills Payable = 160 - 145 Mutual	15,000	
Total	**9,25,000**	

Note 4: Tangible Assets

Particulars	This Year	Prev. Year
(a) Plant & Machinery = 1,200 + 500	17,00,000	
(b) Motor Vehicles = 950 + 750 - 100 + 20	16,20,000	
(c) Furniture = 650 + 400	10,50,000	
Total	**43,70,000**	

Note: 5 Intangible Assets

Particulars	This Year	Prev. Year
(a) Goodwill on Consolidation	1,87,500	
(b) Goodwill =450 + 300	7,50,000	
Total	**9,37,500**	

Note 6: Trade Receivables

Particulars	This Year	Prev. Year
(a) Bills Receivable = 145 - 145 Mutual	Nil	
(b) Debtors = 930 + 780	17,10,000	
Total	**17,10,000**	

(c) Parrot Ltd. had acquired 51% in Sparrow Ltd. for ₹75.80 Lakhs on April, 1st 2014. On date of the acquisition Sparrow's Assets stood at ₹196 Lakhs and Liabilities at ₹16 Lakhs. The Net Asset position of Sparrow Ltd. as on 31st March, 2015 & 30th September 2015 were ₹280 Lakhs & ₹395 Lakhs respectively, the increase resulting from profits earned during the period.
On 1st Oct, 2015 25.5% holdings were sold for ₹125 Lakhs. You are required explain the nature of the relationship between the two companies on the relevant dates and the accounting adjustments that are necessary as a result of any change in the relationship. The profit arising on part sale of Investment, carrying value of the portion unsold, Goodwill/Capital Reserve that arises on change in nature of the Investment are also required to be worked out by you. [15]

Answer:

A. Basic Information

Company Status	Dates	Holding Status
Holding Company = Parrot Limited Subsidiary Company = Sparrow Limited	Date of Acquisition: 01.04.2014	51% shares of Sparrow Limited held by Parrot Limited

Notes:

- If Parrot Limited owns majority of voting power and the Shares are held with an intention to dispose them in the near future (12 months or less), the enterprise will be excluded from preparing Consolidated Financial Statements.
- 'Intention' at the time of purchase of investment should be considered for determining Consolidation.
- If at the time of purchase, intention is to hold the Investments for Long Term and subsequently if the Parent Company decides to dispose the instrument (but not yet disposed), it should still be included for consolidation purposes.
- Therefore, on all the three dates i.e. 01.04.2014, 31.03.2015 and 30.09.2015, investment in Sparrow Ltd should be accounted for as if it is a Subsidiary.

B. Computation of Capital Reserve as on 01.04.2014 (Sparrow Ltd is Subsidiary)

Particulars	(In ₹Lakhs)
Net Asset Value of Sparrow Limited as on 01.04.2014 (196.00 - 16.00)	180.00
Share of Parrot in Value of Sparrow Ltd at 51% of the NAV (180.00 × 51%) Less: Consideration Paid	91.80 (75.80)
Capital Reserve [In Parrot's Consolidated Financial Statement]	**16.00**

Accounting: Consolidated Financial Statement should be prepared as per AS-21, Line by Line addition of Assets and Liabilities after elimination of Mutual Owings/Items.

C. Computation of Capital Reserve as on 31.03.2015 (Sparrow Ltd is Subsidiary)

(a) Since there is no change in holding pattern as at 31.03.2015, Capital Reserve on Consolidation will still be ₹ 16 Lakhs

(b) Accounting for Post-Acquisition Reserves

Particulars	(In ₹ Lakhs)
Net Asset Value of Sparrow Limited as on 31.03.2015 **Less:** Net Asset Value as at date of acquisition	280.00 180.00
Increase Net Asset = Post Acquisition Reserves	**100.00**
Therefore, Share of Parrot in Post Acqn. Reserves (to be included as part of Group Reserves)	51.00
Minority Interest in the Consolidated Financial Statements of Parrot Ltd, including share in Post-Acquisition Reserves (Net Asset Value as at 31.03.2015 ₹ 280 Lakhs × 49%)	137.20
Capital Reserve on Consolidation	16.00

Accounting: Consolidated Financial Statement should be prepared as per AS-21, Line by Line addition of Assets and Liabilities after elimination of mutual items

D. Computation of Capital Reserve as on 30.09.2015 (Sparrow Ltd is Subsidiary)

Since there is no change in holding pattern as at 30.09.2015, Capital Reserve on Consolidation will still be ₹ 16 Lakhs

Particulars	(In ₹ Lakhs)
Net Asset Value of Sparrow Limited as on 30.09.2015 Less: NAV of Sparrow Limited on date of acquisition	395.00 (180.00)
Increase Net Asset = Post Acquisition Reserves	**215.00**

Therefore, Share of Parrot in Post Acqn. Reserves (to be included as part of Group Reserves) [215 Lakhs× 51%]	109.65
Minority Interest in the Consolidated Financial Statements of Parrot Ltd, including share in Post-Acquisition Reserves (Net Asset Value as at 30.09.2015 ₹ 395 Lakhs x 49%)	193.55
Capital Reserve on Consolidation	16.00

Accounting: Consolidated Financial Statement should be prepared as per AS-21, Line by Line addition of Assets and Liabilities after elimination of mutual items

E. Computation of Gain on Sale Consideration as on 01.10.2015 (Sparrow Ltd. is an Associate)

(a) Separate Financial Statements: In the separate financial statements of Parrot Ltd, the profit on sale computed as follows will be transferred to Profit and Loss Account - (₹ In Lakhs)

Sale Consideration	125.00
Less: Proportionate Cost [75.80 × ½]	37.90
Profit on Sale	87.10

(b) Consolidated Financial Statements: Profit on Sale will be computed as follows

Sale Consideration	125.00
Less: Proportionate Net Asset Value [(395.00 × 25.50%) - (16,00,000 × 25.5/51%)]	92.73%
Profit on Sale	**32.27**

(c) Consolidated Financial Statements: Balance in Capital Reserve will be reduced by ₹ 8 Lakhs (being half of Capital Reserve on Acquisition) and transferred to Profit and Loss Account. Remaining ₹ 8 Lakhs will be included as part of Carrying Amount of Investment of Associate in the Consolidated Financial Statements.

Accounting: Consolidated Financial Statements (CFS) should be prepared as per AS-21 Line by Line addition of assets and liabilities after elimination of mutual items

- In CFS of Eagle Ltd, the Sparrow Ltd becomes an Associate on 01.10.2015 (20% or more ownership).
- Profit on sale of a portion of Subsidiary should be adjusted against Capital Reserve/Goodwill.
- The investment in Sparrow Ltd will be carried at Cost and Equity Method of accounting will be used for consolidation.

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

(a) 'An effective sustainability reporting cycle should benefit all reporting organizations.' –List them. [5]

Answer:

An effective sustainability reporting cycle should benefit all reporting organizations.

Internal benefits for companies and organizations can include:

- Increased understanding of risks and opportunities
- Emphasizing the link between financial and non-financial performance

- Influencing long term management strategy and policy, and business plans
- Streamlining processes, reducing costs and improving efficiency
- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives
- Avoiding being implicated in publicized environmental, social and governance failures Comparing performance internally, and between organizations and sectors

External benefits of sustainability reporting can include:

- Mitigating - or reversing - negative environmental, social and governance impacts
- Improving reputation and brand loyalty
- Enabling external stakeholders to understand company's true value, and tangible and intangible assets
- Demonstrating how the organization influences, and is influenced by, expectations about sustainable development

(b)Compute EVA of Vikram Ltd. for 3 years from the information given - (in ₹ Lakhs)

Year	1	2	3
Average Capital Employed	**₹3,000.00**	**₹3,500.00**	**₹4,000.00**
Operating Profit before Interest (adjusted for Tax Effect)	**₹850.00**	**₹1,250.00**	**₹1,600.00**
Corporate Income Taxes	**₹80.00**	**₹70.00**	**₹120.00**
Average Debt ÷ Total Capital Employed (in %)	**40.00**	**35.00**	**13.00**
Beta Variant	**1.10**	**1.20**	**1.30**
Risk Free Rate (%)	**12.50**	**12.50**	**12.50**
Equity Risk Premium (%)	**10.00**	**10.00**	**10.00**
Cost of Debt (Post Tax) (%)	**19.00**	**19.00**	**20.00**

[10]

Answer:

EVA Statement of Vikram Ltd.

Particulars	**Year 1**	**Year 2**	**Year 3**
(i) Cost of Equity (K_e) = Risk Free Rate + (Beta x Equity Risk Premium)	12.5 + (1.1 x 10) = 23.50%	12.5 + (1.2 x 10) = 24.50%	12.5 + (1.3 x 10) = 25.50%
(ii) Cost of Debt (K_d) (given)	19.00%	19.00%	20.00%
(iii) Debt-Equity Ratio (Debt=given, Equity is bal. fig)	40% & 60%	35% & 65%	13% & 87%
(iv) WACC = [(K_d) x Debt % + (K_e) x Equity%]	**21.70%** (19 x 40% + 23.50 x 60%)	**22.58%** (19 x 35% + 24.50 x 65%)	**24.79%** (20 x 13% + 25.50 x 87%)
(v) Average Capital Employed (given)	3,000.00	3,500.00	4,000.00
(vi) Capital Charge (Fair Return to Providers of Capital i.e. Average Capital Employed x WACC)	₹3,000 x 21.70% = ₹651.00	₹3,500 x 22.58% = ₹790.30	₹4,000 x 24.79% =₹ 991.60
(vii) Operating Profit before Taxes & Interest	**₹850.00**	**₹1,250.00**	**₹1,600.00**
(viii) **Less:** Taxes Paid	₹80.00	₹70.00	₹120.00

(ix) Operating Profit after Taxes (This is the return to	₹770.00	₹1,180.00	₹1,480.00
(x) Capital Charge (computed in 6 above)	₹651.00	₹790.30	₹991.60
(xi) Economic Value Added (ix) – (x)	**₹119.00**	**₹389.70**	**₹488.40**
(xii) EVA as a % of Average Capital Employed	**3.96%**	**11.13%**	**12.21%**

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

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

[5]

Answer:

Particulars	
(i) Average Annual Earning till retirement	₹2,00,000
(ii) Annuity Factor for 3 years at 15%	2.2832
(iii) No. of employees	20
(iv) Value of Human Resource of Skilled Employees group (i)×(ii)×(iii)	₹91,32,800

Note: As the employees are 62 years (Average) , there are 3 more years for them i.e., till 65 years of age to retire. Hence the average earning is discounted for 3 years at 15%.

(ii) Write a note on the books and records to be maintained by Merchant Bankers. **[5]**

Answer:

Records to be maintained: Merchant Bankers are required to maintain the following books of account and records and documents –

- Copy of Balance Sheet as at end of each accounting period;
- Copy of Profit and Loss Account for the period noted above;
- Copy of Auditor's Report on the Accounts for that period;
- Statement of Financial Position;

➢ **Period of Maintenance:** Merchant Bankers are required to preserve the books of account and other records and documents maintained for a minimum period of five years.

➢ **Intimation of SEBI:** Merchant Bankers are required to intimate to the Board, the place of maintenance of books of accounts, records and documents.

➢ **Furnishing of Accounts to SEBI:** After each accounting year, Merchant Bankers are required to furnish copies of the Balance Sheet, Profit and Loss Account and other documents to SEBI. The documents and financial statements may relate to any of the five preceding financial years.

(d)(i) State the disclosures to be made in relation to Provisions ,Contingent Liabilities and Contingent Assets (AS 29). [6]

Answer:

Disclosure to be made in relation to Provisions, Contingent Liabilities and Contingent Assets:

Disclosure of provisions in financial statements

Enterprise should disclose for each class of provision the following:

• Opening balance

• Addition to and use of the provision

• Unused amount written back

• Closing balance of the provision

Besides these the following other disclosures are required:

• A brief description of provision.

• Major assumption about future events made while measuring the provision and indication of uncertain items.

• The expected reimbursement recognized as an asset.

Disclosure of contingent liability: An enterprise should disclose for each class of contingent liability at the balance sheet date -

• A brief description of the nature of the contingent liability where practicable.

• An estimate of the amount as per measurement principles as prescribed for provision.

• Indications of the uncertainties relating to outflow.

• The possibility of any reimbursement.

• Where any of the information required as above is not disclosed because it is not practicable to do so, that fact should be stated.

An enterprise need not disclose of the disclosure requirement if disclosure of any of this information is expected to prejudice seriously the case of the enterprise in disputes with other party. However, it should be extremely rare case.

(ii) Mithila grants 120 share options to each of its 240 employees. Each grant is conditional on the employee working for Mithila over the next three years. Mithila has estimated that the fair value of each share option is ₹24.
Mithila astimates that 25% of employees will leave during the three –year period and so forfeit their rights to the share options.
Everything turns out exactly as expected.

Calculate the amounts to be recognised as expense during the vesting period. [4]

Answer:

Year	Calculation	Expense for Period ₹	Cumulative Expense ₹
1	28,800 options × 75% × ₹24 × 1/3 years	1,72,800	1,72,800
2	(28,800 options × 75% × ₹24 × 2/3 years) – 1,72,800	1,72,800	3,45,600

3	(28,800 options × 75% × ₹24 × 3/3 years) - ₹3,45,600	1,72,800	5,18,400

Question No. 5 (Answer any three):

(a) Identify the differences between Commercial Accounting and Government Accounting. [5]

(b) Discuss the scope of IGAS-3 on Cash Flow Statements. [5]

(c) Describe how the Public Accounts Committee regularize the excess expenditure spent on a service. [5]

(d) List the responsibilities of the Government Accounting Standards Advisory Board. [5]

Answer:

(a) The principles of Commercial and Government Accounting differ in certain essential points. The difference is due to the fact that, while the main function of a commercial concern is to take part in the production, manufacture or inter-change of goods or commodities between different groups or individuals and thereby to make profit, Government is to govern a country and, in connection therewith, to administer the several departments of its activities in the best way possible.

Government Accounts are designed to enable Government to determine how little money it need take out of the pockets of the tax-payers in order to maintain its necessary activities at the proper standard of efficiency. Non-Government Commercial accounts, on the other hand, are meant to show how much money the concern can put into the pockets of the proprietors consistently with the maintenance of a profit-earning standard in the concern.

(b) The cash flow statement should be presented as an integral part of Financial Statements of the Union and State Governments for each period for which such Financial Statements are presented. It should be prepared in accordance with the requirements of this Standard. The Financial Statements should not be described as complying with this Standard unless they comply with all its requirements. The transactions that do not require the use of cash or cash equivalents (non-cash transactions) should be excluded from a cash flow statement

Information about cash flows may be useful to users of the Government Financial Statements in assessing its cash flows and assessing compliance with legislation and regulations (including authorized budgets where appropriate). Accordingly this Standard requires Governments to present a cash flow statement.

Some activities undertaken by Government do not have direct impact on their current cash flows. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions include accounting for interest payable on provident fund deposits of employees, conversion of debt into equity of an entity. Summary and impact of such non-cash transactions should be disclosed in the notes to Cash Flow Statement forming part of the Financial Statements in a way that provides all the relevant information about these activities.

(c) If any money has been spent on a service in excess of the amount granted by the House for the purpose, the Committee examines the same with reference to the facts of each case, the circumstances leading to such an excess and make such recommendations as it may deem fit. Such excesses are thereafter required to be brought up before the House by Government for regularisation in the manner envisaged in article 115 of the Constitution. In order to facilitate speedy regularisation of such expenditure by Parliament, the Committee presents a consolidated report relating to all Ministries/ Departments expeditiously in advance of other reports.

(d) Following are the responsibilities of the Government Accounting Standards Advisory Board:

(i) To establish and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.

(ii) To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.

(iii) To keep the standards current and reflect change in the Governmental environment;

(iv) To provide guidance on implementation of standards.

(v) To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.

(vi) To improve the common understanding of the common understanding of the nature and purpose of information contained in the financial reports.