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. **[2×5=10]**

(a) Discuss the treatment of reversal of impairment loss for goodwill with reference to Accounting Standards(applicable in India) and IFRS.

(b) Aveer Ltd. wants to re-classify its Investment in accordance with AS-13.Decide on the treatment to be given in each of the following cases:

(i) A portion of Current Investments purchased for ₹20 lakhs to be reclassified as long-term Investments, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹25 lakhs.
(ii) Another portion of Current Investments purchased for ₹15 lakhs has to be reclassified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was ₹6.5 lakhs.
(iii) Certain Long-term Investments no longer considered for holding purposes have to be re-classified as Current Investments. The original cost of theses was ₹18 lakhs but they had been written down to ₹12 lakhs to recognize permanent decline as per AS 13.

Answer:

(a)

Impairment of Assets

	AS	**IFRS**
Timing of impairment review	AS 28 does not require the annual impairment testing for the goodwill unless there is an indication of impairment.	IAS 36 requires annual impairment testing for an intangible asset with an indefinite useful life or not yet available for use and goodwill acquired in a business combination.
Reversals of impairment loss for goodwill	AS 28 requires that the impairment loss recognized for goodwill should be reversed in a subsequent period when it was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events that have occurred reverse the effect of that event.	IAS 36 prohibits the reversals of impairment loss for goodwill recognized in earlier periods. Even as per IFRIC 10, an entity should not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

(b) As per AS 13 'Accounting for Investments' where investments are reclassified from current to long term, transfers are made at the lower of cost and fair value at the date of transfer.

In the first case, the market value of the investment is ₹25 lakhs, which is higher than its cost ₹20 lakhs. Therefore, the transfer to long term investments should be carried at cost ₹20 lakhs.

In the second case, the market value of the investment is ₹6.5 lakhs, which is lower than its cost ₹15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value ₹6.5 lakhs. The loss of ₹8.5 lakhs should be charged to profit and loss account.

Where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.
In the third case, the book value of the investments is ₹12 lakhs, which is lower than its cost ₹18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹12 lakhs.

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

(a) AD Ltd agreed to absorb BD Ltd on 31st March whose Balance Sheet stood as follows:

I. Equity and Liabilities	**₹**
Shareholders' Funds:	
(a) Share Capital (80000 shares of ₹10 fully paid)	**8,00,000**
(b) Reserve and Surplus -general reserve	**1,00,000**
Non-Current Liabilities:	
Long Term Borrowings	
-Secured Loans	**-**
-Unsecured Loans	**-**
Current Liabilities:	
Trade Payables -Sundry Creditors	**1,00,000**
Total	**10,00,000**
II. Assets	
Non-Current Assets:	
(a) Fixed Assets	**7,00,000**
(b)Non-Current Investments	**-**
Current Assets:	
(a)Inventories	**1,00,000**
(b)Trade Receivables -Debtors	**2,00,000**
Total	**10,00,000**

The consideration was agreed to be paid as follows-

(i) A payment of ₹5 per share in BD Ltd, and
(ii) The issue of ₹10 each in AD Ltd.on the basis of 2 Equity Shares (valued at ₹15) and one 10% Cumulative Preference Share (Valued at ₹10) for every 5 shares held in BD Ltd.

The whole of the Share Capital consists of shareholding in exact multiple of five except the following holding-

(iii) P-116 share, (ii) Q-76 shares, (ii) R-72 shares, (iv) S-28 shares, (v) Other Individuals-8 shares (eight members holding one share each).Total of such fractional holding =300 shares.

It was agreed that AD Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in BD Ltd. i.e. ₹65 for 5 shares of ₹50 paid.
Prepare a statement showing the purchase consideration receivable in shares and cash.

[5]

Answer:

(a)

Analysis of fractional holdings and Exchange of shares

Name of shareholder	Shares Held	Exchangeable in multiples of five	Exchange in equity shares	Exchange in preference shares	Non-exchangeable
P	116	115	(115 × 2/5) =46	(115 × 1/5) =23	1
Q	76	75	(75 × 2/5) =30	(75 × 1/5) =15	1
R	72	70	(70 × 2/5) =28	(70 × 1/5) =14	2
S	28	25	(25 × 2/5) =5	(25 × 1/5) =5	3
Others	8	-	-	-	8
Total	300	285	114	57	15

Computation of Shares Exchangeable

Particulars	Shares in BD Ltd	Equity Shares of AD Ltd.	Pref. Shares of AD Ltd.
Fractional Holdings(as above)	300	114	57
Other holdings	(80,000 – 300) =79,700	79,700 x 2/5 =31,880	79,700 x 1/5 =15,940
	80,000	31,994	15,997

There are 15 shares in BD Ltd. which are not capable of exchange into equity & preference shares of AD Ltd. Hence they will be paid cash as 15 shares x ₹10 paid up value x 65/50 = ₹195

Settlement of Purchase Consideration

Particulars	₹
31,994 equity shares at ₹15 each(face value of ₹10 each)	4,79,910
15,997 Preference shares at ₹10 each	1,59,970
Cash for (80000 – 15)=79,985 shares at ₹5 each	3,99,925
Total	10,39,805
Add: Cash for 15 shares (fractional holding non-exchangeable)	195
Total Purchase Consideration	10,40,000

(b) The summarized Balance Sheets of R Ltd. and S Ltd. for the year ended 31.3.2015 are as under:

Equity and Liabilities	R Ltd. (₹)	S Ltd. (₹)
Shareholders' funds		
(a)Share Capital		
Equity share capital (in shares of ₹10 each)	24,00,000	12,00,000
8% Preference Share Capital(in shares of ₹10 each)	8,00,000	-
10% Preference share Capital (in shares of ₹10 each)	-	4,00,000
(b) Reserves and Surplus	30,00,000	24,00,000
Current Liabilities	18,00,000	10,00,000
Total	80,00,000	50,00,000
Assets		
Non-current Assets	55,00,000	27,00,000
Current Assets	25,00,000	23,00,000
Total	80,00,000	50,00,000

The following information is provided:

		R Ltd. (₹)	S Ltd. (₹)
	Profit before tax	10,64,000	4,80,000
	Taxation	4,00,000	2,00,000
	Preference Dividend	64,000	40,000
	Equity Dividend	2,88,000	1,92,000

The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.

R Ltd. proposes to absorb S Ltd. as on 31.03.2015. The terms of absorption are as under:

(i) Preference Shareholders of S Ltd. will receive 8% preference shares of R Ltd. sufficient to increase the income of preference shareholders of S Ltd. by 10%.

(ii) The equity shareholders of S Ltd. will receive equity shares of R Ltd. on the following basis:

- **The equity shares of S Ltd. will be valued by applying to the earnings per share of S Ltd.75% of price earnings ratio of R Ltd. based on the results of 2014-15 of both the companies.**
- **The market price of equity shares of R Ltd. is ₹40 per share.**
- **The number of shares to be issued to the equity shareholders of S Ltd. will be based on the above market value.**
- **In addition to equity shares , 8% preference shares of R Ltd. will be issued to equity shareholders of S Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2014-15.**

The assets and liabilities of S Ltd. as on 31.03.2015 are revalued by professional valuer as under:

	Increased by (₹)	Decreased by (₹)
Fixed Assets	**1,00,000**	**-**
Current assets	**-**	**2,00,000**
Current Liabilities	**-**	**40,000**

For the next two years, no increase in the rate of equity dividend is expected.

You are required to:
(i) Set out in detail the purchase consideration.
(ii) Give the Balance Sheet as on 31.03.2015 after absorption. [10]

Answer:

(b)
(i) Computation of Purchase Consideration

	(₹)
(i)Preference Shareholders	
Current income of Preference shareholders of S Ltd.	40,000
Add: 10% increase thereof	4,000
	44,000
Preference shares to be issued = 44,000 × 100/8	5,50,000
(ii)Equity shareholders	
Issue of Equity shares	
Profit before tax of R Ltd.	10,64,000
Less: Tax	(4,00,000)
	6,64,000
Less: Preference Dividend	(64,000)
Profit available for equity shareholders of R Ltd.	6,00,000

Basic EPS = Earnings available for shareholders / Average no of shares
Earnings per share (EPS) = 6, 00,000/2, 40,000 = ₹2.50
PE Ratio = Market Price/ EPS
Price earnings ratio (P/E) = 40/2.50 = 16

EPS of S Ltd.

	(₹)
Profit before tax	4,80,000
Less: Tax	(2,00,000)
Profit After Tax	2,80,000
Less: Preference Dividend	(40,000)
Profit available for equity shareholders	2,40,000

EPS = 2, 40,000/1, 20,000 = ₹2
Valuation of Equity shares of S Ltd.
= 1, 20,000 shares × (₹2 × 16 × 0.75) =₹28, 80,000

Number of equity shares to be issued = 28, 80,000/40 = 72,000.

	(₹)
Equity Share Capital	7,20,000
Securities Premium	21,60,000
	28,80,000
Issue of preference shares to make up loss to equity shareholders	(₹)
Current Equity dividend	1,92,000
Less: Expected equity dividend from R Ltd. i.e. in proportion of the existing dividend policy (₹7,20,000 × 2,88,000/24,00,000)	(86,400)
Loss in income	1,05,600
8% Preference Shares to be issued = 1,05,600/0.08	13,20,000
Total Purchase Consideration	(₹)
Preference shares to be issued (5,50,000 +13,20,000)	18,70,000
Equity shares to be issued (at premium)	28,80,000
	47,50,000

R Ltd.
Balance Sheet as at 31st March, 2015
(after absorption)

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
(1) Shareholder' Funds		
(a) Share Capital	1	57,90,000
(b) Reserves and Surplus	2	51,60,000
(2) Current Liabilities	3	27,60,000
Total		1,37,10,000
II. Assets		
(1) Non-Current assets		
(a) Fixed Assets		
i. Tangible assets	4	83,00,000
ii. Intangible assets	5	8,10,000
(2) Current Assets	6	46,00,000
Total		1,37,10,000

Notes to Accounts

		(₹)	(₹)
1.	Share Capital		
	3,12,000 equity shares of ₹10 each(of the above shares 72,000 equity shares are allotted as fully paid up for consideration other than cash)	31,20,000	
	2,67,000 8% preference shares of ₹10 each (of the above 1,87,000 are allotted as fully paid up for consideration other than cash	26,70,000	57,90,000
2.	Reserves and Surplus		
	Reserves (as per last Balance Sheet)	30,00,000	
	Securities Premium	21,60,000	51,60,000
3.	Current Liabilities		
	As per last Balance Sheet	18,00,000	
	Taken over on absorption of S Ltd. ₹(10,00,000 - 40,000)	9,60,000	27,60,000
4.	Tangible Assets		
	As per last Balance Sheet	55,00,000	
	Taken over on absorption of S Ltd.	28,00,000	
			83,00,000
5.	Intangible Assets		
	Goodwill (see working note)		8,10,000
6.	Current Assets		
	As per last Balance Sheet	25,00,000	
	Taken over on absorption of S Ltd. ₹(23,00,000 – 2,00,000)	21,00,000	46,00,000

Working Note:

		(₹)
Purchase consideration		47,50,000
Fixed assets taken over	28,00,000	
Current assets taken over	21,00,000	
	49,00,000	
Less: Current liabilities	(9,60,000)	(39,40,000)
Goodwill		8,10,000

(c) The following are the summarized Balance Sheets of Sand Ltd. and Snow Ltd. as on 31.3.2014:

Particulars	(₹ in thousands)	
	Sand Ltd.	Snow Ltd.
Equity and Liabilities:		
Shareholders' Funds		
Share capital-		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves and Surplus	800	(800)
Non-current Liabilities		
10% Debentures	500	—
Loans from Banks	250	450
Current Liabilities		
Bank overdrafts	—	50
Trade payables	300	300
Proposed dividend	200	—
Total	4,050	1,000
Assets		
Non-current assets		
fixed assets	2,700	850
Non-current Investments (including investments in Snow Ltd.)	700	—
Current assets		
Trade receivables	400	150
Cash at bank	250	—
Total	4,050	1,000

Snow Ltd. has acquired the business of Sand Ltd. The following scheme of merger was approved:

(i) Banks agreed to waive off the loan of ₹ 60 thousands of Snow Ltd.

(ii) Snow Ltd. will reduce its shares to ₹10 per share and then consolidate 10 such shares into one share of ₹ 100 each (new share).

(iii) Shareholders of Sand Ltd. will be given one share (new) of Snow Ltd. in exchange of every share held in Sand Ltd.

(iv) Proposed dividend of Sand Ltd. will be paid after merger to shareholders of Sand Ltd.

(v) Trade payables of Snow Ltd. include ₹ 100 thousands payable to Sand Ltd.

(vi) Sand Ltd. will cancel 20% holding in Snow Ltd. as investment, which was held at a cost of ₹250 thousands.

Pass necessary entries in the books of Snow Ltd. **[10]**

Answer:

(c)

Journal Entries in the books of Snow Ltd.

Date		(₹ in thousands)	
2014		**Dr.**	**Cr.**
March,31	Loan from bank A/c Dr. To Reconstruction A/c (Being loan from bank waived off to the extent of ₹60 thousand)	60	 60
	Equity share capital A/c (₹ 100) Dr. To Equity share capital A/c (₹ 10) To Reconstruction A/c (Being Equity share of ₹ 100 each reduced to ₹ 10 each)	1,000	 100 900
	Equity share capital A/c (₹ 10) Dr. To Equity share capital A/c (₹ 100 each) (Being 10 Equity shares of ₹10 each consolidated to one share of ₹100 each)	100	 100
	Reconstruction A/c Dr. To Profit and loss A/c To Capital reserve A/c (Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)	960	 800 160
	Business purchase A/c Dr. To Liquidator of Sand Ltd. (Being purchase of business of Sand Ltd.)	1,980	 1,980
	Fixed asset A/c Dr. Investment A/c ₹ (700 - 250) Dr. Trade receivables A/c Dr. Cash at bank A/c Dr. To Trade payables A/c To Proposed dividend A/c To Loans from bank A/c To 10% Debenture A/c To Business purchase A/c To Reserves A/c [W.N.2] (Being assets, liabilities and reserves taken over under pooling of interest method)	2,700 450 400 250	 300 200 250 500 1,980 570
	Liquidator of Sand Ltd. A/c Dr. To Equity share capital A/c (Being payment made to liquidators of Sand Ltd. by allotment of 19,800 new equity shares)	1,980	 1,980

	Trade payables A/c Dr. To Trade receivables A/c (Being mutual owing cancelled)	100	100
	Proposed dividend A/c Dr. To Bank A/c (Being dividend paid off)	200	200

Working Notes:

1. Calculation of purchase consideration

	Shares
One share of Snow Ltd. will be issued in exchange of every share of Sand Ltd. (i.e. 20,000 equity shares of Snow Ltd. will be issued against 20,000 equity shares of Sand Ltd.) Less: Shares already held (20% of 10,000) 2,000 shares converted in new equity shares	20,000 (200)
Number of shares to be issued by Snow Ltd. to shareholders of Sand Ltd.	19,800

2. Calculation of Reserves

Less: Cancellation of investment in Snow Ltd.	₹ 250 thousands
Balance of reserve on the amalgamation date	₹ 550 thousands

As per Para 35 of AS 14, the difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferor company should be adjusted in reserves (of the transferee company - as explained in Para 16 of AS 14)

Amount recorded as share capital issued by Snow Ltd	1,980 thousands
Amount of share capital of Sand Ltd.	₹2,000 thousands
Amount transferred to the reserves of Snow Ltd.	₹ 20 thousands

Hence, net credit to reserves at the time of taking over of assets and liabilities will be ₹550 thousands + ₹20 thousands = ₹ 570 thousands.

(d) Most Neglected Ltd furnishes you the following Balance Sheet as at 31st March,2015

(₹ in Crores)

Particulars	**₹**	**₹**
SOURCES OF FUNDS:		
Shareholders' Funds		**200**
Share Capital: Authorised	**50**	
Issued: Equity Shares of ₹ 10 each fully paid	**150**	**200**
12% Redeemable Preference Shares of ₹ 100 each fully paid	**30**	
Reserves and Surplus: Capital Reserve	**50**	
Securities Premium	**520**	**600**
Revenue Reserves		
Total		**800**

APPLICATION OF FUNDS:		
Non Current Assets: Cost	**200**	
Less: Provision for Depreciation	**200**	**Nil**
Investments at Cost (Market Value ₹ 400 Crores)		**200**
Net Current Assets: Current Assets	**680**	
Less: Current Liabilities	**80**	**600**
Total		**800**

The Company redeemed its Preference Shares on 1st April,2015. It also Bought Back 100 Lakh Equity Shares of ₹ 10 each at ₹ 50 per Share. The payments for the above were made out of the substantial Bank Balances, which appeared as part of Current Assets. You are required to –

- **Prepare the Company's Balance Sheet after the above transactions.**
- **Value the Equity Shares on Net Assets Basis.** **[10]**

Answer:

(d)

Balance Sheet of Most Neglected Ltd (after redemption and buyback)

(₹ in Crores)

	Particulars as at 31st March,2015	Note	This Year	Prev. Year
I	EQUITY AND LIABILITIES			
(1)	Shareholders' Funds:			
	(a) Share Capital	1	40	
	(b) Reserves & Surplus	2	560	
(2)	Current Liabilities		80	
	Total		680	
II	ASSETS			
(1)	Non-Current Assets			
	(a) Tangible Fixed Assets: (Gross Block 100 less Provision for Deprn 100)		Nil	
	(b) Non-Current Investments at Cost (Market Value thereof ₹ 400		200	
(2)	Crores)		480	
	Current Assets (680 - 150 - 50)			
	Total		680	

Notes to the Balance Sheet **(₹ in Crores)**

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised Capital (Division of Shares and Paid Up Value is not available in Question):	200	
Issued, Subscribed & Paid up: 4 Crore Equity Shares of ₹ 10 each	40	

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

Note 2: Reserves and Surplus

Particulars			This Year	Prev. Year
(a)	Capital Reserve		30	
(b)	Capital Redemption Reserve	(150 + 10)	160	
(c)	Securities Premium Account		50	
(d)	Revenue Reserves	(320 - 160 - 40)	320	
	Total		560	

3. Net Asset Value of an Equity Share

Total Assets = Fixed Assets (Book Value)+Investment (Market Value)+Net Current Assets (Book Value) = Nil + 800 + 400 = ₹ 1,200 Crores.

Value per Equity Share = ₹ 1,200 Crores ÷ 2 Crore Shares = ₹ 600 per Share.

Note: For Redemption of Preference Shares - transfer to Capital Redemption Reserve can be only from divisible profits. Securities Premium cannot be used for the same. However, in respect of Buyback - Securities Premium can be utilised for transfer to Capital Redemption Reserve as per Section 77A.

An amount equivalent to the nominal value of shares bought back shall be transferred to capital redemptions reserve account. A amount of ₹ 150 crores transferred to capital redemption reserve in relation to Preference Shares and ₹10 crores in relation to Equity Shares.

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

(a) From the following information determine the amount of unrealized profits to be eliminated and the apportionment of the same, if C Ltd. Holds 75% of the equity shares of D Ltd.

(i) Sales by C Ltd to D Ltd-

- **Goods costing ₹50,000 at a profit of 20% on sale price. Entire stock was lying unsold as on the Balance Sheet date.**
- **Goods costing ₹70,000 at a profit of 25% on cost price. 40% of the goods were included in closing stock of D Ltd.**

(ii) Sales by D Ltd. to C Ltd.

- **Goods sold for ₹75,000 on which D made profit of 25% on cost. Entire stock was at C's godown as on the Balance Sheet date.**
- **Goods sold for ₹90,000 on which D made profit of 15% on sale price. 70% of the values of goods were included in closing stock of C. [10]**

Answer:

(a)

Transaction	**Sale by C Ltd.(Holding) to D Ltd.(Subsidiary)**
Nature of transaction	Downstream Transaction

Profit on transfer	Cost ₹50,000 × Profit on sale 20% / Cost on sale 80%=₹12,500	Cost ₹ 70,000 × Profit on cost 25% = ₹17,500
% of stock included in closing stock	100%	40%
Unrealized Profits to be eliminated(transferred to Stock Reserve)	₹12,500 × 100% = ₹12,500	₹17,500 × 40% = ₹7,000
Share of Majority- reduced from Group Reserves	100% × ₹12,500 = ₹12,500	100% × ₹7,000 = ₹7,000
Share of Minority	Unrealized profit on downstream transactions is fully adjusted against group reserves. Minority Interest is not relevant.	

Transaction	**Sale by D Ltd.(Subsidiary) to C Ltd.(Holding)**	
Nature of transaction	Upstream Transaction	
Profit on transfer	Sale ₹75000 × Profit on cost 25%/ sale to cost 125%= ₹15000	Sale ₹90,000 × profit on cost 15%= ₹13500
% of stock included in closing stock	100%	70%
Unrealized Profits to be eliminated(reduced from closing stock)	₹15,000 × 100% = ₹15,000	₹13,500 × 70% =₹9450
Share of Majority- reduced from Group Reserves	Share of Majority 75% × Unrealized Profit ₹15,000= ₹11,250	Share of Majority 75% × Unrealized Profit ₹9,450= ₹7,088
Share of Minority- reduced from Minority Interest.	Share of Minority 25% × Unrealized Profit ₹15,000= ₹3,750	Share of Minority 25% × Unrealized Profit ₹9,450= ₹2,362

(b) D Ltd. own 80% of S, 40% of J and 40% of A. J is Jointly controlled entity and A is an Associate. Balance Sheet of four companies as on 31.03.2014 are-

I. Equity &Liabilities	**D**	**S**	**J**	**A**
Share Capital ₹1 equity share	**1,000**	**400**	**800**	**800**
Reserves and Surplus – Retained earnings	**4,000**	**3,400**	**3,600**	**3,600**
Trade payables-creditors	**200**	**300**	**250**	**250**
Total	**5,200**	**4,100**	**4,650**	**4,650**
II. Assets	**D**	**S**	**J**	**A**
Non-current assets – fixed assets	**1,000**	**800**	**1,400**	**1,000**
Non-current Investments				
Investment in S	**800**	**-**	**-**	**-**
Investment in J	**600**	**-**	**-**	**-**
Investment in A	**600**	**-**	**-**	**-**
Current assets	**2,200**	**3,300**	**3,250**	**3,650**
Total	**5,200**	**4,100**	**4,650**	**4,650**

D Ltd. acquired shares in S many years ago when retained earnings of S were ₹520. D Ltd acquired its shares in J at the beginning of the year when retained earnings of J were ₹400. D Ltd. acquired its shares in A on 01.04.2013 when retained earnings of A 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 D Ltd as on 31.03.2014 as per AS-21,23 and 27. [15]

Answer:

(b)

Basic Information

Company	S Ltd.	J Ltd.	A Ltd.
Nature	Subsidiary	Jointly controlled Entity	Associate
Nature of consolidation	Total consolidation	Proportionate Consolidation	Equity Method
Group Interest	80%	40%	40%
Minority Interest	20%	Not applicable	Not applicable

Analysis of reserves

S Ltd.	₹
Date of consolidation	3,400
Date of Acquisition(pre-acquisition)	520
Date of Acquisition to date of consolidation(post acquisition)	2,880

J Ltd.	₹
Date of consolidation	3,600
Date of Acquisition(pre-acquisition)	400
Date of Acquisition to date of consolidation(post acquisition)	3,200

A Ltd.	₹
Date of consolidation	3,600
Date of Acquisition(pre-acquisition)	400
Date of Acquisition to date of consolidation(post acquisition)	3,200

Consolidation of balances
(Credit balance in positive; Debit balance in negative)

Particulars	Minority of S	Invt. in S(Pre-acq))	Invt. in J(Pre-acq))	Invt. in A (Pre-acq))	Retained Profits
Balance as per Balance Sheet	-	(800)	(600)	(600)	4000
Share in Equity Capital	80(400 × 20%)	320(400 × 80%)	320(800 × 40%)	320(800 × 40%)	-
Share in Pre-acquisition profits	104(520 × 20%)	416(520 × 80%)	160(400 × 40%)	160(400 × 40%)	-
Share in pre-acquisition value(320	-	(64)	(120)	(120)	

+320)					
Share in post acquisition reserves					
From S	576 [2880 × 20%]				2304 [2880 × 80%]
From J [3200×40%]					1280
From A[3200×40%]					1280
Goodwill Adjusted Earlier					(64)
For Consolidated Balance Sheet	760 Minority Interest	-	(120) Goodwill	(120) Goodwill	8,800 Retained Earnings

Note: For A Ltd. investments will be retained in the Consolidated Balance Sheet based on Equity Method, i.e. at the Intrinsic value. Intrinsic value = share in the Net worth on the date of consolidation = 40% of (800 + 3600)=1760

Investment in A is also arrived at as follows-

Particulars	₹
Cost of investment	600
Less: Goodwill recognized separately	(120)
Net cost on date of acquisition	480
Add: Share in Post acquisition reserves[40% of 3200]	1280
Value of investment on 31.03.2014 under equity method	1,760

Consolidated Balance Sheet of D as on 31.03.2014

	Particulars	Note No.	Amount (₹)
I	**Equity and Liabilities**		
(1)	Shareholders' Funds		
	(a) Share Capital		1,000
	(b) Reserves & Surplus		8,800
(2)	Minority Interest		760
(3)	Current Liabilities		
	Trade payables-creditors[D-200+S-300+J(0.4×250)]		600
	Total		**11,160**
II	**Assets**		
(1)	Non-current Assets		
	(a) Fixed Assets: (i)Tangible assets[D-1,000 +S 800+J(0.4×1,400)] (ii)Intangible assets – goodwill on consolidation(120+120)		 2,360 240
	(b) Non-current investments – in A		1,760
(2)	Current Assets [D 2,200 +S 3,300+ J(0.4×3250)]		6,800
	Total		**11,160**

(c) On 31st March, 2014 BB Ltd. became the holding company of CC Ltd. and DD Ltd. by acquiring 900 lakhs fully paid shares in CC Ltd. for ₹ 13,500 lakhs and 480 lakhs fully paid shares in DD Ltd. for ₹ 4,320 lakhs. On that date, CC Ltd. showed a balance of ₹ 5,100 lakhs in General Reserve and a credit balance of ₹ 1,800 lakhs in Profit and Loss Account. On the same date, DD Ltd. showed a debit balance of ₹ 720 lakhs in Profit and Loss Account. While its Preliminary Expenses Account showed a balance of ₹ 60 lakhs.

After one year, on 31st March, 2015 the Balance Sheets of three companies stood as follows:

			(₹ in Lakhs)
Liabilities	BB Ltd.	CC Ltd.	DD Ltd.
Fully paid equity shares of ₹ 10 each	54,000	15,000	6,000
General Reserve	66,000	6,300	–
Profit and Loss Account	18,000	2,400	1,500
15 lakh fully paid 9.5%			
Debentures of ₹ 100 each	–	–	3,000
Loan from CC Ltd.	–	–	150
Bills Payable	–	–	300
Sundry Creditors	28,200	5,400	1,860
	1,66,200	29,100	12,810
Assets			
Machinery	78,000	15,000	4,200
Furniture and Fixtures	12,000	3,000	1,200
Investments:			
900 lakhs shares in CC Ltd.	13,500	–	–
480 lakhs shares in DD Ltd.	4,320	–	–
6 lakhs debentures in DD Ltd.	588	–	–
Stocks	33,000	6,000	3,000
Sundry Debtors	18,000	2,700	2,580
Cash and Bank balances	6,402	2,100	1,800
Loan to DD Ltd.	–	180	–
Bills Receivable	390	120	–
Preliminary Expenses	–	–	30
	1,66,200	29,100	12,810

The following points relating to the above mentioned Balance Sheets are to be noted:

(i) All the bills payable appearing in DD Ltd.'s Balance Sheet were accepted in favour of CC Ltd. out of which bills amounting to ₹ 150 lakhs were endorsed by CC Ltd. in favour

of BB Ltd. and bills amounting to ₹ 90 lakhs had been discounted by CC Ltd. with its bank.

(ii) On 29th March, 2015 DD Ltd. remitted ₹ 30 lakhs by means of a cheque to CC Ltd. to return part of the loan; CC Ltd. received the cheque only after 31st March, 2015.

(iii) Stocks with CC Ltd. includes goods purchased from BB Ltd. for ₹ 400 lakhs. BB Ltd. invoiced the goods at cost plus 25%.

(iv) In August, 2014 CC Ltd. declared and distributed dividend @ 10% for the year ended 31st March, 2014. BB Ltd. credited the dividend received to its Profit and Loss Account.

You are required to compute

- The pre and post acquisition profit;
- Minority Interest;
- Cost of Control; and
- The amount of consolidated General Reserve and Profit and Loss Account as at 31st March, 2015. [3+4+4+4=15]

Answer:

(c)

(i) Calculation of pre and post acquisition profits of subsidiaries:

				(₹ in lakhs)
			Post-acquisition	
		Pre-acquisition capital profit	**General Reserve**	**Profit/Loss A/c**
CC Ltd.				
General Reserve (Cr.)		5,100	1,200	
Profit and Loss A/c (Cr.)	1,800			
(–) Dividend	1,500	300		2,100
		5,400	1,200	2,100
Holding (60%)		3,240	720	1,260
Subsidiary (40%)		2,160	480	840

			(₹ in lakhs)
		Post-acquisition	
	Pre-acquisition capital profit	**Preliminary expenses**	**Profit / Loss A/c**
DD Ltd.			
Profit and Loss A/c (Cr.)	(720)		2,220
Preliminary expenses (Dr.)	(60)	30	
(–) Dividend	(780)	30	2,220

Holding (80%)	(624)	24	1,776
Subsidiary (20%)	(156)	6	444

(ii) Minority Interest

				(₹ in lakhs)
CC Ltd.				
Share capital			6,000	
Capital profit		2,160		
Revenue General Reserve		480		
Profit/Loss		840	3,480	9,480
DD Ltd.				
Share capital			1,200	
Capital profit		(156)		
Revenue profit (Cr.)	444			
Add: Preliminary expenses written off	6	450	294	1,494
				10,974

(iii) Cost of Control

			(₹ in lakhs)
CC Ltd.			
Investment	13,500		
Less: Dividend received and wrongly credited to Profit and Loss	900	12,600	
Less: Paid-up share capital (60%)	9,000		
Capital profit	3,240	12,240	360
DD Ltd.			
Investment in Shares	4,320		
in debentures	588	4,908	
Less: Paid-up share capital (80%)	4,800		
Nominal value of debentures	600		
Capital profit	(624)	4,776	132
Goodwill			492

(iv) Consolidated General Reserve and Profit and Loss Account

	General Reserve	Profit and Loss A/c
BB Ltd.	66,000	18,000
Less: Wrong dividend credited	–	900
	66,000	17,100
CC Ltd.	720	1,260
DD Ltd. (888 + 12)	–	1,800
	66,720	20,160
Less: Unrealised profit on stock (W.N B)	–	80
	66,720	20,080

Notes:

A. Amount of dividend wrongly credited to Profit and Loss A/c = 60% of ₹ 1,500 lakhs = ₹ 900 lakhs.

B. Unrealised profit = $\left(400 \times \frac{25}{125}\right)$ lakhs = ₹ 80 lakhs

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

(a) Describe the working principle of XBRL. [5]

Answer:

(a) XBRL is a member of the family of languages based on **XML, or Extensible Markup Language**, which is a standard for the electronic exchange of data between businesses and on the internet. Under XML, **identifying tags** are applied to items of data so that they can be processed efficiently by computer software.

XBRL, a more powerful and flexible version of XML, has been defined specifically to meet the requirements of business and financial information. It enables **unique identifying tags** to be applied to items of financial data, such as say 'net profit' or say "Asset". For example let us take the item "Asset". It is defined in XBRL as follows:

<Asset>1000</Asset>

The word Asset together with brackets "<" and ">" is called a tag. Opening tags are denoted by <…> while closing tags are denoted by </…>.

However besides the numerical value of the asset, the computer needs to be told about accounting perspective of the term "Asset", its normal balance nature of "Debit" as well its relationship with other financial terms like Equity or Liabilities etc.

This is done by the powerful XBRL tags. Besides being identifiers, these tags provide a range of information about the item, such as whether it is a monetary item, percentage or fraction. XBRL is easily extensible, so companies and other organisations can adapt it to meet a variety of special requirements.

The rich and powerful structure of XBRL allows very efficient handling of business data by computer software. It supports all the standard tasks involved in compiling, storing and using business data. Such information can be converted into XBRL by suitable mapping processes or generated in XBRL by software. It can then be searched, selected, exchanged or analysed by computer, or published for ordinary viewing.

Working of XBRL is governed mainly by two main features namely Specifications and Taxonomies.

(b) (i) A company has a capital base of ₹6 crores and has earned profits of ₹66 lakhs.Return on Investment of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by ₹15 lakhs over and above the target profit. Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him. [5]

Particulars	₹
Capital base	6,00,00,000
Actual Profit	66,00,000
Target Profit	75,00,000

(ii) List the disclosures required by an enterprise as per AS-29 for each class of contingent liability at the balance sheet date. [5]

Answer:

(b)

(i) Maximum Salary Payable:

Particulars	₹ lakhs
Capital base	600.00
Target profit (=capital base × 12.50%)	75.00
Add: Extra profit due to induction of the executive	15.00
Total profit of the company(anticipated after induction of employee)	90.00
Less: Current Profit	66.00
Incremental profit	24.00

Maximum Salary= Incremental profit due to introduction = ₹24.00 lakhs per annum.
Maximum Bid Price:
= Value of salary payable in perpetuity
= Maximum Salary Payable/Desired rate of return on investment
= ₹24 lakhs/12.5%=₹192 lakhs.

(ii) 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 any 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.

(c) The following particulars in respect of Stock Options granted by a company are available:

Grant date	**April1,2011**
Number of Employees covered	**50**
Number of Options granted per employee	**1000**
Fair value of Option per share on grant date(₹)	**9**

The Option will vest to employees serving continuously for 3 years from vesting date, provided the share price is ₹70 or above at the end of 2013-14.

The estimates of number of employees satisfying the condition of continuous employment were 48 on 31.03.2012 and 47 on 31.03.2013. The number of employees actually satisfying the condition of continuous employment was 45. The share price at the end of 2013-14 was ₹68.

Compute the expenses to recognize in each year and show Stock Options Outstanding Account in books of the company. [10]

Answer:

(c) The vesting of Options is subject to satisfaction of two conditions, service condition of continuous employment for 3 years and market condition that share price at the of 2013-14 is not less than ₹70.

Since the share price on 31.03.2014 was ₹68, the actual vesting is nil. Despite this, the company should recognize the value of option over 3 year vesting period from 2011-12 to 2013-14.

At the end of the three year period, the balance in Options Outstanding will stand transferred to General Reserve, since the options couldn't vest.

Amount of Employee Compensation Expense to be recognized

Year 2011-12

Fair Value of option per share	9
Number of shares expected to vest=48 employees × 1000 shares	48,000
Total Fair Value for the Options to vest =48,000 shares × ₹9 per share	₹4,32,000
Expected Vesting period	3 years
Value of option recognized as expense in 2011-12=₹4,32,000/3	₹1,44,000

Year 2012-13

Fair Value of option per share	9
Number of shares expected to vest=47 employees × 1000 shares	47,000
Total Fair Value for the Options to vest =47,000 shares × ₹9 per share	₹4,23,000

Expected Vesting period	3 years
Value of option recognized as expense for two years=(₹4,23,000/3) × 2 years	₹2,82,000
Less: Value of Option recognized as expense in 2011-12	₹1,44,000
Value of option recognized as expense in 2012-13	₹1,38,000

Year 2013-14

Fair Value of option per share	9
Number of shares expected to vest=45 employees × 1000 shares	45,000
Total Fair Value for the Options to vest =45,000 shares × ₹9 per share	₹4,05,000
Expected Vesting period	3 years
Cumulative Value of option recognized as expense for three years=(₹4,05,000/3) × 3 years	₹4,05,000
Less: Value of Option recognized as expense in 2011-12 and 2012-13	₹2,82,000
Value of option recognized as expense in 2013-14	₹1,23,000

Stock Options Outstanding Account

Dr. Cr.

Year	Particulars	₹	Particulars	₹
2011-12	To Balance c/d	1,44,000	By Employees' Compensation A/c	1,44,000
		1,44,000		**1,44,000**
2012-13	To Balance c/d	2,82,000	By Balance b/d	1,44,000
			By Employees' Compensation A/c	1,38,000
		2,82,000		**2,82,000**
2013-14	To General Reserve (Year End)	4,05,000	By Balance b/d	2,82,000
			By Employees' Compensation A/c	1,23,000
		4,05,000		**4,05,000**

(d) (i) List the characteristics Triple Bottom Line (TBL) reports should possess. [6]

(ii) The following information is available for a concern. Compute EVA.

Debt Capital 12%	**₹8,000 crores**	**Risk free rate**	**9%**
Equity capital	**₹2,000 crores**	**Beta factor**	**1.05**
Reserves & Surplus	**₹30,000 crores**	**Market rate of return**	**19%**
Capital Employed	**₹40,000 crores**	**Equity(market) risk premium**	**10%**
Operating profit after tax	**₹8,400 crores**	**Tax rate**	**30%**

[4]

Answer:

(d)(i)

TBL reports usually contain both qualitative and quantitative information. In order for all reported information to be credible, regardless of whether the information is qualitative or quantitative, it is suggested that it should possess the following characteristics. These include:

- Reliability - information should be accurate, and provide a true reflection of the activities and performance of the company.
- Usefulness - the information must be relevant to both internal and external stakeholders, and be relevant to their decision-making processes.
- Consistency of presentation - throughout the report there should be consistency of presentation of data and information. This includes consistency in aspects such as format, timeframes, graphics, and metrics.
- Full disclosure - reported information should provide an open explanation of specific actions undertaken and performance outcomes.
- Reproducible - information is likely to be published on an ongoing basis, and companies must ensure that they have the capacity to reproduce data and information in future reporting periods.
- Auditability - alignment with the trend towards external verification requires that all statements and data within the report be able to be readily substantiated.

Where the reported information possesses these characteristics, the reporting company is able to present objective, balanced and credible information that delivers benefits to both the reporting company and its stakeholders, while also minimizing any potential reputation risk associated with the publication of TBL reporting.

(ii)

Particulars	
Cost of Equity (k_e)= Risk free rate + (Beta × market risk premium)	9 + (1.05 × 10)=19.5%
Cost of Debt (K_d) = Interest × (100% -tax rate)	12 × 70% = 8.40%
Debt- Equity Ratio (as given in the question)	20% & 80%
WACC = [(K_d) × Debt % + (k_e) × Equity %	(8.40 × 20% + 19.50 × 80%)=17.28%
Operating profit after tax	₹8,400 crores
Capital charge = Capital employed × WACC	₹6,912 crores
Economic Value Added	₹(8,400 – 6,912)=₹1,488 crores

Question No. 5 (Answer any three):

(a) State the objectives and scope of Indian Government Accounting Standard-5. [5]
(b) List the functions of the Committee on Public Undertakings. [5]
(c) State the purpose of constitution of Government Accounting Standards Advisory Board by Comptroller and Auditor General of India? [5]
(d) Describe the process of election of Public Accounts Committee. [5]

Answer:

(a) Indian Government Accounting Standard 5 deals with loans and advances made by Governments. The Government of India has been empowered under proviso (2) of Article 293 of the Constitution of India to make loans to the States, subject to such conditions as may be laid down by or under any law made by Parliament, any sums required for the purpose of making such loans being chargeable to the Consolidated Fund of India.

The objective of the Standard is to lay down the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Union and the State Governments in their respective Financial Statements to ensure complete, accurate, realistic and uniform accounting practices, and to ensure adequate disclosure on Loans and Advances made by the Governments consistent with best international practices.

This Standard applies to Loans and Advances given by the Government for incorporation and presentation in the Financial Statements of the Government. Financial Statements will not be considered as giving fair and complete picture of Loans and Advances unless they comply with these standards. This standard will apply only to government accounts being maintained on a cash basis.

(b) The Committee on Public Undertakings exercises the same financial control on the public sector undertakings as the Public Accounts Committee exercises over the functioning of the Government Departments. The functions of the Committee are:

a. to examine the reports and accounts of public undertakings.

b. to examine the reports of the Comptroller & Auditor General on public undertakings.

c. to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.

The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.

The objective of the Financial Committees, in doing so, is not to focus only on the individual irregularity, but on the defects in the system which led to such irregularity, and the need for correction of such systems and procedures.

(c) Government Accounting Standards Advisory Board (GASAB) has been constituted by Comptroller and Auditor General of India (CAG), with the support of Government of India through a notification dated 12th August, 2002.
The decision to set-up GASAB has been taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace with the International trends.

The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending instead of just identifying resources for public scheme funding.

The accounting systems, the world over, are being revisited with an emphasis on transition from rule to principle based standards and migration from cash to accrual based system of accounting.

GASAB, as a nodal advisory body in India, is taking similar action to establish and improve standards of government accounting and financial reporting and enhance accountability mechanisms.

(d) In April each year a motion is moved in Lok Sabha by the Minister of Parliamentary Affairs or Chairman of the Committee, if in office, calling upon members of the House to elect from amongst themselves 15 members to the Public Accounts Committee.

After the motion is adopted, a programme, fixing the dates for filing the nominations/withdrawal of candidatures and the election, if necessary, is notified in Lok Sabha Bulletin Part-II. On receipt of nominations, a list of persons who have filed nomination papers is put up on the Notice Boards. In case the number of members nominated is equal to the number of members to be elected, then, after expiry of time for withdrawal of candidatures, the members nominated are declared elected and the result published in Bulletin Part-II. If the number of members nominated after withdrawals is more than number of members to be elected, election is held on the stipulated date and result of election published in Bulletin Part-II.