Paper – 18 - Corporate Financial Reporting

1. Answer any two from question No.1 **[2×5]**

(a) Rose Ltd. entered into agreement with Tulip Ltd. for sale of goods of ₹8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2012. On the same day Tulip Ltd. entered into another agreement with Rose Ltd. to resell the same goods at ₹10.80 lakhs on 1st August, 2012. State the treatment of this transaction in the financial statements of Rose Ltd. as on 31.03.12. The pre-determined re-selling price covers the holding cost of Tulip Ltd. Give the Journal Entries as on 31.03.12 in the books of Rose Ltd.

Answer:

In the given case , Rose Ltd. concurrently agreed to repurchase the same goods from Tulip Ltd. on 1st Feb., 2012. Also the re-selling price is pre-determined and covers purchasing and holding costs of Tulip Ltd. Hence , the transaction between Rose Ltd. and Tulip Ltd. on 1st Feb.,2012should be accounted for as financing rather than sale. The resulting cash flow of ₹9.60 lakhs received by Rose Ltd., cannot be considered as revenue as per AS 9 " revenue Recognition".

Journal Entries in the books of Rose Ltd.

Date	Particulars	Debit (₹)	Credit (₹)
01.02.12	Bank A/c Dr. To, Advance from Tulip Ltd. (Being advance received from Tulip Ltd. amounting [₹8 lakhs + 20% of ₹8 lakhs = 9.60 lakhs] under sale and re-purchase agreement)	9.60	9.60
31.03.12	Financing Charges A/c Dr. To, Tulip Ltd. (Financing charges for 2 months at ₹1.20 lakhs i.e. ₹[10.80-9.60] × $\frac{2}{6}$)i.e.(₹1.2 lakhs × $\frac{2}{6}$)	0.40	0.40
31.03.12	Profit and Loss A/c Dr. To, Financing Charges A/c (Being amount of finance charges transferred to P& L A/c)	0.40	0.40

(b) Beautiful Ltd. acquired 30% of Ugly Ltd. Shares for ₹ 4,00,000 on 01-06-2011. By such an acquisition Beautiful Ltd. can exercise significant influence over Ugly Ltd. During the financial year ended on 31.03.2011 Ugly Ltd. earned profits ₹1,60,000 and Declared a dividend of ₹ 1,00,000 on 12.08.2011. Ugly Ltd. reported earnings of ₹ 6,00,000 for the financial year on 31.03.2012 and declared dividends of ₹ 1,20,000 on 12.06.2012.

Calculate the carrying amount of investment in :

(i) Separate financial statements of Beautiful Ltd. as on 31.03.2012

(ii) Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2012

(iii)What will be the carrying amount as on 30.06.2012 in consolidated financial Statements?

Answer:

(i) Carrying Amount of Investment in Separate Financial Statement of Beautiful Ltd. as on 31.03.2012

	₹
Amount paid for investment in Associate (on 1.06.2011)	4,00,000

Less: Pre- acquisition dividend (₹ 1,00,000 X 30%)	30,000
Carrying amount as on 31.03.2012 as per AS 13	3,70,000

(ii) Carrying Amount of Investment in Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2012 as per AS 23

	₹
Carrying amount as on 31.03.2012	3,70,000
Add: Proportionate Share of Profit of investee as per equity method (30% of ₹ 6,00,000)	1,80,000
Carrying amount as on 31.03.2012	5,50,000

(iii) Carrying Amount of Investment in Consolidated Financial Statement of Beautiful Ltd. as on 30.06.2012 as per AS 23

	₹
Carrying amount as on 31.03.2012	5,50,000
Less: Dividend Received received (₹ 1,20,000 X 30%)	36,000
Carrying amount as on 30.06.2012	5,14,000

(c) Kalpana Ltd. purchased an old well for $200 million. It estimates that the well contains 500 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 20,000 barrels of oil during the first year, how much depletion expense should be recognized as per IFRS 6?

Answer:

In the above situation will compute the depletion rate and depletion expense as per IFRS 6

"Exploration for and Evaluation of Mineral Resources"

Depletion rate = current period production / Total barrels of production

= 20,000 barrels / 500,000,000 barrels
=0.00004

Depletion expense for the first year
=Purchase price x Depletion rate
= $ 200,000,000 x 0.00004
= $ 8000.

2. **(a) J Ltd., and K Ltd., had the following financial position as at 31st March, 2012.**

Liabilities	J Ltd. ₹	K Ltd. ₹	Assets	J Ltd. ₹	K Ltd. ₹
Share capital: Equity shares of ₹100 each fully paid	**48,00,000**	**36,00,000**	**Goodwill**	**30,00,000**	**6,00,000**
General Reserve	**18,00,000**	**12,00,000**	**Fixed Assets**	**24,00,000**	**42,00,000**
Investment Allowance Reserve	**-**	**18,00,000**	**Investment at cost**	**18,00,000**	**12,00,000**
Current Liabilities	**24,00,000**	**9,00,000**	**Current Assets**	**18,00,000**	**13,00,000**
	90,00,000	**75,00,000**		**90,00,000**	**75,00,000**

It was decided that J Ltd. will take over the business of K Ltd., on that date, on the basis of the respective share values adjusting, wherever necessary, the book values of assets and liabilities on the strength of information given below:

i. **Investment of K Ltd., included 6,000 shares in J Ltd., acquired at a cost of ₹ 150 per share. The other investments of K Ltd., have a market value of ₹ 1,50,000;**
ii. **Investment Allowance Reserve was in respect of additions made to Fixed assets by K Ltd., in the years 2007-2012 on which Income Tax relief has been obtained. In terms of the Income Tax Act, the company has to carry forward till 2014, reserve of ₹ 9,00,000 for utilisation;**
iii. **Goodwill of J Ltd., and K Ltd., are to be taken at ₹ 24,00,000 and ₹ 12,00,000 respectively;**
iv. **The market value of investments of J Ltd., was ₹ 12,00,000;**
v. **Current assets of J Ltd., included ₹ 4,80,000 of stock in trade obtained from K Ltd. which company sold at a profit of 25% over cost ;**
vi. **Fixed assets of J Ltd., and K Ltd., are valued at ₹ 30,00,000 and ₹ 45,00,000 respectively.**

Suggest the scheme of absorption and show the journal entries necessary in the books of J Ltd. Also prepare the Balance Sheet of that company after takeover of the business of K Ltd. **[15]**

Answer:

Part I: Purchase Consideration

WN # 1 : Intrinsic Value of Shares

Particulars	J Ltd. (₹)	K Ltd. (₹)
Goodwill	24,00,000	12,00,000
Fixed assets	30,00,000	45,00,000
Investment-Outside	12,00,000	1,50,000
-Inter Co [6,000 Shares @₹125 each]	------	7,50,000
Current assets	18,00,000	15,00,000
Liabilities	(24,00,000)	(9,00,000)
Net assets	60,00,000	72,00,000
No. of shares outstanding	48,000	36,000
Intrinsic Value per share (60,00,000/48,000); (72,00,000/36,000)	125	200

WN # 2 : Purchase Consideration

Particulars	K Ltd. (₹)
Total no. of Shares outstanding in K Ltd.	36,000
Value of Shares @₹200 each	72,00,000
No. of shares issuable on the basis of intrinsic value of share (72,00,000÷125)	57,600
Less: Shares already held	(6,000)
No. of Shares to be issued	51,600
Shares price	125
Purchase Consideration (51,600×125)	64,50,000

Part II : In the Books of J Ltd.

- Nature of Amalgamation-Purchase
- Method of Accounting-Purchase

	Particulars		Debit (₹)	Credit (₹)
1.	For Purchase Consideration Due Business Purchase A/C To Liquidator of K Ltd. A/C	 Dr. 	 64,50,000 	 64,50,000
2.	For Assets and Liabilities taken over: Goodwill A/C	 Dr.	 12,00,000	

	Fixed Assets A/C Investment A/C Current Assets A/C To Liabilities A/C To Business Purchase A/C	Dr. Dr. Dr.	45,00,000 1,50,000 15,00,000	 9,00,000 64,50,000
3.	For Discharge of purchase consideration Liquidator of K Ltd. A/C To Equity Share Capital A/C To Securities Premium A/c	 Dr.	 64,50,000	 51,60,000 12,90,000
4.	Contra entry for statutory reserve Amalgamation adjustment A/C To Investment allowance A/c	 Dr.	 9,00,000	 9,00,000
5.	For adjustment of stock reserve Goodwill A/C To Stock reserve A/C	 Dr.	 96,000	 96,000

Name of the Company: J Ltd.

Balance Sheet as at 31.03.2012

Ref No.		**Particulars**	**Note No.**	**As at 31st March, 2012**	**As at 31st March, 2011**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		Share capital	1	99,60,000	
		Reserves and surplus	2	39,90,000	
		Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		Long-term borrowings			
		Deferred tax liabilities (Net)			
		Other Long term liabilities			
		Long-term provisions			
	4	Current Liabilities			
		Short-term borrowings			
		Trade payables			

		Other current liabilities	3	33,00,000	
		Short-term provisions			
		Total		1,72,50,000	
	II.	Assets			
	1	Non-current assets			
		Fixed assets			
		Tangible assets	4	69,00,000	
		Intangible assets	5	42,96,000	
		Capital work-in-progress			
		) Intangible assets under development			
		Non-current investments	6	19,50,000	
		Deferred tax assets (Net)			
		Long-term loans and advances			
		Other non-current assets	7	9,00,000	
	2	Current assets			
		Current investments			
		Inventories			
		Trade receivables			
		Cash and cash equivalents			
		Short-term loans and advances			
		Other current assets	8	32,04,000	
		Total		1,72,50,000	

		(₹)
Note 1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
Authorised, Issued, Subscribed and paid up:- 99,600 Eqity Shares of ₹ 100 (of which 51,600 shares of ₹ 1,00 each issued for consideration other than cash)	99,60,000	
Total	99,60,000	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2012**		**As at 31st March, 2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.11	48,000	48,00,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares, Right shares, split shares, shares issued other than cash)	51,600	51,60,000	NIL	NIL
	99,600	99,60,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	99,600	99,60,000	NIL	NIL

Note 2. Reserves and Surplus	**As at 31st March, 2012**	**As at 31st March, 2011**
Securities Premium	12,90,000	
Investment allowance Reserve	9,00,000	
General Reserve	18,00,000	
Total	39,90,000	

Note 3. Other Current Liabilities	**As at 31st March, 2012**	**As at 31st March, 2011**
Current Liabilities	33,00,000	
Total	33,00,000	

Note 4. Tangible assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Fixed Assets (24,00,000+45,00,000)	69,00,000	
Total	69,00,000	

Note 5. Intangible assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Goodwill	42,96,000	
Total	42,96,000	

Note 6. Non-Current Investments	As at 31st March, 2012	As at 31st March, 2011
Investment at cost	19,50,000	
Total	19,50,000	

Note 7. Other Non Current Assets	As at 31st March, 2012	As at 31st March, 2011
Amalgamation Adjustment Accounts	9,00,000	
Total	9,00,000	

Note 8. Other Current Assets	As at 31st March, 2012	As at 31st March, 2011
Current Assets (33,00,000 – 96,000)	32,04,000	
Total	32,04,000	

Or,

(b) AB Ltd. and BA Ltd. decided to amalgamate their business with a view to a public share issue. A holding company, ABA Ltd. is to be incorporated on 1st May 2012 with an authorised capital of ₹1,20,00,000 in ₹ 10 ordinary shares. The company will acquire the entire ordinary Share capital of AB Ltd. and BA Ltd. in exchange for an issue of its own shares.
The consideration for the acquisition is to be ascertained by multiplying the estimated profits available to the ordinary shareholders by agreed price earnings ratio. The following relevant figures are given:

	AB Ltd. ₹	BA Ltd. ₹
Issued Share capital		
Ordinary shares of ₹ 10 each	**60,00,000**	**24,00,000**
6% Cumulative Preference shares of ₹ 100 each	**–**	**20,00,000**
5% Debentures, redeemable in 2013		**16,00,000**
Estimated annual maintainable profits, before deduction of debenture interest and taxation	**12,00,000**	**4,80,000**
Price / Earning Ratio	**15**	**10**

The shares in the holding company are to be issued to members of the subsidiaries on 1st June 2012, at a premium of ₹ 2.50 per share and thereafter these shares will be marketable on the Stock Exchange.

It is anticipated that the merger will achieve significant economics but will necessitate additional working capital. Accordingly, it is planned that on 31st December, 2012, ABA Ltd. will make a further issue of 60,000 ordinary shares the public for cash at the premium of ₹ 3.75 a share. These shares will not rank for dividends until 31st December, 2012.

In the period ended 31st December, 2012, bank overdraft facilities will provide funds for the payment of ABA Ltd. of preliminary expenses estimated at ₹ 1,00,000 and management etc. expenses estimated at ₹ 12,000.

It is further assumed that interim dividends on ordinary shares, relating to the period from 1st June to 31st December, 2012 will be paid on 31st December 2012 by ABA Ltd. at 3.5% by AB Ltd. at 5% and by BA Ltd. at 2%.
You are required to project, as on 31st December 2012 for ABA Ltd., (a) the Balance Sheet as it would appear immediately after fully subscribed share issue, and (b) the Profit and Loss Account for the period ending 31st December, 2012.

Assume the rate of corporation tax to be 40% you can make any other assumption you consider relevant. [15]

Answer:

(B) WN # 1: Computation of Purchase Consideration

	AB Ltd. (₹)	BA Ltd. (₹)
Earnings before interest and tax (EBIT)	12,00,000	4,80,000
Less: Interest	------	(80,000)
Earnings before tax (EBT)	12,00,000	4,00,000
Less: Tax @ 40%	(4,80,000)	(1,60,000)
Earnings after tax (EAT or PAT)	7,20,000	2,40,000
Less: Preference dividend	------	(1,20,000)
Profit for Equity Shareholders	7,20,000	1,20,000
P/E Ratio	15	10
Total Consideration (Profit x P/E ratio)	1,08,00,000	12,00,000
Share Capital (8,64,000x10)	86,40,000	
Share Premium (8,64,000x2.5)	21,60,000	
Share Capital (96,000x10)		9,60,000
Share Premium (96,000x2.5)		2,40,000

Projected Profit and Loss Account for the period ending on 31st Dec. 2012 **(₹)**

Dividend Received from Subsidiaries	
AB Ltd. 60,00,000x5%	3,00,000
BA Ltd. 24,00,000x2%	48,000
	3,48,000
Less: Management Expenses	12,000
Less: Dividend @ 3.5% on 96,00,000	3,36,000
Projected Profit	Nil

Bank Account

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Shares issued (1,20,000 × ₹13.75)	16,50,000	By Preliminary expenses	1,00,000
To Dividend Received-AB Ltd.	3,00,000	By Management expenses	12,000
BA Ltd.	48,000	By Dividend paid	3,36,000
		By Balance c/d	15,50,000
	19,98,000		19,98,000

Name of the Company: ABA Ltd.					
Balance Sheet as at 31.12.2012					
Ref No.		**Particulars**	**Note No.**	**As at 31st December, 2012**	**As at 31st December, 2011**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		Share capital	**1**	1,08,00,000	
		Reserves and surplus	**2**	27,50,000	
		Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		Long-term borrowings			
		Deferred tax liabilities (Net)			
		Other Long term liabilities			
		Long-term provisions			
	4	Current Liabilities			
		Short-term borrowings			
		Trade payables			
		Other current liabilities			
		Short-term provisions			
		Total		1,35,50,000	
	II.	Assets			
	1	Non-current assets			
		Fixed assets			
		Tangible assets			
		Intangible assets			
		Capital work-in-progress			
		Intangible assets under development			
		Non-current investments	**3**	1,20,00,000	

		Deferred tax assets (Net)			
		Long-term loans and advances			
		Other non-current assets			
	2	Current assets			
		Current investments			
		Inventories			
		Trade receivables			
		Cash and cash equivalents	**4**	15,50,000	
		Short-term loans and advances			
		Other current assets			
		Total		1,35,50,000	

		(₹)	
Note 1. Share Capital		**As at 31st December, 2012**	**As at 31st December, 2011**
Authorized 6,00,000 Equity Share of ₹10 Each		1,20,00,000	
Issued , Subscribed and fully paid			
Equity Share of ₹ 10 each		1,08,00,000	
Total		1,08,00,000	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st December, 2012**		**As at 31st December, 2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.01.11			NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	10,80,000	1,08,00,000	NIL	NIL
	10,80,000	1,08,00,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	10,80,000	1,08,00,000	NIL	NIL

Note 2. Reserves and Surplus		**As at 31st**	**As at 31st**

		December, 2012	December, 2011
Share Premium			
AB Ltd.		21,60,000	
BA Ltd.		2,40,000	
Others(1,20,000×3.75)		4,50,000	
Total		28,50,000	
Less: Preliminary Expenses		1,00,000	
Total		27,50,000	

Note 3. Non-current Investments	**As at 31st December, 2012**	**As at 31st December, 2011**
Investments: Subsidiaries Shares at Cost	1,20,00,000	
Total	1,20,00,000	
Note 4.Cash and Cash Equivalents	**As at 31st December, 2012**	**As at 31st December, 2011**
Bank	15,50,000	
Total	15,50,000	

Note: The preliminary expenses are to be written off against Securities Premium A/c.

3. (a) R Ltd. owns 80% of S and 40% of T and 40% of Q. T is jointly controlled entity and Q is an associate. Balance Sheet of four companies as on 31.03.2012 are:

Assets	R Ltd. ₹	S ₹	T ₹	Q ₹
Investment in S	1,200	-	-	-
Investment in T	1,800	-	-	-
Investment in Q	1,800	-	-	-
Fixed Assets	1,500	1,200	2,100	1,500
Current Assets	3,300	4,950	4,875	5,475
Total	7,800	6,150	6,975	6,975
Liabilities				
Share capital ₹1 Equity Share	1,500	600	1,200	1,200
Retained Earnings	6,000	5,100	5,400	5,400
Creditors	300	450	375	375
Total	7,800	6,150	6,975	6,975

R Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were ₹780 lakhs. R Ltd. acquired its shares in 'T' at the beginning of the year when 'T" retained earnings were ₹600 lakhs. R Ltd. acquired its shares in 'Q' on 01.04.2011 when 'A' retained earnings were ₹600 Lakhs.

The balance of goodwill relating to 'S' had been written off three years ago. The value of goodwill in 'T' remains unchanged.

Prepare the Consolidated Balance Sheet of R Ltd. as on 31.03.2012 as per AS 21, 23 and 27. [15]

Answer:

Name of the Company: R Ltd.
Consolidated Balance Sheet as at 31st December,2012

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	1,500	-
		(b) Reserves and surplus	2	13,200	-
		(c)Money received against share warrants		-	-
				14,700	-
	2	**Minority Interest**		1,140	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	900	-
		(c) Other current liabilities		-	-
		(d) Short-term provisions		-	-
				900	-
		TOTAL (1+2+3+4)		16,740	-
	B	**ASSETS**			
	1	**Non-current assets**			

Ref No.		Particulars	Note No.	As at 31st December, 2012 ₹	As at 31st December, 2011 ₹
		(a) Fixed assets			
		(i) Tangible assets	4	3,540	-
		(ii) Intangible assets	5	180	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments	6	2,820	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				6,540	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories		-	-
		(c) Trade receivables		-	-
		(d) Cash and cash equivalents		-	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	7	10,200	-
				10,200	-
		TOTAL (1+2)		16,740	-

Annexure

Note 1. Share Capital	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Share Capital in Equity Shares	1,500	
Total	1,500	

Note 2. Reserves and Surplus	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Retained Earnings (W.N 2)	13,200	
Total	13,200	

Note 3. Trade Payables	**As at 31st December,**	**As at 31st December,**

	2012 (₹)	2011(₹)
Creditors [300+450+40% of 375]	900	
Total	900	

Note 4. Tangible assets	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Fixed Assets [1,500 +1,200 + 840(2,100×40%)]	3,540	
Total	3,540	

Note 5. Intangible assets	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Goodwill (W.N 1)	180	
Total	180	

Note 6. Noncurrent investments	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Investment in Associates (W.N 4)	2,820	
Total	2,820	

Note 7. Other current assets	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Current Assets [3,300+4,950+ 1,950 (4,875 × 40%)]	10,200	
Total	10,200	

Working Notes :

1.Computation of Goodwill
S Ltd.(subsidiary)

		₹ in lakhs
Cost of Investment		1,200
Less :Paid up value of shares acquired	480	
Share in pre-acquisition profits of S Ltd. (780 × 80%)	624	1,104
Goodwill		96

T (Jointly Controlled Entity)

		₹ in lakhs
Cost of Investment		900
Less:Paid up value of shares acquired (40% of 1,200)	480	
Share in pre-acquisition profits (40% of 600)	240	720
Goodwill		180

Note: Jointly controlled entity 'T' to be consolidated on proportionate basis i.e. 40% as per AS 27

Associate Q (AS 23)

		₹ in lakhs
Cost of investment		900
Less:Paid up value of shares acquired (1,200 × 40%)	480	
Share in pre-acquisition profits (400 × 40%)	240	720
Goodwill		180

Goodwill shown in the Consolidated Balance Sheet

	₹ in lakhs
Goodwill of 'T'	180
Goodwill of 'S'	96
Less: Goodwill written off of 'S'	96
Goodwill	180

2. Consolidated Retained Earnings

	₹ in lakhs
R Ltd.	6,000
Share in post acquisition profits of S - 80% (5,100 – 780)	3,456
Share in post acquisition profits of T - 40% (5,400 – 600)	1,920
Share in post acquisition profits of Q - 40% (5,400 – 600)	1,920
Less: Goodwill written off	(96)
	1,3200

3. Minority Interest 'S'

	₹ in lakhs
Share Capital (20% of 600)	120
Share in Retained Earnings (20% of 5,100)	1,020
	1,140

4. Investment in Associates

	₹ in lakhs
Cost of Investments (including goodwill ₹ 180 lakhs)	900
Share of post acquisition profits	1,920
Carrying amount of Investment (including goodwill ₹ 180 lakhs)	2,820

Or,

(b) From the following Balance Sheets of a group of companies and the other information provided, draw up the consolidated Balance Sheet as on 31.3.2012. Figures given are in ₹ Lakhs:

Balance Sheets as on 31.3.2012

Liabilities	X ₹	Y ₹	Z ₹	Assets	X ₹	Y ₹	Z ₹
Shares capital (in shares of ₹ 10 each)	**1,650**	**1,100**	**550**	**Fixed Assets (Tangible)**	**715**	**825**	**550**
Reserves	**275**	**220**	**165**	**Cost of investment in Y Ltd.**	**990**		
Profit and Loss balance	**330**	**275**	**220**	**Cost of investment in Z Ltd.**	**220**		

Bills payables	**55**		**27.5**	**Cost of investment in Z Ltd.**		**440**	
Creditors	**165**	**55**	**55**	**Stock**	**275**	**110**	**110**
Y Ltd. balance			**82.5**	**Debtors**	**385**	**55**	**110**
Z Ltd. balance	**275**			**Bills receivables**		**55**	**110**
				Z Ltd. balance		**55**	
				X Ltd. balance			**165**
				Cash and bank balance	**165**	**110**	**55**
	2,750	**1,650**	**1,100**		**2,750**	**1,650**	**1,100**

i. X Ltd. holds 8,80,000 shares and 1,65,000 shares respectively in Y Ltd. and Z Ltd.; Y Ltd. holds 3,30,000 shares in Z Ltd. These investments were made on 1.7.2011 on which date the provision was as follows:

	Y Ltd.	Z Ltd.
	₹	₹
Reserves	**110**	**55**
Profit and loss account	**165**	**88**

ii. In December, 2010 Y Ltd. invoiced goods to X Ltd. for ₹ 220 lakhs at cost plus 25%. The closing stock of X Ltd. includes such goods valued at ₹ 27.5 lakhs.

iii. Z Ltd. sold to Y Ltd. an equipment costing ₹ 132 lakhs at a profit of 25% on selling price on 1.1.2012. Depreciation at 10% per annum was provided by Y Ltd. on this equipment.

iv. Bills payables of Z Ltd. represent acceptances given to Y Ltd. out of which Y Ltd. had discounted bills worth ₹ 16.5 lakhs.

v. Debtors of X Ltd. Include ₹ 16.5 lakhs being the amount due from Y Ltd.
X Ltd. proposes dividend at 10%. [15]

Answer:

Name of the Company: X Ltd. and its subsidiary Y Ltd. and Z Ltd.
Consolidated Balance Sheet as at 31st December,2012

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	1,650.00	-
		(b) Reserves and surplus	2	835.45	-
		(c)Money received against share warrants		-	-
				2,485.45	-
	2	**Minority Interest**		436.15	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings (10% debentures)		-	-

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	247.50	-
		(c) Other current liabilities	4	71.50	-
		(d) Short-term provisions	5	165.00	-
				456.50	-
		TOTAL (1+2+3+4)		3,405.60	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	6	2,047.10	-
		(ii) Intangible assets		-	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments		-	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				2,047.10	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories	7	489.50	-
		(c) Trade receivables	8	522.50	-
		(d) Cash and cash equivalents	9	192.50	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	10	154.00	-
				1,496	-

Ref No.	Particulars		Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
		TOTAL (1+2)		3,405.60	-

Annexure

Note 1. Share Capital	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Share Capital in Equity Shares	1,650.00	
Total	1,650.00	

Note 2. Reserves and Surplus	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Capital reserves	73.70	
Other Reserves	448.80	
Profit & Loss A/c	312.95	
Total	835.45	

Note 3. Other Current Liabilities	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	165.00	
Y Ltd.	55.00	
Z Ltd.	55.00	
	275.00	
Less: Mutual Indebtedness	27.50	
Total	247.50	

Note 4. Other Current Liabilities	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	55.00	
Y Ltd.	27.50	
	82.50	
Less: Mutual Indebtedness	11.00	
	71.50	

Note 5. Short Term Provisions	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Proposed Dividend	165.00	
Total	165.00	

Note 6. Tangible assets	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	715.00	
Y Ltd.	825.00	
Z Ltd.	550.00	
	2,090.00	
Less: Unrealised Profit	42.90	
Total	2,047.10	

Note 7. Inventories	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	275.00	
Y Ltd.	110.00	
Z Ltd.	110.00	
	495.00	
Less: Unrealised Profit	5.50	
Total	489.50	

Note 8. Trade Receivables	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	385.00	
Y Ltd.	55.00	
Z Ltd.	110.00	
	550.00	
Less: Mutual Indebtedness	27.50	
Total	522.50	

Note 9. Cash and cash equivalents	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Cash and Bank Balances	330.00	
Current Account Balances [(275.00+82.50)-(55+165)]	137.50	
Total	192.50	

Note 10. Other current assets	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Y Ltd.	55.00	
Z Ltd.	110.00	
	165.00	
Less: Mutual Indebtedness	11.00	
Total	154.00	

Working Notes:

(₹ in lakhs)

Analysis of Profits of Z Ltd.	**Capital Profit**	**Revenue Reserve**	**Revenue profit**
Reserves on 1.7.2011	55.00		
Profit and Loss A/c on 1.7.2011	88.00		
Increase in Reserves		110.00	
Increase in Profit			132.00
	143.00	110.00	132.00
Less: Minority Interest (10%)	14.30	11.00	13.20
	128.70	99.00	118.80
Share of X Ltd.	42.90	33.00	39.60
Share of Y Ltd.	85.80	66.00	79.20
Analysis of Profits of Y Ltd.			
Reserves on 1.7.2011	110.00		
Profit and Loss A/c on 1.7.2011	165.00		
Increase in Reserves		110.00	
Increase in Profit			110.00
	275.00	110.00	110.00
Share in Z Ltd.		66.00	79.20
	275.00	176.00	189.20
Less: Minority Interest (20%)	55.00	35.20	37.84
Share of X Ltd.	220.00	140.80	151.36
Cost of Control			
Investments in Y Ltd.			990.00
Investments in Z Ltd.			660.00
			1,650.00
Less: Paid up value of investments			

in Y Ltd.	880.00		
in Z Ltd.	495.00	1,375.00	
Capital Profit			
in Y Ltd.	220.00		
in Z Ltd.	128.70	348.70	1,723.70
Capital Reserve			73.70
Minority Interest	**Y Ltd.**	**Z Ltd.**	
Share Capital	220.00	55.00	
Capital Profit	55.00	14.30	
Revenue Reserves	35.20	11.00	
Revenue Profits	37.84	13.20	
	348.04	93.50	
Less: Unrealised profit on stock (20% of 5.5)	1.1		
Unrealised profit on equipment (10% of 42.90)		4.29	
	346.94	89.21	
Total	**436.15**		
Unrealised Profit on equipment sale			
Cost	132.00		
Profit	44.00		
Selling Price	176.00		
Unrealised profit = $44 - 44 \times \frac{10}{100} \times \frac{3}{12}$ = 44.00 – 1.1 = 42.90			
Profit and Loss Account – X Ltd.			
Balance	330.00		
Less: Proposed Dividend	165.00		
	165.00		
Share in Y Ltd.	151.36		
Share in Z Ltd.	39.60		
	355.96		
Less: Unrealised profit on equipment (90% of 42.90)	38.61		
	317.35		
Less: Unrealised profit on stock $\left(27.50 \times \frac{25}{125} \times 80\%\right)$	4.4		
	312.95		
Reserves – X Ltd.			
X Ltd.	275.00		
Share in Y Ltd.	140.80		
Share in Z Ltd.	33.00		
	448.80		

4. (a) The summarized Balance Sheet of Akash Ltd. and Barish Ltd. are as Follows:

Balance Sheet as at 31 December, 2012

	Akash Ltd. ₹	Barish Ltd. ₹
Sources of Funds:		
Share Capital in equity shares of ₹ 10 Each	**20,00,000**	**5,00,000**
Reserves	**2,00,000**	**50,000**
Profit and Loss A/c as on 1st Jan,2012	**3,00,000**	**1,00,000**
Profit for the year	**80,000**	**80,000**
Add: Dividends from Barish Ltd.	**40,000**	**----**
Less; Dividends paid	**----**	**(50,000)**
Creditors	**3,00,000**	**2,00,000**
Total	**29,20,000**	**8,80,000**
Application of Funds:		
Fixed assets	**20,00,000**	**8,00,000**
Current Assets	**3,20,000**	**80,000**
Shares in Barish Ltd. at cost- 30,000 shares	**6,00,000**	**----**
Total	**29,20,000**	**8,80,000**

Akash Ltd. had acquired 40,000 shares in Barish Ltd. at ₹ 20 each on 1st Jan,2012 and sold 10,000 of them at the same price on 1st Oct, 2012 . The sale is cum dividend. An interim dividend of 10% was paid by Barish Ltd. on 1st July , 2012.

Required the Consolidated Balance Sheet of Akash Ltd. and its Subsidiary as at 31.03.2012. [10]

Answer:

Name of the Company: Akash Ltd. and its subsidiary Barish Ltd.
Consolidated Balance Sheet as at 31st December,2012

Ref No.		Particulars	Note No.	As at 31st December, 2012 ₹	As at 31st December, 2011 ₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	20,00,000	-
		(b) Reserves and surplus	2	6,38,000	-
		(c)Money received against share warrants		-	-
				26,38,000	-
	2	**Minority Interest**		2,72,000	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	5,00,000	-
		(c) Other current liabilities			-
		(d) Short-term provisions		-	-
				5,00,000	-
		TOTAL (1+2+3+4)		34,10,000	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	28,00,000	-
		(ii) Intangible assets	5	2,10,000	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments		-	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				30,10,000	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories		-	-
		(c) Trade receivables		-	-
		(d) Cash and cash equivalents		-	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	6	4,00,000	-
				4,00,000	-
		TOTAL (1+2)		34,10,000	-

Annexure

Note 1. Share Capital

Particulars	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Share Capital in Equity Shares of ₹ 10 each	20,00,000	
Total	20,00,000	

Note 2. Reserves and Surplus

Particulars	**As at 31st December, 2012(₹)**	**As at 31st December, 2011(₹)**
Reserves	2,00,000	
Profit and Loss A/c	4,38,000	
Total	6,38,000	

Note 3. Trade Payables

Particulars	**As at 31st December, 2012(₹)**	**As at 31st December, 2011(₹)**
Creditors (3,00,000+2,00,000)	5,00,000	
Total	5,00,000	

Note 4. Tangible Assets

Particulars	**As at 31st December, 2012(₹)**	**As at 31st December, 2011(₹)**
Fixed Assets	28,00,000	
Total	28,00,000	

Note 5. Intangible Assets

Particulars	**As at 31st December, 2012(₹)**	**As at 31st December, 2011(₹)**
Goodwill	2,10,000	
Total	2,10,000	

Note 6. Other current Liabilities

Particulars	**As at 31st December, 2012(₹)**	**As at 31st December, 2011(₹)**
Current Assets [3,20,000+80,000]	4,00,000	
Total	4,00,000	

Working Notes:

(A) Analysis of Profit of Barish Ltd.	**Capital Profits ₹**	**Revenue Profits ₹**
Reserves	50,000	
Profit and Loss A/c on 1.1.2012	1,00,000	
Profit for the year (80,000-50,000)		30,000

	1,50,000	30,000
Akash Ltd.'s share (60%)	90,000	18,000
Minority Interest (40%)	60,000	12,000

(B) Minority Interest	₹
Share Capital Capital Profits Revenue Profits	2,00,000 60,000 12,000
	2,72,000

(C) Cost of Control	₹	₹
Investment in Barish Ltd. Less: Face of Investment Capital Profits	 3,00,000 90,000	6,00,000 3,90,000
Goodwill		2,10,000

(D) Profit and Loss Account- Akash Ltd.	₹
Balance on 1.1.2012 Profit for the year	3,00,000 80,000
 Add; Dividends from Barish Ltd.	3,80,000 40,000
 Profit or Loss on sale of shares	4,20,000 ----
 Add: Share in Barish Ltd.	4,20,000 18,000
	4,38,000

Or,

(b) Following are the balances in the Balance Sheet of Blue Ltd. and Green Ltd.

i. **As on 31.03.2013 Equity Share Capital (₹10): Blue Ltd. ₹80,000; Green Ltd. ₹1,00,000.**
ii. **As on 31.03.2013 shares of Green Ltd. held by Blue Ltd. is ₹99,000.**
iii. **Profit and Loss A/c balances as on 31.03.2013 of Blue Ltd. is ₹22,000 and Green Ltd. is ₹30,000.**
iv. **Net Profit during 2012-13 included in above were : Blue Ltd. ₹18,000; Green Ltd. ₹9,000.**
v. **Both the companies have proposed a dividend of 10% which is yet to be recorded.**
vi. **On 01.04.2012, Blue Ltd. was formed and on the same day it acquired 4,000 shares of Green Ltd. at ₹55,000.**
vii. **On 31.07.2012, 10% dividend was received from Green Ltd. and also bonus shares at 1:4 was received. The dividend was credited to P&L A/c.**
viii. **On 31.08.2012 Blue Ltd. purchased another 3,000 shares of Green Ltd. at ₹44,000.**

Analyse the profit . **[10]**

Answer:

Company Status	**Date of Acquisition**
Holding Co.– Blue Ltd. Subsidiary Co.– Green Ltd.	Lot 1 4,000 Shares = 01.04.12 Bonus 1,000 Shares 31.07.12 Lot 2 3,000 Shares = 31.08.12

Period	No. of Shares acquired	Status
Before 01.04.12	All shares acquired i.e. 80%	Pre-acquisition
01.04.12 to 31.08.12	Shares acquired on 31.08.12 i.e. 30%	Pre-acquisition
01.04.12 to 31.08.12	Shares acquired before 31.08.12 i.e. 40%	Post acquisition
After 31.08.12	All shares acquired i.e. 80%	Post acquisition

Holding Status:

Holding Company = 80%
Minority Interest = 20%
Date of Consolidation = 31.03.2013

Analysis of Profit & Loss Account of Green Ltd.

P&L balance on 31.03.2013	₹ 30,000
Less: Proposed Dividend for FY 2012-13 (₹ 1,00,000×10)**(Note 1)**	(₹10,000)
Correct Profit	**₹ 20,000**

Balance as on 01.04.2012

Balance as on 31.03.2013	₹30,000
Less: Net Profit during 2012-13	(₹9,000)
Less: 2012-13 Dividend	(₹1,000)
Capital Profit	**₹20,000**

Profit from 01.04.12 to 31.03.13

Profit during 2012-13	₹9,000
Less: Dividend for 2012-13	(₹9,000)
Revenue Profit	**NIL**

Note :
1. Dividend declared and paid by Green Ltd. is ₹10,000 (₹1,00,000 × 10%).

Dividend for 2012-13

Dividend for 2012-13 **₹10,000**

Out of Profit as at 01.04.2012 ₹1,000

Out of Profit for FY 12-13 ₹9,000

01.04.12 to 31.08.12 (5 Months) ₹3,750

01.09.12 to 31.03.13 (7 Months) ₹5,250

Consolidation of Balances

Particulars	**Total** ₹	**Minority Interest** ₹	**Pre-Acquisition** ₹	**Post Acquisition**
Green Ltd. (Holding 80%, Minority 20%)				P&L A/c ₹
Equity Capital	1,00,000	20,000	80,000	
Profit and Loss A/c	20,000	4,000	16,000	
Proposed Dividend	10,000	2,000	1,925 (Note 2)	6,075 (Note 3)
Minority Interest		26,000		
Total [Cr.]			97,925	
Cost of Investment [Dr.]			(99,000)	
Parent's Balance				10,000
For consolidated Balance Sheet			**1,075 Goodwill**	**16,075**

Note:

1. **Pre-acquisition : [80 % × ₹1,000 = ₹800] + [30% × ₹3,750] = ₹1,925.**
2. **Post acquisition : [50% × 3,750 = ₹1,875] + [80% × ₹5,250] = ₹6,075.**

5. (a) X Ltd. has 2 divisions A and B.
Division A has been making constant profits while Division B has been invariably suffering losses. On 31st March, 2012 the division wise Balance Sheet was:

(₹ Crores)

		A	**B**	**Total**
Fixed Assets cost (Tangible)		**500**	**1,000**	**1,500**
Depreciation		**450**	**800**	**1,250**
	(i)	**50**	**200**	**250**
Current Assets:		**400**	**1,000**	**1,400**
Less: Current liabilities		**50**	**800**	**850**
	(ii)	**350**	**200**	**550**
	(i) + (ii)	**400**	**400**	**800**
Financed by :				
Loan		**—**	**600**	**600**
Capital : Equity ₹ 10 each		**50**	**_**	**50**
Surplus		**350**	**(200)**	**150**
		400	**400**	**800**

Division B along with its assets and liabilities was sold for ₹ 50 crores to Y Ltd. a new company, who allotted 2 crores equity shares of ₹ 10 each at a premium of ₹ 15 per share to the members of B Ltd. in full settlement of the consideration in proportion to their shareholding in the company. Asssuming that there are no other transactions, you are asked to :

i. **Pass journal entries in the books of X Ltd.**
ii. **Prepare the Balance Sheet of X Ltd. after the entires in (i).** **[10]**

Answer:

Part I - Books of X Ltd :

Basic Information :

X Ltd.

Division A	**Division B**
Profit Making	Loss Making
Retained by X Ltd	Assets and Liabilites transferred to Y Ltd for consideration of ₹ 50 Crores.

Journal Entries *(₹ Crores)*

	Particulars		**Debit**	**Credit**
i.	Sale of Assets and Liabilities to Y Ltd.			
	Y Ltd A/c	Dr.	50	
	Loan A/c	Dr.	600	
	Current liabilities A/c	Dr.	800	
	Provision for depreciation A/c	Dr.	800	
	To Fixed Assets A/c			1,000
	To Current Assets A/c			1,000
	To Capital Reserve A/c (bal fig)			250
ii.	Receipt of consideration from B Ltd.			
	Equity shares in Y Ltd.	Dr.	50	
	To Y Ltd. A/c			50

Name of the Company: X Ltd.

Balance Sheet as at 31.03.2012

Ref No.		**Particulars**	**Note No.**	**As at 31st March, 2012**	**As at 31st March, 2011**
				(₹ in Crore)	**(₹ in Crore)**
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		Share capital	1	50.00	
		Reserves and surplus	2	400.00	
		Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		Long-term borrowings			

		Deferred tax liabilities (Net)			
		Other Long term liabilities			
		Long-term provisions			
	4	Current Liabilities			
		Short-term borrowings			
		Trade payables			
		Other current liabilities	3	50.00	
		Short-term provisions			
		Total		500.00	
	II.	Assets			
	1	Non-current assets			
		Fixed assets			
		Tangible assets	4	50.00	
		Intangible assets			
		Capital work-in-progress			
		) Intangible assets under development			
		Non-current investments	5	50.00	
		Deferred tax assets (Net)			
		Long-term loans and advances			
		Other non-current assets			
	2	Current assets			
		Current investments			
		Inventories			
		Trade receivables			
		Cash and cash equivalents			
		Short-term loans and advances			
		Other current assets	6	400.00	
		Total		500.00	

Note:
Division 'B' was sold to M/s. Y Ltd. The consideration received for the transfer was equity shares of Y Ltd. of ₹ 10 each fully paid, issued at a premium of ₹ 15.

Total value of consideration = 2 Crore shares × (₹ 10 + ₹ 15)
= 2 Crore × ₹ 25
= ₹ 50 Crores

	(₹ in Crore)	
Note 1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
Authorised, Issued, Subscribed and paid up:-	-	
5.0 crores Equity share of ₹ 10 Each	50.00	
Total	50.00	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2012**		**As at 31st March, 2011**	
	Nos	Amount (₹)	Nos	Amount (₹)
Opening Balance as on 01.04.11	-	-	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	5.00	50.00	NIL	NIL
	5.00	50.00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	5.00	50.00	NIL	NIL

Note 2. Reserve and Surplus	**As at 31st March, 2012**	**As at 31st March, 2011**
Capital Reserve	250.00	
Profit & loss(existing)	150.00	
Total	400.00	

Note 3. Other Current liabalities	As at 31st March, 2012	As at 31st March, 2011
Current liabilities	25.00	-
Total	25.00	-

Note 4. Tangible Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Fixed Assets	500.00	-
Less : Provision for Depreciation	450.00	

Total	50.00	-

(It is assumed that all Fixed Asset are Tangible Fixed Assets)

Note 5. Non Current Investment	**As at 31st March, 2012**	**As at 31st March, 2011**
Investment in Equity Share of Y Ltd. (Face value of ₹ 10 subscribed at a Premium of ₹ 15 each)	50.00	-
Total	50.00	-

Note 6. Other Current Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Current Assets	400.00	-
Total	400.00	-

Or,

(b) The summarised Balance sheets of Amrit Ltd. and its subsidiary Viidha Ltd. as on 31.3.2012 are as follows:

	Amrit Ltd. ₹	**Vividha Ltd.** ₹
Equity Share Capital (₹ 10 each)	**1,00,00,000**	**20,00,000**
Reserves and Surplus	**1,40,00,000**	**60,00,000**
Secured Loans	**40,00,000**	**–**
Current liabilities	**60,00,000**	**20,00,000**
	3,40,00,000	**1,00,00,000**
Fixed Assets	**1,20,00,000**	**35,00,000**
Investment in Vividha Ltd.	**7,40,000**	**–**
Sundry Debtors	**70,00,000**	**10,00,000**
Inventories	**60,00,000**	**50,00,000**
Cash and Bank	**82,60,000**	**5,00,000**
	3,40,00,000	**1,00,00,000**

Note : Secured loans are assumed to be of less than 12 months (ignoring interest)

Amrit Ltd. holds 76% of the paid up capital of Vividha Ltd. The balance shares in Vividha Ltd. are held by a foreign Collaborating Company. A memorandum of understanding has been entered into with the foreign company providing for the following.

a. **The shares held by the foreign company will be sold to Amrit Ltd. The price per share will be calculated by capitalising the yield at 16%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were ₹ 35 lakhs, ₹44 lakhs and ₹65 lakhs.**
b. **The actual cost of shares to the foreign company was ₹ 2,40,000 only. The profit that would accrue to them would be taxable at an average rate of 20%. The tax payable be deducted from the proceeds and Amrit Ltd. will pay it to the Government.**
c. **Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after one year. It was also decided**

that Amrit Ltd. would absorb Vividha Ltd. simultaneously by writing down the Fixed assets of Vividha Ltd. by 5%. The Balance sheet figures includes a sum of ₹1,50,000 due by Vividha Ltd. to Amrit Ltd.

The entire arrangement was approved by all concerned for giving effect to on 1.4.2012. You are required to compute

(i) the purchase consideration,

(ii) discharge of purchase consideration

(iii) Cash and Bank Balances after absorption. [10]

Answer:

- Nature of Amalgamation - Purchase Method
- Method of Accounting - Purchase Method

Computation of Purchase consideration :

A. Yield of Vividha Ltd.

$$= \frac{(35+44+65)}{3} \times 40\% = ₹\ 19.20 \text{ Lakhs}$$

B. Price per share of Vividha Ltd.

(Figures in Lakhs)

Particulars	Amount (₹)
Yield of Vividha Ltd. (₹ in lakhs)	19.20
Capitalisation rate 16%	
Value of Vividha Ltd. (₹ in lakhs)	120.00
No. of Shares Outstanding (lakhs)	2.00
Price per share (₹) (120.00/20.00) (₹ 120 lakhs /2.00 lakh shares)	60

Purchase Consideration :

(₹ in Lakhs)

Particulars	Amount
Shares held by Foreign Collaborator (2,00,000 x 24%)	48,000 shares
Price per share	₹ 60/-
Purchase Consideration	**₹ 28,80,000**

Discharge of Purchase Consideration :

a. Tax Payable:

	(₹ in Lakhs)
Purchase Consideration	28.80
Less: Cost of Acquisition	(2.40)
Capital Gains	26.40
Tax payable @ 20%	5.28

b. Mode of payment of purchase consideration

Purchase Consideration	28.80
Less: Income Tax payable	(5.28)
	23.52

₹23.52

To be remitted immediately 50% → ₹ 11.76

To be retained as Unsecured Loans 50% → ₹ 11.76

Computation of Cash and Bank Balances after absorption

Particulars	**₹ in Lakhs**
Balance in Amrit Ltd.	82.60
Cash and Bank Balance of Vividha Ltd.	5.00
Less : Remittance to Foreign Collaborating Company	(11.76)
Less : TDS paid	(5.28)
Cash and Bank balance	**70.56**

6. (a) Following are the information in respect of Adbhut Ltd. It has decided to value the human resources also and decided to determine the total value of human capital by applying the Lev and Schwartz model:

Distribution of employees of Adbhut Ltd.

Age	**Unskilled**		**Semi-Skilled**		**Skilled**	
	No.	**Average annual earnings ₹**	**No.**	**Average annual earnings ₹**	**No.**	**Average annual earnings ₹**
30-39	**60**	**5,000**	**50**	**5,500**	**30**	**7,000**
40-49	**30**	**6,000**	**15**	**6,000**	**15**	**8,000**
50-54	**10**	**7,000**	**10**	**7,000**	**5**	**9,000**

You are required to compute the value of human resource. [15]

Answer:

Total Value of Human Capital

Age Group	Average earnings of employees						Total
	Unskilled		Semi-Skilled		Skilled		
	WN#	₹	WN#	₹	WN#	₹	₹
30 - 39	1(a)	20,38,200	2 (a)	18,96,250	3 (a)	14,06,940	53,41,390
40 - 49	1(b)	10,77,300	2(b)	6,26,355	3(b)	7,14,060	24,17,715
50 - 54	1(c)	2,34,640	2(c)	2,68,160	3(c)	1,50,840	6,53,640
Total value of Human Capital							84,12,745

The present value of earnings of each category of employees is ascertained as below:
WN # 1: Unskilled employees:

a) Age group of 30 - 39. (Assuming that all 60 employees are just 30 years old):

Average Annual Earnings (₹)	Years	Discount Factor @ 15%	Present Value (₹)
5,000	10 years	5.019	25,095
6,000	11 to 20 years	1.24	7,440
7,000	21 to 25 years	0.205	1,435
Total average earnings of each employee			33,970

Total average earnings of 60 employees = 60 × 33,970 i.e. ₹ 20,38,200.

b) Age group of 40 - 49. (Assuming that all 30 employees are just 40 years old):

Average Annual Earnings (₹)	Years	Discount Factor @ 15%	Present Value (₹)
6,000	10 years	5.019	30,114
7,000	11 to 15 years	0.828	5,796
Total average earnings of each employee			35,910

Total average earnings of 30 employees = 30 × 35,910 i.e. ₹ 10,77,300.

c) Age group of 50 - 54. (Assuming that all 10 employees are just 50 years old):

Average Annual Earnings (₹)	Years	Discount Factor @ 15%	Present Value (₹)
7,000	5 years	3.352	23,464
Total average earnings of each employee			23,464

Total average earnings of 10 employees = 10 × 23,464 i.e. ₹ 2,34,640.

WN # 2: Semi-skilled employees:

a) Age group of 30 - 39. (Assuming that all 50 employees are just 30 years old):

Average Annual Earnings (₹)	Years	Discount Factor @ 15%	Present Value (₹)
5,500	10 years	5.019	27,605
7,000	11 to 20 years	1.24	8,680
8,000	21 to 25 years	0.205	1,640
Total average earnings of each employee			37,925

Total average earnings of 50 employees = 50 × 37,925 i.e. ₹ 18,96,250.

b) Age group of 40 - 49. (Assuming that all 15 employees are just 40 years old):

Average Annual Earnings (₹)	Years	Discount Factor @ 15%	Present Value (₹)

7,000	10 years	5.019	35,133
8,000	11 to 15 years	0.828	6,624
Total average earnings of each employee			41,757

Total average earnings of 15 employees = 15 × 41,757 i.e. ₹ 6,26,355.

c) Age group of 50 - 54. (Assuming that all 10 employees are just 50 years old):

Average Annual Earnings (₹)	Years	Discount Factor @ 15%	Present Value (₹)
8,000	5 years	3.352	26,816
Total average earnings of each employee			26,816

Total average earnings of 10 employees = 10 × 26,816 i.e. ₹ 2,68,160.

WN # 3: Skilled employees:

a) Age group of 30 - 39. (Assuming that all 30 employees are just 30 years old):

Average Annual Earnings (₹)	Years	Discount Factor @ 15%	Present Value (₹)
7,000	10 years	5.019	35,133
8,000	11 to 20 years	1.24	9,920
9,000	21 to 25 years	0.205	1,845
Total average earnings of each employee			46,898

Total average earnings of 30 employees = 30 × 46,898 i.e. ₹14,06,940.

b) Age group of 40 - 49. (Assuming that all 15 employees are just 40 years old):

Average Annual Earnings (₹)	Years	Discount Factor @ 15%	Present Value (₹)
8,000	10 years	5.019	40,152
9,000	11 to 15 years	0.828	7,452
Total average earnings of each employee			47,604

Total average earnings of 20 employees = 15 × 47,604 i.e. ₹7,14,060.

c) Age group of 50 - 54. (Assuming that all 5 employees are just 50 years old):

Average Annual Earnings (₹)	Years	Discount Factor @ 15%	Present Value (₹)
9,000	5 years	3.352	30,168
Total average earnings of each employee			30,168

Total average earnings of 5 employees = 5 × 30,168 i.e. ₹1,50,840.

(Since the problem is silent, we are taking the discounting factor as 15%, however examinees are requested to follow the instructions given in the problem.)

Or,

(b) (i) On February 1, 2011, Purushottam Ltd. entered into a contract with Sun Ltd. to receive the fair value of 1,000 Purushottam Ltd.'s own equity shares outstanding as on 31-01-2012 in exghange for payment of ₹ 1,04,000 in cash i.e. ₹ 104 per share. The contract will be settled in net cash on 31.01.2012.
The fair value of this forward contract on the different dates were:

(i) Fair value value of forward on 01-02-2011	**NIL**
(ii) Fair value value of forward on 31-12-2011	**₹ 6,300**
(iii) Fair value value of forward on 01-02-2012	**₹ 2,000**

Presuming that Purushottam Ltd. closes its books on 31st December each year, pass entries:
- **If net settled is in cash**
- **If net is settled by Sun Ltd. by delivering shares of Purushottam Ltd.** **[8]**

Answer:

If settled in cash:

Sl. No.	Date	Particulars	Dr. (₹)	Cr. (₹)
(i)	01.02.2011	No entry is required because fair value of derivative is zero and no cash is paid or received.		
(ii)	31.12.2011	Forward Contract (Asset) A/c Dr. To Profit and Loss A/c (Gain recorded due to increase in fair value of the forward contract)	6,300	6,300
(iii)	31.01.2012	Profit and Loss Account Dr. To Forward Contract (Asset) A/c (Loss recorded due to decrease in fair value of the forward contract)	4,300	4,300
(iv)		Cash A/c Dr. To Forward Contract (Asset) A/c (Being forward contract settled in cash)	2,000	2,000

If net is settled by delivery of shares
First three entries will be same. Entry no. (iv) change as under

Sl. No.	Date	Particulars	Dr. (₹)	Cr. (₹)
(iv)		Equity A/c Dr. To Forward Contract (Asset) A/c (Being forward contract settled by delivery of shares)	2,000	2,000

(ii) Moon Light Ltd., has entered into a contract by which it has the option to sell its identified property, plant and equipment (PPE) to Three Star Ltd. for ₹ 300 lakhs after 3 years whereas its

current market price is ₹ 450 lakhs. Is the put option of Moon Light Ltd., a financial instrument? Explain. [4]

Answer:

As per AS 31, Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In the given case, for the purpose of the definition of financial instrument, Property, Plant and Equipment do not quality the definition of financial asset as per the standard.
To assess whether the put option of Moon Light Ltd., is a financial instrument or not it is necessary to evaluate the past practice of Moon Light Ltd.
If Moon Light Ltd. has the past practice of setting net, then it becomes a financial instrument, and If Moon Light Ltd. intends to sell the identified Property, Plant and Equipment and settle by delivery and there is no past practice of settling net, then the contract should not be accounted for as financial instrument under AS 30 "Financial Instruments: Recognitions Measurement" and AS 31 "Financial Instrument: Presentation".

(iii) State the Key challenges associated with implementation of Triple Bottom Line Reporting. [3]

Answer:

Key challenges associated with the implementation of Triple Bottom Line (TLB)Reporting are:
Specific challenges associated with TBL reporting vary from company to company and between industry sectors. The challenges may be outlined as under
• awareness of relevant issues associated with TBL to the reporting organization is required;
• clear understanding of the requirements of key stakeholders in relation to public reporting is needed;
• maintenance of clarity in relation to the company's objectives and the risks related to reporting is another requirement; and
• proper determination of key indicators of environmental, social and economic performance, and basis of measurement.
Lack of all the above mentioned components may hamper the total effort of establishing Triple Bottom Line Reporting.

7. (a) (i) From the following information of Asman Ltd., compute the economic value added:

i. **Share capital ₹3,000 lakhs**
ii. **Reserve and surplus ₹6,000 lakhs**
iii. **Long-term debt ₹300 lakhs**
iv. **Tax rate 30%**
v. **Risk free rate 9%**
vi. **Market rate of return 16%**
vii. **Interest ₹30 lakhs**
viii. **Beta factor 1.05**
ix. **Profit before interest and tax ₹3,000 lakhs. [7]**

Answer:

Asman Limited

Economic Value Added	₹ In lakhs
Net Operating Profit after Tax (Working Note E)	2,079.00
Add: Interest on Long-term Fund (Working Note B)	21.00
	2,100.00
Less: Cost of Capital ₹ 9,300 lakhs x 16.0484% (working notes C and D)	1,492.50
Economic Value Added	607.50

Working Notes:

A. Cost of Equity = Risk Free Rate + Beta Factor (Market Rate – Risk Free Rate)
9% + 1.05 (16 – 9) = 9% + 7.35% = 16.35%

B. Cost of Debt

Interest	₹ 30 lakhs
Less: Tax (30%)	₹ 9 lakhs
Interest after Tax	₹ 21 lakhs

Cost of Debt $= \frac{21}{300} \times 100 = 7\%$

C. Weighted Average Cost of Capital:

Cost of Equity	₹ 9000 lakhs x 16.35% (W.N. A)	₹1,471.50 lakhs
Cost of Debt	₹ 300 lakhs x 7% (W.N.B)	₹ 21.00 lakhs
		₹ 1,492.5 lakhs

WACC $= \frac{1{,}492.5}{9{,}300} \times 100 = 16.0484\%$ (approx.)

D. Capital Employed

Particulars	₹ In Lakhs
Share Capital	3,000
Reserves and Surplus	6,000
Long Term debts	300
	9,300

E. Net Operating Profit after Tax

Particulars	₹ In Lakhs
Profit before Interest and Tax	3,000
Less: Interest	30
	2,970
Tax 30% on 2,970 Lakhs	891
Net Operating Profit after Tax	2,079

(ii) Mr. Sen buys the following Equity Stock Options and the seller/writer of the options is Mr. Ghosh.

Date of purchase	Type of option	Expiry date	Market lot	Premium per unit ₹	Strike price ₹
29 June,2011	PQ Co. Ltd.	30 Aug.,2011	100	30	460
30 June ,2011	MN Co. Ltd.	30 Aug.,2011	200	40	550

Assume the price of PQ Co. Ltd. and MN Co. Ltd. on 30th August,2011 is ₹470 and 500 respectively. Pass journal entries in the books of Mr. Ghosh. [3]

Answer:

In the books of Mr. Ghosh
Journal

Date	Particulars	Debit (₹)	Credit (₹)
26.06.2011	Bank A/c Dr. To, Option premium A/c [Being option premium received(₹3,000+₹8,000)]	11,000	 11,000
30.08.2011	Loss on Derivatives A/c Dr. To, Bank A/c (Being Loss recognised) (₹470 - ₹460)×100 = ₹1,000 (₹550 - ₹500)×200 = <u>₹10,000</u>	11,000	 11,000
30.08.2011	Option premium A/c Dr. To, Profit & Loss A/c (Being Premium transferred to income)	11,000	 11,000

Or,

(b) (i) Distinguish between Human capita and Intellectual Capital. [6]
Answer:

Human Capital is People's competencies, capabilities and experience, and their motivations to innovate, including their -

- alignment with and support of an organization's governance framework and risk management approach, and ethical values such as recognition of human rights ,
- ability to understand, develop and implement an organization's strategy ,
- loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

On the other hand, **Intellectual capital is** Organizational, knowledge-based intangibles. It includes -

- intellectual property, such as patents, copyrights, software, rights and licences
- "organizational capital" such as tacit knowledge, systems, procedures and protocols
- intangibles associated with the brand and reputation that an organization has developed.

(ii) 28.03.2012 – Purchase 100 share of ₹300 each
31.03.2012 – Fair value ₹316 each
04.04.2012 – Settlement date – Fair value ₹312.
22.04.2012 – Sold ₹345 / share (settled on the same date.)
Journalise using settlement date accounting. [4]

Answer:

Journal Entries (Without Narration)

Date	Particulars	Debit (₹)	Credit (₹)
28.03.2012	Investment A/c Dr. To, Liabilities A/c	 30,000	 <u>30,000</u>
31.03.2012	Fair Value Adjustment A/c Dr. To, P/L A/c	1,600	 1,600
04.04.2012	Investment A/c Dr.	31,200	

	P/L A/c	Dr.	400	
	To, Bank A/c			30,000
	To, Fair value Adjustment A/c			1,600
22.04.2012	Bank A/c	Dr.	34,500	
	To, Investment A/c			31,200
	To, P/L A/c			3,300

8. (a) (i) State the Objectives and the scope of Indian Government Accounting Standard 3 (Cash Flow Statements). [5]

Answer:

Objectives of Government Accounting Standard 3 (Cash Flow Statements)

The objective of this Standard is to provide information about the historical changes in cash and cash equivalents of the Government by means of a cash flow statement, which classifies cash flows during the period into operating, investing and financing activities.

Scope of Government Accounting Standard 3 (Cash Flow Statements)

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.

(ii) Discuss the role of Comptroller and Auditor General. [7]

Answer:
Under section 10 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (56 of 1971), the Comptroller and Auditor General shall be responsible-
(a) for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and
(b) for keeping such accounts in relation to any of the matters specified in clause (a) as may be necessary;
Provided that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-

(i) the said accounts of the Union (either at once or gradually by the issue of several orders); or
(ii) the accounts of any particular services or departments of the Union;
Provided further that the Governor of a State with the previous approval of the President and after consultation with Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-
(i) the said accounts of the State (either at once or gradually by the issue of several orders); or
(ii) the accounts of any particular services or departments of the State;
Provided also that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for keeping the accounts of any particular class or character.
(2) Where, under any arrangement, a person other than the Comptroller and Auditor General has, before the commencement of this Act, been responsible-
(i) for compiling the accounts of any particular service or department of the Union or of a State, or
(ii) for keeping the accounts of any particular class or character, such arrangement shall, notwithstanding anything contained in subsection (1), continue to be in force unless, after consultation with the Comptroller and Auditor General, it is revoked in the case referred to in clause (i), by an order of the President or the Governor of the State, as the case may be, and in the case referred to in clause (ii) by an order of the President.

Section 11—Comptroller and Auditor General to prepare and submit accounts to the President, Governors of State and Administrators of Union Territories having Legislative Assemblies:

The Comptroller and Auditor General shall, from the accounts compiled by him or by the Government or any other person responsible in that behalf prepare in each year accounts (including, in the case of accounts compiled by him, appropriation accounts) showing under the respective heads the annual receipts and disbursements for the purpose of the Union, of each State and of each Union territory having a Legislative Assembly, and shall submit those accounts to the President or the Governor of a State or Administrators of the Union Territory having a Legislative Assembly, as the case may be, on or before such dates, as he may, with the concurrence of the Government concerned, determine.
Provided that the President may, by order, relieve him from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursements.
Provided further that the Governor of a State may, with the previous approval of the President and after consultation with the Comptroller and Auditor General, by order relieve him from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursements for the purpose of the State.
The Comptroller and Auditor General of India play a key role in the functioning of the financial committees of Parliament and the State Legislatures. His Reports generally form the basis of the Committees' working, although they are not precluded from examining issues not brought out in his Reports. He scrutinises the notes which the Ministries submit to the Committees and helps the Committees to check the correctness submit to the Committees and helps the Committees to check the correctness of facts and figures in their draft reports.

(iii) Discuss the structure of Government Accounting Standard Advisory Board Secretariat. [3]

Answer:
The Secretariat of Government Accounting Standards Advisory Board (GASAB) is constituted by officers of various Accounts and Finance streams belonging to Civil Services .They are listed below:
1. Indian Audit and Accounts Service (IA&AS)

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

Or,

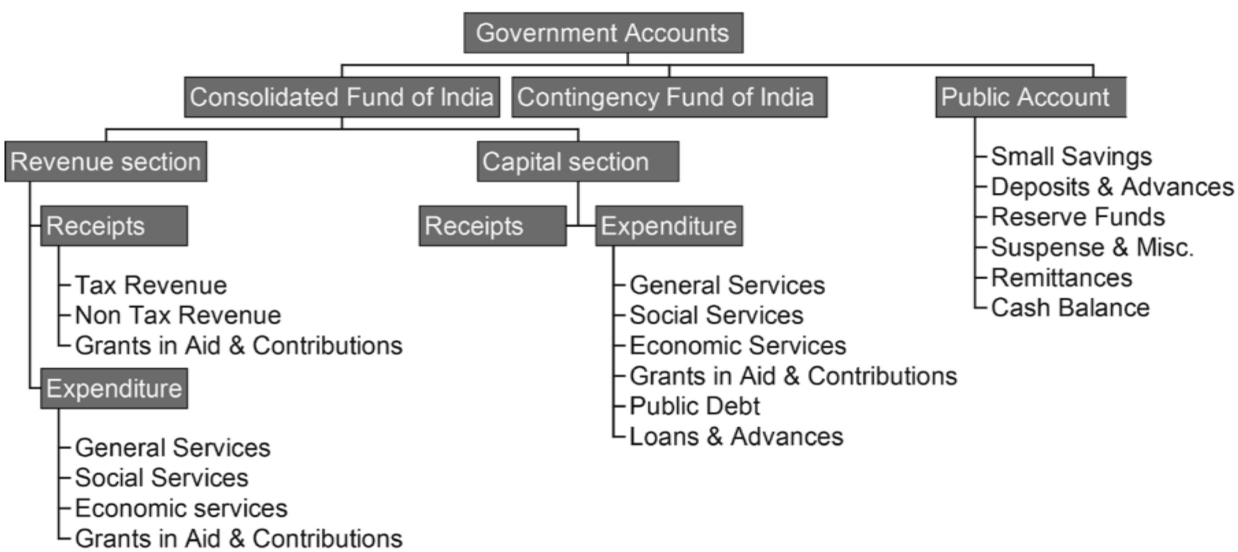
(b) (i) List the Government Accounting Standards which are already notified by Government. [3]

Answer:

Government Accounting Standards that are already notified by Government of India
• Guarantees given by Governments: Disclosure Requirements (IGAS1)
[Notified by the Govt. of India]
• Accounting and Classification of Grants-in-aid (IGAS2)
[Notified by the Govt. of India]
• Loans and Advances made by Governments (IGAS 3)
[Notified by the Govt. of India].

(ii) Describe the Total Structure of Government Accounts. [7]

Answer:



The accounts of Government are kept in three parts: -

Consolidated Fund of India

Contingency Fund of India
Public Account

Consolidated Fund of India

All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of

Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund constituted under **Article 266 (1)** of the Constitution of India. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament. This is further segregated into revenue section and capital section.

Contingency Fund of India

The Contingency Fund of India records the transactions connected with Contingency Fund set by the Government of India under **Article 267** of the Constitution of India.

Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest account of Government of India and is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs.

Public Account of India

In the Public Account constituted under Article 266 (2) of the Constitution, the transactions relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to 'Remittance' and 'Suspense' shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.

(iii) Write a note Committee on Public Undertaking. [5]

Answer:

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:

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

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

iii. 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.