Paper 18 - Corporate Financial Reporting

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

(a) From the following information compute diluted earnings per share.

Net profit for the year 2008	**₹12,00,000**
Weighted average number of equity shares outstanding during year 2008	**5,00,000 shares**
Average fair value of one equity share during the year 2008	**₹20**
Weighted average number of shares under option during the year 2008	**1,00,000 shares**
Exercise price per share under option during the year 2008	**₹15**

Answer:

Particulars	**Earnings ₹**	**Shares**	**Earning per share ₹**
Net profit for the year 2008	12,00,000		
Weighted average number of equity shares outstanding during the year 2008		5,00,000	
Basic earnings per share (12,00,0000/5,00,000)			2.40
Weighted average number of shares under option		1,00,000	
Number of shares that would have been issued at fair value (1,00,000 × 15.00)/20.00	*	(75,000)	
Diluted earnings per share (12,00,0000/5,25,000)	12,00,000	5,25,000	2,29

*The earnings have not been increased as the total number of shares has been increased only by the number of shares (25,000) deemed for the purpose of computation to have been issued for no consideration (Para 37(b) of AS 20).

(b) Mr. Q bought a forward contract fot three months of US \$ 1,00,000 on 1st December at 1US \$ = ₹ 47.10 when exchange rate was US \$ 1 = ₹ 47.02. On 31st December when he closed his books, exchange rate was US \$ 1 = ₹ 47.18 per dollar. Show how the profits from contract will be recognized in the books.

Answer:

It is apparent from the facts given in the question that Mr. Q entered in to forward exchange contract for speculation purpose. 11 (Revised) 'The Effects of Changes in Foreign Exchange Rates', gain or loss on forward exchange contracts intended for trading or speculation purpose should be computed by multiplying the foreign currency amount of the forward exchange contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period). The gain or loss so computed should be recognised in the statement of profit and loss for the period and the premium or discount on the forward exchange contract is ignored and not recognised separately. In recording such contract, at each balance sheet date, the value of the contract is marked to its current market value and the gain or loss on the contract is recognised.

Thus, the premium on contract i.e., the difference between the contract rate and the spot rate amounting ₹ 8,000 [US$ 1,00,000 x (₹47.10 - ₹47.02)] will be ignored and not be recorded in the books. However, the profit on contract i.e. the difference between the sale rate and contract rate amounting ₹ 8,000 [US$ 1,00,000 x 0.08* (₹47.18 -₹47.10)] will be recognized in the books of Mr. Q on 31st January.

Note: The answer has been given on the basis that Mr. Q is a small and medium-sized entity and AS 30 "Financial Instruments: Recognition and Measurement" is not applicable to him.

(c) Compare as per IFRS-USGAAP-IGAAP
- Cash Flow Statement

Answer:

Cash flow statement

Basis of Difference	IFRS	USGAAP	IGAAP
Exemptions	No exemptions	Limited exemptions for certain investment entities	Unlisted enterprises, enterprises with a turnover less than ₹500 million and those with borrowings less than ₹ 100 million
Direct/Indirect Method	Both allowed	Both allowed	Both allowed. Listed companies- Indirect method Insurance companies Direct Method
Periods to be presented	2 years	3 years	2 years
Interest paid	Operating and financing activity	Operating activity (to be disclosed by way of a note)	Financing. In case of a financial enterprise, operating activities
Interest received	Operating or investing activity	Operating activity	Investing. In the case of a financial enterprise, operating activity.
Dividends paid	Operating or financing	Financing	Financing
Tax payments	Operating	Operating (to be disclosed by way of a note)	Operating
Dividends received	Operating or investing	Operating	Investing. In the case of a financial enterprise, operating activity.

2. (a) The following are the Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2012 :

Liabilities	P Ltd. ₹	V. Ltd. ₹	Assets	P Ltd. ₹	V. Ltd. ₹
Equity Share of ₹ 10 each	**6,00,000**	**2,00,000**	**Goodwill**		**—**
1,25,000					
General Reserve	**1,50,000**	**20,000**	**Tangible Fixed Assets**	**4,75,000**	**1,50,000**
Profit & Loss A/c	**1,91,500**	**11,500**	**Investments**	**1,09,000**	**—**

Investment Allowance			**Stock**	**95,000**	**55,000**
Reserve	**—**	**2,000**	**Debtors**	**1,40,000**	**65,000**
Export Profit Reserve	**—**	**3,000**	**Cash at Bank**	**1,50,000**	**37,000**
10% Debentures	**—**	**50,000**	**Preliminary Expenses**	**10,000**	**17,500**
Loan from Bank	**—**	**23,000**			
Trade Creditors	**37,500**	**1,40,000**			
Total	**9,79,000**	**4,49,500**	**Total**	**9,79,000**	**4,49,500**

The business of V Ltd. is taken over by P Ltd. as on that date on the following terms:

- i. **Prior to absorption, V Ltd. and P Ltd. decide to declare and pay dividend @ 5%. (Assume Dividend Distribution Tax @ 15%).**
- ii. **50% of Tangible Fixed Assets are taken over at 100% more than the book value and 50% of the remaining Tangible Fixed Assets are taken over at 33% less than the book value.**
- iii. **Goodwill is to be valued at 4 years' purchase of the excess of average of five years' profits over 8% of the combined amount of Share Capital and General Reserve.**
- iv. **Stock and Debtors are taken over at book value less 10%.**
- v. **The issue of such an amount of fully paid 14% Debentures in P Ltd. at 96 per cent is sufficient to discharge 10% Debentures in V Ltd. at a premium of 20 per cent.**
- vi. **Trade Creditors are to be taken over subject to a discount of 5% and other liabilities (including Unrecorded Loan Liability of ₹15,500) to be discharged by P Ltd. at book value.**
- vii. **The purchase consideration is to be discharged to the extent of 20% in cash and the balance in the form of equity shares of ₹10 each, ₹8 paid up at a premium of ₹7 per share. The market value of an equity share of P Ltd. at present is ₹100.**
- viii. **Expenses of liquidation of V Ltd. are to be reimbursed by P Ltd. to the extent of ₹10,000. Actual Expenses amounted to ₹12,000.**
- ix. **The investment Allowance Reserves and Export Profit Reserve are to be maintained for 2 more years.**

The average of the five years' profit is ₹ 30,100. Prior to 31st March 2012 V Ltd. sold goods costing ₹ 30,000 to P Ltd. for ₹ 40,000. ₹ 25,000 worth of goods were still in stock of P Ltd. Debtors include ₹ 20,000 still due from P Ltd. On the date of absorption, V Ltd. owed P Ltd. ₹ 60,000 for the purchases of stock from P Ltd. which made a profit of 20% on cost. Four-fifth of such stock were sold till 31.3.2012. Investments of P. Ltd. include ₹ 9,000 representing the cost of 10% Debentures of V Ltd.

Required: Pass Journal Entries in the books of P Ltd. **[15]**

Answer:

Journal of P Ltd.

Particulars	**Dr. (₹)**	**Cr. (₹)**
Profit & Loss A/c Dr. To Dividend Payable A/c To Dividend Distribution Tax A/c (Being the Dividend declared @ 5% and DDT payable @ 15%)	34,500	 30,000 4,500

Dividend Payable A/c Dr. Dividend Distribution Tax A/c Dr. To Bank A/c (Being the Dividend and Dividend Tax paid)	30,000 4,500	 34,500
Business Purchase A/c Dr. To Liquidators of V Ltd. (Being the purchase price agreed to be paid for the business of V Ltd.)	1,62,557	 1,62,557
Goodwill (Balancing figure) Dr. Tangible Fixed Assets Dr. Stock Dr. Debtors Dr. Bank Dr. Reserve for Discount on Creditors [5% of ₹ (1,40 000 - 60,000)] Dr. To Provision for Doubtful Debts [10% of ₹ (65,000 - 20,000)] To Sundry Creditors To 10% Debentures [₹ 50,000 + 20%] To Loan from Bank To Unrecorded Loan To Business Purchase A/c (Being the assets and liabilities taken over from V Ltd.)	57,557 2,12,500 49,500 58,500 23,500 4,000	 4,500 1,40,000 60,000 23,000 15,500 1,62,557
Liquidators of V Ltd. Dr. To Bank A/c To Equity Share Capital A/c To Securities Premium A/c (Being the issue of Shares and payment in cash in satisfaction of purchase consideration)	1,62,557	 32,567 69,328 60,662
Goodwill A/c Dr. To Bank A/c (Being the payment of Realization Expenses of V Ltd.)	10,000	 10,000
Goodwill Dr. To Stock A/c (Being the Elimination of unrealized profit on unsold goods worth ₹ 25,000 bought from V Ltd. still unsold (25,000 × 10,000/40,000)	6,250	 6,250
Creditors A/c Dr. To Debtors (V Ltd.) A/c (Being Elimination of the amount owed by us to V Ltd.)	20,000	 20,000

Goodwill A/c Dr. To Stock (Being the elimination of unrealized profit included in goods purchased by V Ltd.)[(20% of ₹ 60,000 × 1/6) - (10% of ₹ 12,000)]	800	800
Creditors (V Ltd.) A/c Dr. To Debtors A/c (Being the cancellation of Inter Co. Owing)	60,000	60,000
10% Debentures of V Ltd. Dr. Discount on Issue of 14% Debentures A/c Dr. To Investments in 10% Debentures of V Ltd. To 14% Debentures A/c To Capital Reserve A/c (Being the Investment in 10% Debentures of V Ltd. cancelled and the remaining debentures redeemed by issue of 500, 14% Debentures of ₹ 100 each at a discount of 4%) [Face Value of Debentures = ₹ 48,000/.96 = ₹ 50,000]	60,000 2,000	 9,000 50,000 3,000
Loan from Bank A/c Dr. Unrecorded Loan A/c Dr. To Bank A/c (Being the liabilities of V Ltd. discharged)	23,000 15,500	 38,500
Amalgamation Adjustment A/c Dr. To Investment Allowance Reserve A/c To Export Profit Reserve A/c (Being the identity of Statutory Reserves retained)	5,000 2,000 3,000	
Capital Reserve A/c Dr. To Goodwill A/c (Being the goodwill adjusted against Capital Reserve)	3,000	3,000

Working Notes :

(i) Calculation of Goodwill :

Super Profit = Average Profit - Normal Profit = 30,100 - (8% of ₹ 2,20,000) = 12,500

Goodwill at 4 years' Purchase of Super Profit = (12,500 × 4) = 50,000

(ii) Calculation of Purchase Consideration:

A	Assets taken over at agreed values	₹
	Tangible Fixed Assets [(₹ 1,50,000 × 50%) × 200%]	1,50,000
	Tangible Fixed Assets [(₹ 75,000 × 50%) - 33%]	25,000
	Tangible Fixed Assets [₹ 75,000 × 50%]	37,500
	Stock [₹ 55,000 - ₹ 5,500]	49,500
	Debtors [₹ 65,000 - ₹ 6,500]	58,500
	Cash at Bank [37,000 - 10,000 - 1,500 - 2,000]	23,500

	Goodwill as per (i) above		50,000
			3,94,000
B	Less: Liabilities taken over :		
	Trade Creditors	1,40,000	
	Less: Reserve for Discount @ 5%	7,000	1,33,000
	10% Debentures [₹50,000 + 20%]		60,000
	Loan from Bank		23,000
	Unrecorded Loan		15,500
			2,31,500
C	Net Assets taken over (Purchase Consideration) (A - B)		1,62,500

(iii) Discharge of Purchase Consideration:

Payable in Cash (20% of ₹1,62,500)	32,500
In shares- [(80% of ₹1,62,500)/₹15]	
8,666 shares of ₹10 each, ₹8 paid up valued at ₹15 per share	1,29,990
Cash for Fractional Share (.67 × ₹100)	67
	1,62,557

Note : In case Combined Entry is passed, due credit should be given.

Or,

(b) Shiva Ltd. and Hari Ltd. decided to amalgamate as on 01.04.2012. Their Balance Sheets as on 31.03.2012 were as follows: (₹ in '000)

Particulars	**Shiva Ltd.**	**Hari Ltd.**
Source of Funds :		
Equity share capital (₹ 10 each)	**150**	**140**
9% preference share capital (₹ 100 each)	**30**	**20**
Investment allowance reserve	**5**	**2**
Profit and Loss Account	**10**	**6**
10 % Debentures	**50**	**30**
Sundry Creditors	**25**	**15**
Tax provision	**7**	**4**
Equity Dividend Proposed	**30**	**28**
Total	**307**	**245**
Application of Funds :		
Building	**60**	**50**
Plant and Machinery	**80**	**70**
Investments	**40**	**25**
Sundry Debtors	**45**	**35**
Stock	**36**	**40**
Cash and Bank	**40**	**25**
Preliminary Expenses	**6**	**----**
Total	**307**	**245**

From the following information, you are to prepare the draft Balance Sheet as on 01.04.2012 of a new company, Indra Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

i. **50 % Debentures are to be converted into Equity Shares of the New Company.**
ii. **Out of the investments, 20% are non-trade investments.**
iii. **Fixed Assets of Shivas Ltd. were valued at 10% above cost and that of Hari Ltd. at 5% above cost.**
iv. **10 % of sundry Debtors were doubtful for both the companies. Stocks to be carried at cost.**
v. **Preference shareholders were discharged by issuing equal number of 9% preference shares at par.**
vi. **Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹ 10 each of the new company at a premium of ₹ 5 per share. Amalgamation is in the nature of purchase.** **[15]**

Answer:

Name of the Company: Indra Ltd.
Consolidated Balance Sheet as at 1st April ,2012

Ref No.	Particulars		Note No.	As at 1st April, 2012	As at 1st April, 2011
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		Share capital	1	3,27,990	
		Reserves and surplus	2	1,45,995	
		Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		Long-term borrowings	3	40,000	
		Deferred tax liabilities (Net)			
		Other Long term liabilities			
		Long-term provisions			
	4	Current Liabilities			
		Short-term borrowings			
		Trade payables	4	40,000	
		Other current liabilities			

		Short-term provisions	5	11,000	
		Total		5,64,985	
	II.	Assets			
	1	Non-current assets			
		Fixed assets			
		Tangible assets	6	2,80,000	
		Intangible assets			
		Capital work-in-progress			
		Intangible assets under development			
		Non-current investments	7	65,000	
		Deferred tax assets (Net)			
		Long-term loans and advances			
		Other non-current assets			
	2	Current assets			
		Current investments			
		Inventories	8	76,000	
		Trade receivables	9	72,000	
		Cash and cash equivalents	10	64,985	
		Short-term loans and advances			
		Other current assets	11	7,000	
		Total		5,64,985	

Annexure

Note 1. Share Capital

	₹	₹
Note 1. Share Capital	**As at 1st April, 2012**	**As at 1st April, 2011**
Share Capital 27,799 Equity shares of ₹ 10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	2,77,990	
9 % Preference Share Capital	50,000	
Total	3,27,990	

Reconciliation for Equity Share Capital		**As at 1st April, 2012**		**As at 1st April, 2011**
Opening Balance as on 1,04,2011	**-**	**-**	**-**	**-**
Add: Fresh Issue	**27,799**	**₹2,77,990**		
Less: Buy Back	**-**	**-**		
Total	**27,799**	**₹2,77,990**		
Reconciliation for Preference Share Capital		**As at 1st April, 2012**		**As at 1st April, 2011**
Opening Balance as on 1,04,2011	**-**	**-**		
Add: Fresh Issue	**500**	**50,000**		
Less: Buy Back	**-**	**-**		
Total	**500**	**50,000**		

Note 2. Reserves and Surplus	**As at 1st April, 2012**	**As at 1st April, 2011**
Securities Premium (₹1,25,665+13,330)	1,38,995	
Investment Allowance Reserve (₹5,000+₹2,000)	7,000	
Total	1,45,995	

Note 3. Long term Borrowings	**As at 1st April, 2012**	**As at 1st April, 2011**
10% Debentures (₹25,000+₹15,000)	4,50,000	
Total	4,50,000	

Note 4. Trade Payables	**As at 1st April, 2012**	**As at 1st April, 2011**
Sundry Creditors (₹25,000+₹15,000)	40,000	
Total	40,000	

Note 5. Short Term Provision	**As at 1st April, 2012**	**As at 1st April, 2011**
Tax Provision (₹7,000+₹4,000)	11,000	
Equity Dividend Proposed (₹30,000+₹28,000)	58,000	
Total	69,000	

Note 6. Tangible Assets	**As at 1st April, 2012**	**As at 1st April, 2011**
Building (₹ 66,000 + ₹ 52,500)	1,18,500	

Plant and Machinery (₹ 88,000 + ₹ 73,500)	1,61,500	
Total	2,80,000	

Note 7. Non-current Investments	**As at 1st April, 2012**	**As at 1st April, 2011**
Investments (₹ 40,000 + ₹ 25,000)	65,000	
Total	65,000	

Note 8. Inventories	**As at 1st April, 2012**	**As at 1st April, 2011**
Stock (₹ 36,000 + ₹ 40,000)	76,000	
Total	76,000	

Note 9. Trade Receivables	**As at 1st April, 2012**	**As at 1st April, 2011**
Sundry Debtors 90% of (₹ 45,000 + ₹ 35,000)	72,000	
Total	72,000	

Note 10. Cash and Cash Equivalent	**As at 1st April, 2012**	**As at 1st April, 2011**
Cash and Bank (₹ 40,000 + ₹ 25,000 - ₹ 15)	64,985	
Total	64,985	

Note 11. Other Current Assets	**As at 1st April, 2012**	**As at 1st April, 2011**
Amalgamation adjustment account	7,000	
Total	7,000	

Working Notes:

1. Calculation of value of equity shares issued to transferor companies

		Shiva Ltd.		**Hari Ltd.**
		₹		₹
Assets taken over:				
Building		66,000		52,500
Plant and machinery		88,000		73,500
Investments (trade and non-trade)		40,000		25,000
Stock		36,000		40,000
Sundry Debtors		40,500		31,500
Cash & Bank		40,000		25,000
		3,10,500		2,47,500
Less: Liabilities:				
10% Debentures	50,000		30,000	

Sundry Creditors	25,000		15,000	
Tax Provision	7,000	82,000	4,000	49,000
		2,28,500		1,98,500
Less: Preference Share Capital		30,000		20,000
		1,98,500		1,78,500

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	Shiva Ltd.	Hari Ltd.	Total
Share (including ₹ 5 premium)			
Equity shares issued @ ₹ 15 per			
1,98,500 divided by 15	13,233 shares*		
1,78,500 divided by 15		11,900 shares	25,133 shares
Equity share capital @ ₹ 10	₹ 1,32,330	₹ 1,19,000	₹ 2,51,330
Securities premium @ ₹ 5	₹ 66,165	₹ 59,500	₹1,25,665
	₹ 1,98,495	₹ 1,78,500	₹ 3,76,995
50% of Debentures are converted into equity shares @ ₹ 15 per share			
25,000 divided by 15	1,666 shares**		
15,000 divided by15		1,000 shares	2,666 shares
Equity share capital @ ₹ 10	₹ 16,660	₹ 10,000	₹ 26,660
Security premium@ ₹ 5	₹ 8,330	₹ 5,000	₹ 13,330
	₹ 24,990	₹ 15,000	₹ 39,990
9% Preference share capital issued	₹ 30,000	₹ 20,000	₹ 50,000

*** Cash paid for fraction of shares = ₹ 1,98,500 - ₹ 1,98,495 = ₹ 5.**

**** Cash paid for fraction of shares = ₹ 25,000 - ₹ 24,990 = ₹ 10.**

3. (a) The following are the summarized Balance Sheet of Asha Ltd. and Manav Ltd.

Liabilities	Asha Ltd. ₹	Manav Ltd. ₹	Assets	Asha Ltd. ₹	Manav Ltd. ₹
Equity Share Capital	**32,000**	**28,000**	**Sundry Assets**	**42,000**	**33,000**
Profit and Loss A/c	**5,000**	**-**	**Shares in Manav Ltd.**	**20,000**	**-**
Creditors	**15,000**	**6,000**	**Profit and Loss A/c**	**-**	**1,000**
Loan – Chitra Ltd.	**10,000**	**-**			
	62,000	**34,000**		**62,000**	**34,000**

Note : Loan from Chitra Ltd. assumed to be of less than 12 months, hence treated as short terms borrowings (ignoring interest)
The whole of the shares of Asha Ltd. are held by Chitra Ltd. and the entire Share capital of Manav Ltd. is held by Asha Ltd.

A new company Om Shanti Ltd. is formed to acquire the sundry assets and liabilities of Asha Ltd. and Manav Ltd. For the purpose, the sundry assets of Asha Ltd. are revalued at ₹ 30,000 and those of Manav Ltd. at ₹ 20,000.
Show the journal entries to close the books of Manav Ltd. [10]

Answer:

In the Books of Manav Ltd.

	Particulars		**Debit(₹)**	**Credit(₹)**
1.	Realisation A/c	Dr.	33,000	
	To Sundry Assets A/c			33,000
	[Being Sundry Assets and Shares in Manav Ltd. transferred to Realisation account on sale of business to Om Shanti Ltd.]			
2.	Creditors A/c	Dr.	6,000	
	To Realisation A/c			6,000
	[Sundry Creditor is transferred to Realisation A/c on sale of Business to Om Shanti Ltd.]			
3.	Om Shanti Ltd. A/c	Dr.	14,000	
	To Realisation A/c			14,000
	[Amount of purchase consideration receivable from Om Shanti Ltd. on transfer sundry assets, creditor and Loan vide agreement dated.....]			
4.	Equity Share Capital A/c	Dr.	28,000	
	To Shareholders (Asha Ltd.) A/c			28,000
	[Being amount of Share capital transferred to Shareholder A/c]			
5.	Shareholders A/c	Dr.	14,000	
	To Realisation A/c			13,000
	To Profit and Loss A/c			1,000
	[Loss on realisation and Profit and Loss A/c debit balance transferred to Share holders A/c]			
6.	Shares in Om Shanti Ltd. A/c	Dr.	14,000	
	To Om Shanti Ltd. A/c			14,000
	[Amount of purchase consideration received in shares of Om Shanti Ltd.]			

7.	Shareholders (Asha Ltd.) A/c	Dr.	14,000	
	To Shares in Om Shanti Ltd.			14,000
	[Amount payable to shareholders discharged by issue of shares in Om Shanti Ltd.]			

WN : *Calculation of Purchase Consideration (Net Assets Method)*

Particulars	*Asha Ltd.*	*Manav Ltd.*
Value of net assets	30,000	20,000
Creditors	(15,000)	(6,000)
Loans from Chitra Ltd.	(10,000)	—
Purchase Consideration	**5,000**	**14,000**

In the Books of Manav Ltd. :

Realisation Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Sundry Assets	33,000	By Creditors A/c	6,000
		By Asha Ltd. (Purchase Consideration)	14,000
		By Shareholders (Asha Ltd.) A/c	13,000
		(Loss on Realisation)	
	33,000		**33,000**

Shareholders (Asha Ltd.) Account

Dr. Cr.

Particulars	*Amount*	*Particulars*	*Amount*
To Realisation A/c	13,000	By Share Capital A/c	28,000
To Profit and Loss A/c	1,000		
To Shares in Om Shanti Ltd. A/c	14,000		
	28,000		**28,000**

Or,

(b) Emerald Ltd. agreed to absorb Ruby Ltd. on 31st March 2012, whose Balance Sheet stood as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital: 1,60,000 shares of ₹ 100 each fully paid	1,60,00,000	Fixed Assets	1,40,00,000
Reserve and Surplus:		Current Assets, Loans & Advances:	
General Reserve	20,00,000	Stock in Trade	20,00,000
Secured Loan	-	Sundry Creditors	40,00,000
Unsecured Loan	-		
Current Liabilities and Provisions:			
Sundry Creditors	20,00,000		
	2,00,00,000		2,00,00,000

The consideration was agreed to be paid as follows :

i. **A payment in cash of ₹ 50 per share in Ruby Ltd. and**

ii. **The issue of shares of ₹ 100 each in Emerald Ltd., on the basis of 2 Equity Shares (valued at ₹ 150) and one 10% Cumulative Preference Share (valued at ₹ 100) for every five shares held in Ruby Ltd.**

It was agreed that Emerald Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in Ruby Ltd. i.e., ₹ 650 for five shares of ₹ 500 paid.

The whole of the Share capital consists of shareholdings in exact multiple of five except the following holding:

Uma	**232**	
Sunil	**152**	
Ritam	**144**	
Vinit	**56**	
Other individuals	**16**	**(eight members holding one share each)**
	600	

Prepare a statement showing the purchase consideration receivable by above shareholders in shares and cash. [10]

Answer:

WN # 1 : ***Statement of consideration paid for fraction shares***

	Particulars	Uma	Sunil	Ritam	Vinit	Others	Total
a.	Holding of shares	232	152	144	56	16	600
b.	Non-exchangeable shares (Payable in Cash)	2	2	4	1	16	25
c.	Exchangeable Shares [(a) - (b)]	230	150	140	55	—	575
d.	Above shares						
	i. in Equity shares (2:5)	92	60	56	22	—	230
	ii. in Preference shares (1:5)	46	30	28	11	—	115

WN # 2 : Number of shares to be issued

a. Exchangeable shares :

= Total shares – Non Exchangeable shares

= 1,60,000 – 25 = 1,59,975

b. Equity shares to be issued (2 shares for every 5 shares):

$$\frac{1,59,975}{5} \times 2 = 63,990$$

c. Preference shares to be issued(1 shares for every 5 shares):

$$\frac{1,59,975}{5} \times 1 = 31,995$$

WN # 3 : *Cash to be paid*

	Particulars	₹
a.	1,59,975 shares @ ₹ 50 each	79,98,750
b.	Consideration for non-exchangeable [25×100]× $\frac{650}{500}$ (i.e. ₹ 650 for five shares of ₹ 500 paid)	3,250
c.	Total	80,02,000

Statement of Purchase Consideration :

Particulars		₹
a. In Shares :		
i. 63,990 Equity shares @ ₹ 150 each	95,98,500	
ii. 31,995 Preference shares @ ₹ 100 each	31,99,500	1,27,98,000
b. In Cash (WN # 3)		80,02,000
c. Total (a+b)		2,08,00,000

4. (a) Following are the Balance sheets of BHARAT TUSHAR LTD. :

Liabilities	31.03.12 ₹	31.03.11 ₹	Assets	31.03.12 ₹	31.03.11 ₹
Equity Share Capital	**7,41,000**	**6,00,000**	**Goodwill**	**15,000**	**-**
18% preference share capital	**2,00,000**	**4,00,000**	**Land**	**50,000**	**5,000**
General Reserve	**2,21,000**	**58,000**	**Plant & Machinery**	**12,65,000**	**10,15,000**
Profit & Loss A/c	**12,57,500**	**82,000**	**10% Investments (at par)**	**2,00,000**	**1,00,000**
Securities Premium	**-**	**1,000**	**Investment in shares**	**35,000**	**10,000**
Capital Redemption Reserve	**1,30,000**	**-**	**Accrued Interest on**	**2,000**	**3,000**

			Investments		
Debentures Redemption Reserve	-	4,800	Marketable Securities	20,000	30,000
Capital Reserve	70,000	5,000	Stock	4,10,000	3,60,000
Capital Grant	8,00,000	-	Debtors	1,85,000	1,80,000
10% Debentures	-	2,00,000	Cash & bank	18,82,000	2,62,000
12% Debentures	2,07,000	2,00,000	Advance Tax	80,000	30,000
Unpaid interest on Debentures	12,000	2,000	Underwriting Commission	5,720	5,000
Unpaid Dividend	24,000	4,000	Discount on issue of debentures	280	-
Bank Overdraft	50,000	55,200			
Creditors	1,50,000	1,40,000			
Provision for Doubtful Debts	30,000	20,000			
Proposed Dividend	1,50,000	1,20,000			
Dividend Distribution Tax	22,500	18,000			
Provision for Tax	85,000	90,000			
	41,50,000	20,00,000		41,50,000	20,00,000

Additional Information:

i. The provision for depreciation on Machinery stood at ₹3,00,000 on 31.03.2011, and at ₹ 3,65,000 on 31.03.2012. A machine costing ₹1,40,000 (book value ₹80,000) was disposed off at a loss of 37.5%. One fully depreciated machine costing ₹15,000 was also discarded and written off.

ii. On 30.09.2011 An Interim Dividend @ 30% p.a. was paid on equity shares for the half year ended on 30.09.2011. Dividend Distribution Tax @ 15% was also paid. On 01.10.2011, some Investments were purchased.

iii. On 01.10.2011, Preference Shares were redeemed at a premium of 15%. Dividend on Redeemed Preference Shares was duly paid. Dividend Distribution Tax @ 15% was also paid.

iv. On 01.01.2012, 10% Debentures were redeemed at a premium of 5% and some 12% Debentures were issued.

v. An Income Tax liability upto 31st March, 2011 has been settled and paid for ₹75,000.

vi. On 01.01.2012, the Business of Y Ltd. was purchased for ₹60,000 payable in fully paid equity shares of ₹ 10 each at 20% premium. The assets included Stock ₹15,000. Debtors ₹10,000 and Machine ₹30,000. Creditors of ₹15,000 were also taken over.

vii. It was decided to value stock at cost whereas previously the practice was to value stock at cost less 10%. However, the Stock on 31.03.2012 was correctly valued at cost.

viii. Dividend received amounted to ₹ 2,100 which included pre-acquisition dividend of ₹ 600.

ix. Insurance proceeds from earthquake disaster settlement (₹ 1,00,000) were credited to Profit & Loss A/c . Grant of ₹ 10,00,000 amortised in P & L A/c.

x. Marketable Securities costing ₹ 10,000 were disposed off at a profit of 20%. Debtors of ₹ 10,000 were written off against the provision for doubtful debts account during the year.

Required: Calculate Net Cash Flow from Operating Activities as per AS 3. [15]

Answer:

Cash Flow Statement of BHARAT TUSHAR Ltd. for the year ending 31/03/2012

	Particulars	₹
I	**Cash FLOW FROM OPERATING ACTIVITIES**	
A	Closing Balance as per Profit & Loss A/c	12,57,500

	Less: Opening Balance as per Profit & Loss A/c	- 82,000
	Add: Proposed Dividend during the year	1,50,000
	Add: Interim dividend paid during the year [₹ 6,00,000 × 30% × 6/12]	90,000
	Add: Pref. dividend paid during the year [₹ 2,00,000 × 18% × 6/12]	18,000
	Add: Dividend Distribution Tax paid [(₹ 90,000+18,000) × 15%]	16,200
	Add: Dividend Distribution Tax on Proposed Dividend	22,500
	Add: Transfer to General Reserve [Refer to WN]	63,000
	Add: Transfer to Capital Redemption Reserve	1,30,000
	Add: Transfer to Debentures Redemption Reserve [Refer to WN]	95,200
	Add: Transfer to Capital Reserve	65,000
	Add: Provision for Tax	85,000
	Add: Premium on Red of Pref. Shares [₹ 30,000 – ₹ 1,000]	29,000
	Less: Excess Provision for Tax for previous year	– 15,000
	Less: Extraordinary item (i.e. Insurance proceeds from	
	earthquake disaster settlement)	– 1,00,000
B	Net Profit before taxation, and extraordinary item	18,24,400
C	*Add*: **Iterns to be added**	
	Depreciation [Refer to WN]	1,40,000
	Interest on Debentures	
	[(2,00,000 × 10% × 9/12) + (2,00,000 × 12%) + (7,000 × 12% × 3/12)]	39,210
	Goodwill amortised [₹ 20,000 – ₹ 15,000] [Refer to WN]	5,000
	Loss on sale of Machinery [Refer to WN]	30,000
D	*Less*: **Items to be deducted**	
	Interest on Investments	
	[(1,00,000 × 10% × 6/12) + (2,00,000 × 10% × 6/12)]	– 15,000
	Under Valuation of Opening Stock (3,60,000 x 10/90)	– 40,000
	Dividend Income (₹ 2,100 – ₹ 600)	– 1,500
	Capital Grant amortised	– 10,00,000
E	Operating Profit before Working Capital changes [B + C – D]	9,82,110
F	*Add*: Decrease in Current Assets & Increase in Current Liabilities	
	Decrease in Stock [(41 0000 – 15000) – (360000 + 40000)]	5,000
	Decrease in Debtors (Gross)[(185000-10000)-180000]	5,000
	Increase in Provision for doubtful debts [30000-20000]	10,000
G	*Less*: Increase in Current Assets & Decrease in Current Liabilities	
	Decrease in Creditors [(150000-15000)-140000]	– 5,000
H	Cash generated from operations [E + F – G]	9,97,110
I	*Less*: Income taxes paid (₹ 45,000 for PY + ₹ 80,000 for CY] [Refer to WN]	– 1,25,000
J	Cash Flow before extraordinary item [H – I]	8,72,110
K	*Less*: Extraordinary item (i.e. Insurance proceeds from earthquake	1,00,000
	disaster settlement)	
	Net Cash Flow from Operating Activities	7,72,110

Working Notes:

(i) Plant and Machinery Account (at Cost)

Dr. **Cr.**

Particulars	₹	Particulars	₹
To, Balance b/d	13,15,000	By, Machine Disposal A/c (sold)	1,40,000
To, Business Purchase A/c	30,000	By, Machinery Disposal A/c	15,000
To, Bank A/c (Purchase) (b/f)	4,40,000	By, Balance c/d	16,30,000
	17,85,000		17,85,000

(ii) Accumulated Depreciation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To, Machinery Disposal A/c	60,000	By, Balance b/d	3,00,000
To, Machinery Disposal A/c	15,000	By, Profit and Loss A/c (b/f)	1,40,000
To, Balance c/d	3,65,000		
	4,40,000		4,40,000

(iii) Machinery Disposal and Discarded Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To, Plant and Machinery A/c (Cost)	1,40,000	By, Accumulated depreciation A/c	60,000
To, Plant and Machinery A/c (Cost)	15,000	By, Accumulated Depreciation A/c	15,000
		By, Bank A/c	50,000
		By, Profit and Loss A/c	30,000
	1,55,000		1,55,000

(iv) Provision for Tax Account Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To, Advance Tax A/c	30,000	By, Balance b/d	90,000
To, Bank A/c (paid) (b.f)	45,000	By, Profit and Loss A/c(Provision)	85,000
To, Profit and Loss A/c (Excess Provision)	15,000		
To, Balance c/d	85,000		
	1,75,000		1,75,000

(v) Advance Tax Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To, Balance b/d	30,000	By, Provision for Tax A/c	30,000
To, Bank A/c (b.f)	80,000	By, Balance c/d	80,000
	1,10,000		1,10,000

(vi) Securities Premium Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To, Premium on Red. Of Pref. Shares A/c	1,000	By,Balance b/d	1,000
To, Premium on Red. Of Debentures A/c	10,000	By, Y Ltd.	10,000
	11,000		11,000

(vii) Goodwill Amortised = Goodwill Purchased – Closing Balance of Goodwill A/c =₹60,000 – (₹55,000 -₹15,000) - ₹15,000 =₹5,000

(viii) Debentures Redemption Reserve Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To, General Reserve A/c	1,00,000	By, Balance b/d	4,800
		By, Profit and Loss A/c(b.f) [(50% of ₹2,00,000) -₹4,800]	95,200

(ix) General Reserve Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To, Balance c/d	2,21,000	By,Balance b/d	58,000
		By, Profit and Loss A/c (b.f) [(50% of ₹2,00,000)] As per Sec 117©	1,00,000
		By, Profit and Loss A/c (b.f)	63,000
	2,21,000		2,21,000

(x) Profit on sale of short term investments and debtors written off against provision for doubtful debts do not require any further adjustment.

Or,

(b) Following are the Balance Sheets of Mumbai Limited, Delhi Limited, Amritsar Limited and Kanpur Limited as at 31st December, 2012:

Liabilities	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
Share Capital (₹ 100 face value)	1,00,00,000	80,00,000	40,00,000	1,20,00,000
General Reserve	40,00,000	8,00,000	5,00,000	20,00,000
Profit & Loss Account	20,00,000	8,00,000	5,00,000	6,40,000
Sundry Creditors	6,00,000	2,00,000	1,00,000	1,60,000
	1,76,00,000	98,00,000	51,00,000	1,48,00,000
Assets				
Investments :				
30,000 shares in Delhi Ltd.	70,00,000	—	—	—
10,000 shares in Amritsar Ltd	22,00,000	—	—	—
5,000 shares in Amritsar Ltd.	—	10,00,000	—	—

Shares in Kanpur Ltd. @ ₹ 120	**72,00,000**	**36,00,000**	**12,00,000**	**—**
Fixed Assets	**—**	**40,00,000**	**30,00,000**	**1,40,00,000**
Current Assets	**2,00,000**	**12,00,000**	**9,00,000**	**8,00,000**
	1,76,00,000	**98,00,000**	**51,00,000**	**1,48,00,000**

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

	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
General Reserve Account	**20,00,000**	**4,00,000**	**2,00,000**	**12,00,000**
Profit & Loss Account	**12,00,000**	**4,00,000**	**1,00,000**	**1,20,000**

Required :

Prepare the consolidated Balance Sheet of the group as at 31st December, 2012 (Calculations may be rounded off to the nearest rupee). **[15]**

Answer:

Name of the Company: Mumbai Ltd. and its subsidiary Delhi Ltd. , Amritsar Ltd. and Kanpur 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	1,00,00,000	-
		(b) Reserves and surplus	2	80,64,375	-
		(c)Money received against share warrants		-	-
				-	-
	2	**Minority Interest**		62,50,625	-
	3	**Non-current liabilities**		-	
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	10,60,000	-
		(c) Other current liabilities			-
		(d) Short-term provisions			-

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
					-
		TOTAL (1+2+3+4)		2,53,75,000	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	2,10,00,000	-
		(ii) Intangible assets	5	12,75,000	-
		(iii) Capital work-in-progress			-
		(iv) Intangible assets under development			-
		(v) Fixed assets held for sale			-
		(b) Non-current investments			
		(c) Deferred tax assets (net)			-
		(d) Long-term loans and advances			-
		(e) Other non-current assets			-
					-
	2	**Current assets**			
		(a) Current investments			-
		(b) Inventories			-
		(c) Trade receivables			-
		(d) Cash and cash equivalents	6	31,00,000	-
		(e) Short-term loans and advances			-
		(f) Other current assets			-
					-
		TOTAL (1+2)		2,53,75,000	-

Annexure

Note 1. Share Capital	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Authorised,issued, Subscribed and paid –up Share Capital:		
1,00,000 Equity Shares of ₹100 each	1,00,00,000	
Total	1,00,00,000	

Note 2. Reserves and Surplus	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
General Reserves	51,02,083	
Profit & Loss A/c	29,62,292	
Total	80,64,375	

Note 3. Trade Payables	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Sundry Creditors (6,00,000+2,00,000+1,00,000+1,60,000)	10,60,000	
Total	10,60,000	

Note 4. Tangible Assets	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Fixed Assets (40,00,000+30,00,000+1,40,00,000)	2,10,00,000	
	2,10,00,000	

Note 5. Intangible Assets	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Goodwill (WN iv)	12,75,000	
Total	12,75,000	

Note 6. Cash and Cash Equivalents	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Cash at Bank	31,00,000	
Total	31,00,000	

(i) Analysis of profits of Kanpur Ltd.

	Capital Profit ₹	**Revenue Reserve** ₹	**Revenue Profit** ₹
General Reserve on the date of purchase of shares	12,00,000		
Profit and Loss A/c on the date of purchase of shares	1,20,000		
Increase in General Reserve		8,00,000	
Increase in profit			5,20,000

	13,20,000	8,00,000	5,20,000
Less : Minority Interest (1/6)	2,20,000	1,33,333	86,667
	11,00,000	6,66,667	4,33,333
Share of Mumbai Ltd. (1/2)	6,60,000	4,00,000	2,60,000
Share of Delhi Ltd. (1/4)	3,30,000	2,00,000	1,30,000
Share of Amritsar Ltd. (1/12)	1,10,000	66,667	43,333

(ii) Analysis of profits of Amritsar Ltd.

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

(iii) Analysis of profits of Delhi Ltd.

	Capital Profit ₹	**Revenue Reserve** ₹	**Revenue Profit** ₹
General Reserve on the date of purchase of shares	4,00,000		
Profit and Loss A/c on the date of purchase of shares	4,00,000		
Increase in General Reserve		4,00,000	
Increase in Profit and Loss A/c			4,00,000
Share in Kanpur Ltd.		2,00,000	1,30,000
Share in Amritsar Ltd.		91,667	1,10,833
	80,00,000	6,91,667	6,40,833
Less : Minority Interest (1/4)	2,00,000	1,72,917	1,60,208
Share of Mumbai Ltd. (3/4)	6,00,000	5,18,750	4,80,625

(iv) Cost of control

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

(v) Minority interest

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

(vi) General Reserve — Mumbai Ltd.

Balance as on 31.12.2010 (given)		40,00,000
Share in		
	Delhi Ltd.	5,18,750
	Amritsar Ltd.	1,83,335
	Kanpur Ltd.	4,00,000
		51,02,083

(vii) Profit and Loss Account — Mumbai Ltd.

Balance as on 31.12.2010 (given)		20,00,000
Share in		
	Delhi Ltd.	4,80,625
	Amritsar Ltd.	2,21,667
	Kanpur Ltd.	2,60,000
		29,62,292

5. (a) A Limited is a holding company and B Limited and C Limited are subsidiaries of A Limited. Their Balance Sheets as on 31.12.2012 are given below:

	A Ltd.	B Ltd.	C Ltd.		A Ltd.	B Ltd.	C Ltd.
	₹	₹	₹		₹	₹	₹
Share Capital	3,00,000	3,00,000	1,80,000	Fixed Assets	60,000	1,80,000	1,29,000
Reserves	1,44,000	30,000	27,000	Investments			
Profit & Loss Account	48,000	36,000	27,000	Shares in B Ltd.	2,85,000		
C Ltd. Balance	9,000			Shares in C Ltd.	39,000	1,59,000	
Sundry Creditors	21,000	15,000		Stock in Trade	36,000		
A Ltd. Balance		21,000		B Ltd. Balance	24,000		
				Sundry Debtors	78,000	63,000	96,000
				A Ltd. Balance			9,000
	5,22,000	4,02,000	2,34,000		5,22,000	4,02,000	2,34,000

The following particulars are given:

(i) The Share Capital of all companies is divided into shares of ₹ 10 each.

(ii) A Ltd. held 24,000 shares of B Ltd. and 3,000 shares of C Ltd.

(iii) B Ltd. held 12,000 shares of C Ltd.

(iv) All these investments were made on 30.6.2012.

(v) On 31.12.2011, the position was as shown below:

	B Ltd.	C Ltd.
	₹	₹
Reserve	24,000	22,500
Profit & Loss Account	12,000	9,000
Sundry Creditors	15,000	3,000
Fixed Assets	1,80,000	1,29,000
Stock in Trade	12,000	1,06,500
Sundry Debtors	1,44,000	99,000

(vi) 10% dividend is proposed by each company.

(vii) The whole of stock in trade of B Ltd. as on 30.6.2012 (₹ 12,000) was later sold to A Ltd. for ₹13,200 and remained unsold by A Ltd. as on 31.12.2012.

(viii)Cash-in-transit from B Ltd. to A Ltd. was ₹ 3,000 as at the close of business.

You are required to determine the minority interest. [10]

Answer:

Name of the Company: A Ltd. and its subsidiary B Ltd. and C Ltd.
Consolidated Balance Sheet as at 31st December,2012 (Balance Sheet is not required in this case , it is provided for the guidance only)

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	3,00,000	-
		(b) Reserves and surplus	2	1,80,915	-
		(c)Money received against share warrants		-	-
				-	-
	2	**Minority Interest**		1,13,460	-
	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	36,000	-
		(c) Other current liabilities			-
		(d) Short-term provisions	4	30,000	-
					-
		TOTAL (1+2+3+4)		6,60,375	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets		-	
		(i) Tangible assets	5	3,69,000	-
		(ii) Intangible assets	6	16,575	-
		(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		-	-

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
				-	-
	2	**Current assets**		-	
		(a) Current investments		-	-
		(b) Inventories	7	34,800	-
		(c) Trade receivables	8	2,37,000	-
		(d) Cash and cash equivalents	9	3,000	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets		-	-
				-	-
		TOTAL (1+2)		6,60,375	-

Annexure

Note 1. Share Capital	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Authorised,issued, Subscribed and paid –up Share Capital:		
1,00,000 Equity Shares of ₹10 each	3,00,000	
Total	3,00,000	

Note 2. Reserves and Surplus	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Reserves	1,47,975	
Profit & Loss A/c	32,940	
Total	1,80,915	

Note 3. Trade Payables	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Sundry Creditors (21,000+15,000)	36,000	
Total	36,000	

Note 4. Short term Provision	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Proposed Dividend	30,000	
	30,000	

Note 5. Tangible Assets	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Fixed Assets	3,69,000	
Total	3,69,000	

Note 6. Intangible Assets	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Goodwill	16,575	
Total	16,575	

Note 7. Inventories	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Stock in Trade	36,000	
Less: Unrealised Profit	1,200	
Total	34,800	

Note 8. Trade Receivables	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Sundry Debtors (78,000+63,000+96,000)	2,37,000	
Total	2,73,000	

Note 9. Cash and Cash Equivalents	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Cash in Transit (24,000-21,000)	3,000	
Total	3,000	

Working Notes:

(i) Position on 30.06.2012

	Reserves	Profit and Loss Account
B Ltd.	₹	₹
Balance on 31.12.2011	30,000	36,000
Less: Balance on 31.12.2011	24,000	12,000
Increase during the year	6,000	24,000
Estimated increase for half year	3,000	12,000

Balance on 30.06.2012	27,000 (24,000+3,000)	24,000 (12,000 + 12,000)
C Ltd.		
Balance on 31.12.2012	27,000	27,000
Balance on 31.12.2011	22,500	9,000
Increase during the year	4,500	18,000
Estimated increase for half year	2,250	9,000
Balance on 30.06.2012	24,750 (22,500+2,250)	18,000 (9,000 + 9,000)

(ii) Analysis of Profits of C Ltd.

	Capital Profit	**Revenue Reserve**	**Revenue profit**
	₹	₹	₹
Reserves on 30.6.2012	24,750		
Profit and Loss A/c on 30.6.2012	18,000		
Increase in reserves		2,250	
Increase in profit	______	_____	9,000
	42,750	2,250	9,000
Less: Minority interest (1/6)	7,125	375	1,500
	35,625	1,875	7,500
Share of A Ltd. (1/6)	7,125	375	1,500
Share of B Ltd. (4/6)	28,500	1,500	6,000

(iii) Analysis of Profits of B Ltd.

	Capital Profit	**Revenue Reserve**	**Revenue profit**
	₹	₹	₹
Reserves on 30.6.2012	27,000		
Profit and Loss A/c on 30.6.2012	24,000		
Increase in reserves		3,000	
Increase in profit			12,000
Share in C Ltd.	_____	1,500	6,000
	51,000	4,500	18,000
Less: Minority interest (2/10)	10,200	900	3,600
Share of A Ltd. (8/10)	40,800	3,600	14,400

(iv) Cost of control

	₹	₹
Investments in		
B Ltd.	2,85,000	
C Ltd.	1,98,000	
		4,83,000
Paid up value of investments in		
B Ltd.	2,40,000	
C Ltd.	1,50,000	
		(3,90,000)
Capital profits in		
B Ltd.	40,800	
C Ltd.	35,625	
		(76,425)
Goodwill		16,575

(v) Minority Interest

Share Capital:	₹	₹
B Ltd.	60,000	
C Ltd.	30,000	90,000
Share in profits and reserves (Pre and Post-Acquisitions)		
B Ltd.	14,700	
C Ltd.	9,000	23,700
		1,13,700
Less: Provision for unrealized profit (20% of ₹ 1,200)		240
		1,13,460

(vi) Reserves – A Ltd.

		₹
Balance as on 31.12.2012 (given)		1,44,000
Share in		
B Ltd.		3,600
C Ltd.		375
		1,47,975

(vii) Profit and Loss Account – A Ltd.

		₹
Balance as on 31.12.2012 (given)		48,000
Share in		

B Ltd.		14,400
C Ltd.		1,500
		63,900
Less: Proposed dividend (10% of ₹ 3,00,000)		30,000
Provision for unrealised profit on stock 80% of (₹ 13,200 – ₹ 12,000)		960
		32,940

Or,

(b) From the following information determine the amount of unrealized profit to be eliminated and the apportionment of the same. Om Ltd. holds 80% Equity shares of Shanti Ltd.

i. Om Ltd. sold goods costing ₹15,00,000 to Shanti Ltd. at a profit of 25% on Cost Price. Entire stock were lying unsold as on the date of Balance Sheet.

ii. Again, Om Ltd. sold goods costing ₹13,50,000 on which it made a profit of 25% on Sale Price. 60% of the value of goods were included in closing stock of Shanti Ltd.

iii. Shanti Ltd. sold goods to Om Ltd. for ₹24,00,000 on which it made a profit of 20% on Cost . 40% of the value of goods were included in the closing stock of Om Ltd.

[10]

Answer:

Situation I

Transaction	**Sale by Om Ltd. to Shanti Ltd. [Holding ⟶ Subsidiary]**
Nature of Transfer	**Downstream Transaction**
Profit on Transfer	Cost ₹15,00,000 × Profit on Cost i.e. 25% = ₹3,75,000
% of Stock included in Closing Stock	100%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 1,87,500 × 100% = ₹3,75,000
Share of Majority – Reduced from Group Reserve	₹ 1,87,500 × 100% = ₹3,75,000
Share of Minority	Unrealised Profit in case of a Downstream Transaction is fully adjusted against Group Reserves. Minority Interest is not relevant here.

Situation II

Transaction	**Sale by Om Ltd. to Shanti Ltd. [Holding ⟶ Subsidiary]**
Nature of Transfer	**Downstream Transaction**

Profit on Transfer	Cost ₹13,50,000 × Profit on Sale Price i.e.25% ÷ Cost on Sale i.e. 75% = ₹4,50,000
% of Stock included in Closing Stock	60%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 4,50,000 × 60% = ₹2,70,000
Share of Majority – Reduced from Group Reserve	100% × ₹2,70,000 = ₹2,70,000
Share of Minority	Unrealised Profit in case of a Downstream Transaction is fully adjusted against Group Reserves. Minority Interest is not relevant here.

Situation III

Transaction	**Sale by Shanti Ltd. to Om Ltd. [Subsidiary ⟶ Holding]**
Nature of Transfer	**Upstream Transaction**
Profit on Transfer	Sale ₹24,00,000 × Profit on Cost 20% ÷Sale to Cost 120% =₹4,00,000
% of Stock included in Closing Stock	40%
Unlealised Profit to be eliminated i.e to be reduced from Closing Stock	₹ 4,00,000 × 40% = ₹1,60,000
Share of Majority – Reduced from Group Reserve	Share of Majority i.e. 80% × Unrealised Profit ₹1,60,000 = ₹1,28,000
Share of Minority – Reduced from Minority Interest	Share of Majority i.e. 20% × Unrealised Profit ₹1,60,000 = ₹32,000

6.(a) The Balance Sheets of three companies AA Ltd. BB Ltd. and CC Ltd. , as at 31st December,2013 are given below:

Liabilities	AA Ltd. ₹	BB Ltd. ₹	CC Ltd. ₹
Share Capital (Equity shares of ₹100 each)	30,00,000	20,00,000	12,00,000
Reserves	4,00,000	2,50,000	1,50,000
Profit and Loss A/c	10,00,000	5,50,000	5,00,000
Sundry Creditors	4,00,000	5,00,000	2,00,000
Bills Payable	-	-	1,00,000
AA Ltd.	-	2,00,000	1,60,000
	48,00,000	35,00,000	23,10,000
Assets			
Goodwill	5,00,000	11,60,000	9,00,000
Plant and machinery	8,00,000	5,00,000	6,50,000
Furniture and Fittings	4,00,000	3,00,000	2,80,000
Shares in-			

BB Ltd.(15,000 shares)	**18,00,000**	**-**	**-**
CC Ltd.(2,000 shares)	**3,00,000**	**-**	**-**
CC Ltd.(7,000 shares)	**-**	**10,40,000**	**-**
Stock in trade	**2,00,000**	**3,00,000**	**3,20,000**
Sundry Debtors	**2,80,000**	**1,40,000**	**1,40,000**
Bills receivable	**1,00,000**	**40,000**	**-**
Due from -			
BB Ltd.	**2,40,000**	**-**	**-**
CC Ltd.	**1,60,000**	**-**	**-**
Cash in hand	**20,000**	**20,000**	**20,000**
	48,00,000	**35,00,000**	**32,10,000**

I. All shares were acquired on 1st July , 2012.

II. On 1st January , 2012, the balances were:

	AA Ltd. ₹	BB Ltd. ₹	CC Ltd. ₹
Reserves	**2,00,000**	**2,00,000**	**1,00,000**
Profit and Loss Account	**1,00,000**	**(1,00,000)Dr.**	**60,000**
Profit during 2012 were earned evenly over the year	**6,00,000**	**5,00,000**	**2,00,000**

III. Each company declared a dividend of 10% in the year 2013 on its shares out of Profits for the year 2012; AA Ltd. and BB Ltd. have credited their Profit and Loss account with the dividends received.

IV. The increase in reserves in case of AA Ltd., BB Ltd., and CC Ltd., was effected in the year 2012.

V. All the bills payable appearing in CC Ltd.'s Balance Sheet were accepted in favour of BB Ltd., out of which bills amounting ₹60,000 were endorsed by BB Ltd., in favour of AA Ltd.

VI. Stock with BB Ltd. includes goods purchased from AA Ltd., for ₹36,000. AA Ltd., invoiced the goods at cost plus 20%.

i. Ascertain the Profit for the year 2013, Undistributed profit for the year 2012,

ii. Analyse the of Profit, Consolidated Profit and Loss Account of AA Ltd., Consolidated Reserves of AA Ltd.

[10]

Answer:

A. Ascertainment of Profits for the year 2013:

Particulars	AA Ltd.(₹)	BB Ltd.(₹)	CC Ltd.(₹)
Balance as on 1st January,2012	1,00,000	(1,00,000)	60,000
Add: Profits earned during 2012	6,00,000	5,00,000	2,00,000
	7,00,000	4,00,000	2,60,000
Less: Dividend Declared	3,00,000	2,00,000	1,20,000
	4,00,000	2,00,000	1,40,000
Less: Transfer to Reserve	2,00,000	50,000	50,000
	2,00,000	1,50,000	90,000
Profit for the year 2013 (Balancing Figure)	8,00,000	4,00,000	4,10,000

Balance as on 31st December 2013	10,00,000	5,50,000	5,00,000

B. Undistributed profits for the year 2012:

Particulars	BB Ltd. (₹)	CC Ltd. (₹)
Profits for the year 2012	5,00,000	2,00,000
Less: Dividends declared	2,00,000	1,20,000
	3,00,000	80,000
Less: Transfer to Reserves	50,000	50,000
	2,50,000	30,000

C. Analysis of Profits

Particulars	Capital Profits ₹	Revenue Reserve ₹	Revenue Profits ₹
CC Ltd.			
Reserves as on 1st January 2012	1,00,000		
Transfer to Reserve in the year 2012 [(1,50,000 – 1,00,000) /2]	25,000	25,000	
Profit & Loss Account			
Balance as on 1st January 2012	60,000		
Profit for 2012 remaining undistributed [(2,00,000-50,000-1,20,000)/2]	15,000		15,000
Profit for the year 2013 (5,00,000-60,000-30,000)			4,10,000
(A)	2,00,000	25,000	4,25,000
Minority Interest [$\frac{1}{4}$th of (A)]	50,000	6,250	1,06,250
	1,50,000	18,750	3,18,750
Share of AA Ltd. [$\frac{1}{6}$th of (A)]	33,334	4,166	70,834
Share of BB Ltd.	1,16,666	14,584	2,47,916
BB Ltd.			
Reserves as on 1st January 2012	2,00,000		
Transfer to Reserve 2012 [(2,50,000-2,00,000)/2]	25,000	25,000	
Profit & Loss Account – Balance (Dr.) as on 1st January,2012	(1,00,000)		
Undistributed Profits of 2012 [(5,00,000+50,000-2,00,000)/2]	1,25,000		1,25,000
Share in Profit of CC Ltd.	1,16,666	14,584	2,47,916
Profit for the year 2013(5,50,000+1,00,000-2,50,000)			4,00,000
(B)	3,66,666	39,584	7,72,916
Less: Minority Interest [$\frac{1}{4}$th of (B)]	91,666	9,896	1,93,230
Share of AA Ltd.	2,75,000	29,688	5,79,686

D. Consolidated Profit and Loss Account of AA Ltd.

Particulars	Amount (₹)	Amount(₹)
Profit & Loss Account balance as on 31.12.2013		10,00,000
Add: Share in revenue profit of CC Ltd.		70,834
Share in revenue profits of BB Ltd.		5,79,686
		16,50,520
Less: Pre-acquisition dividend		
AA Ltd. ½(₹1,50,000+₹20,000)	85,000	
BB Ltd. ½ of ₹70,000	35,000	1,20,000
		15,30,520
Less: Unrealised Profit in Closing Stock (20/120×36,000)		6,000
		15,24,520

E. Consolidated Reserves of AA Ltd.

Particulars	Amount (₹)
Reserves as on 31.12.2013	4,00,000
Add: Share in revenue reserves of CC Ltd.	4,166
Add: Share in revenue reserve of BB Ltd.	29,688
	4,33,854

F. Minority Interest

Particulars	BB Ltd. (₹)	CC Ltd. (₹)
Share Capital	5,00,000	3,00,000
Share of Capital Profit	91,666	50,000
Share of Revenue Reserves	9,896	6,250
Share of Revenue Profits	1,93,230	1,06,250
Total	7,94,792	4,62,500
Grand Total		12,57,292

G. Cost of Control / Goodwill

Particulars	₹	₹
Cost of Investments (18,00,000+3,00,000+10,40,000)		31,40,000
Less: Dividend Attributable to Pre-Acquisition Profits for 6 months i.e. [(1,50,000+90,000)/2]		1,20,000
		30,20,000
Less: Face value of Shares		
BB Ltd.	15,00,000	
CC Ltd.	9,00,000	
Capital Profits		
BB Ltd.	2,75,000	
CC Ltd.	33,334	27,08,334
Goodwill		3,11,666

H. Cash in Transit/Dues from BB Ltd.

Particulars	Amount(₹)	Amount(₹)
(i) Due to AA Ltd.		
From BB Ltd.	2,40,000	
From CC Ltd.	1,60,000	4,00,000

(ii)	Due by AA Ltd.		
	To BB Ltd.	2,00,000	
	To CC Ltd.	1,60,000	3,60,000
			40,000

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

	Skilled	Unskilled
(i) Annual average earning of an employee till the retirement age.	**₹70,000**	**₹50,000**
(ii) Age of retirement	**65 years**	**62 years**
(iii) Discount rate	**15%**	**15%**
(iv) No. of employees in the group	**30**	**40**
(v) Average age	**62 years**	**60 years**

[5]

Answer:

Valuation of Employees as per Lev and Schwartz method:

$$V = \sum_{t=r}^{t} \frac{I(t)}{(1+r)^{t-r}}$$

Where,
V = the human capital value of a person
I(t) = the person's annual earnings up to retirement.
r = a discount rate specific to the person.
t = retirement age.

Value of Skilled Employees:

$$= \frac{70{,}000}{(1+0.15)^{65-62}} + \frac{70{,}000}{(1+0.15)^{65-63}} + \frac{70{,}000}{(1+0.15)^{65-64}}$$

$$= \frac{70{,}000}{(1+0.15)^{3}} + \frac{70{,}000}{(1+0.15)^{2}} + \frac{70{,}000}{(1+0.15)^{1}}$$

= ₹ $(46{,}026.14 + 52{,}930.06 + 60{,}869.57)$ = ₹ 1,59,825.77.

Total value of skilled employees is
₹ 1,59,825.77× 30 employees = ₹ 47,94,773.

Value of Unskilled Employees:

$$= \frac{40{,}000}{(1+0.15)^{62-60}} + \frac{40{,}000}{(1+0.15)^{62-61}}$$

$$= \frac{40{,}000}{(1+0.15)^{2}} + \frac{40{,}000}{(1+0.15)^{1}}$$

= ₹ $(37{,}807.18 + 43{,}478.26)$ = ₹ 81,285.44

Total value of Unskilled employees is
=₹ 81,285.44 × 40 employees = ₹ 32,51,417.6.

Total value of human resources (Skilled and Unskilled)
= ₹(47,94,773 + 32,51,417.60)= ₹ 80,46,190.60.

(ii) Write a note on Squaring off of the position with respect to Option contracts. [5]

Answer:

Meaning: "Squaring Off of the position" refers to the process of entering a reverse contract, after entering into an option contract, in the same series with the same strike price.

Gain/Loss: The gain or loss of the client will be the difference between the Option Premium Received and Paid after reducing/adding the brokerage charged by the Clearing Member.

Objective: It is a tool to mitigate the loss to the difference in the premium amounts by squaring off the position before the Expiry Date.

Example: A buyer/holder having bought S&P CNX NIFTY **call option** of January 2005 series with strike price of ₹ 1,120 can square off his position by **selling/writing** S&P CNX NIFTY call option of January 2005 series with ₹1,120 as strike price.

Or,

(b) A company Amrit Ltd. announced a Stock Appreciation Right on 01/04/09 for each of its 500 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31/03/12 but before 30/06/12. The fair value of SAR was ₹21 in 2009-10, ₹23 in 2010-11 and ₹24 in 2011-12. In 2009-10 the company estimates that 2% of the employees shall leave the company annually. This was revised to 3% in 2010-11. Actually, 18 employees left the company in 2009-10, 5 left in 2010-11 and 3 left in 2011-12. The SAR therefore actually vested to 482 employees. On 30/06/12, when the SAR was exercised, the intrinsic value was ₹25 per share.

Show Provision for SAR A/c by fair value method. [10]

Answer:

Provision of SARs Account (For 2009-10)

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance c/d	3,29,700	By Employees Compensation Expense	3,29,700
	3,29,700		3,29,700
Provision of SARs Account (For 2010-11)			
To Balance c/d	7,06,867	By Balance b/d	3,29,700
		By Employee Compensation Expenses	3,77,167

	7,06,867		7,06,867
Provision of SARs Account (For 2011-12)			
To Balance c/d	11,56,800	By Balance b/d	7,06,867
		By Employee Compensation Expenses	4,49,933
	11,56,800		11,56,800
Provision of SARs Account (For 2012-13)			
To Bank (48,200x25)	12,05,000	By Balance b/d	11,56,800
		By Employee Expenses	48,200
	12,05,000		12,05,000

The Provision for SAR is a liability as settlement of SAR is through cash payment equivalent to an excess of market price of company's shares on exercise date over the exercise price.

Working Notes:

Year 2009-10

A. Number of employees to whom SARs were announced (482+10+5+3) = 500 employees

B. Total number of employees after three years, on the basis of the estimation in 2009-10 = (500 x 0.98 x 0.98 x0.98) = 471 employees

C. No. of SARs expected to vest = 471 employees x 100 = 47,100 SAR

D. Fair value of SARs = 47,100 SARs x ₹21 = ₹9,89,100

E. Vesting period = 3 years

F. Recognized as expense in 2009-10 = ₹9,89,100/3 years = ₹3,29,700

Year 2010-11

G. Total number of employees after three years, on the basis of the estimation in 2010-11 = [(500-10)x0.97x0.97)=461 employees

H. No. of SARs expected to vest =461 employees X 100 = 46,100 SARs

I. Fair value of SARs = 46,100 SARs X ₹23 = ₹10,60,300

J. Vesting period = 3 years

K. No. of years expired = 2 years

L. Cumulative value of SARs to recognized as expense = 10,60,300/3 x 2 =₹7,06,867

M. SARs recognize as expense in 2010-11 = ₹7,06,867 - ₹3,29,700 = ₹3,77,167

Year 2011-12

N. Fair value of SARs = ₹24

O. SARs actually vested = 482 employees x 100 = 48,200 SARs

P. Fair value = 48,200 SARs x ₹24 = ₹11,56,800

Q. Cumulative value to be recognized = ₹11,56,800

R. Value of SARs to be recognized as an expense = ₹11,56,800 – ₹7,06,867 = ₹4,49,933

Year 2012-13

S Cash payment of SARs = 48,200 SARs ₹ 25 = ₹ 12,05,000

T Value of SARs to be recognized as an expense in 2012 – 13 = ₹12,05,000 - ₹11,56,800 = ₹48,200

7. (a)
(i) On the basis of the following information related to trading in Options, you are required to pass relevant Journal Entries (at the time of inception and at the time of final settlement) in the books of Amit (Buyer) and Sumit (Seller). Assume that the price on expiry is ₹1,050/- and both Amit and Sumit follow the calendar year as an accounting year.

Date of Purchase	Option Type	Expiry Date	Premium per unit	Contract Lot	Multiplier
29.03.2012	**Equity Index,**	**31.05.2012**	**₹10**	**2000 units**	**₹950 p.u**

[5]

Answer:

In the books of Amit (Buyer)

Sl. No.	Particulars	Debit ₹	Credit ₹
29.03.12	Equity Index Option Premium A/c Dr. To Bank A/c (Being premium paid on Equity Stock Options)	20,000	 20,000
31.05.12	Profit and Loss A/c Dr. To Equity Index Stock Premium A/c (Being premium on option written off on expiry)	20,000	 20,000
31.05.12	Bank A/c Dr. To Profit and Loss A/c (Being profit on exercise of option received = 2,000 units × (₹1,050 - ₹950)) (Exercise Price - Spot Price)	2,00,000	 2,00,000

In the books of Sumit (Seller)

Sl. No.	Particulars		Debit ₹	Credit ₹
29.03.12	Bank A/c To Equity Index Option Premium A/c (Being premium on Option collected)	Dr.	20,000	 20,000
31.05.12	Profit and Loss A/c To Bank A/c (Being loss on Option paid)	Dr.	2,00,000	 2,00,000
31.05.12	Equity Index Option Premium A/c To Profit and Loss A/c (Being premium on option recognized as income)	Dr.	20,000	 20,000

(ii) Discuss about Triple Bottom Line Reporting. **[5]**

Answer:

There is no single, universally accepted definition of **Triple Bottom Line Reporting** (TBL) reporting. TBL reporting is defined as corporate communication with stakeholders that describes the company's approach to managing one or more of the economic, environmental and/ or social dimensions of its activities and through providing information on these dimensions.

Consideration of these three dimensions of company management and performance is sometimes referred to as sustainability or sustainable development.

In its purest sense, the concept of TBL reporting refers to the publication of economic, environmental and social information in an integrated manner that reflects activities and outcomes across these three dimensions of a company's performance.

Economic information goes beyond the traditional measures contained within statutory financial reporting that is directed primarily towards shareholders and management. In a TBL context, economic information is provided to illustrate the economic relationships and impacts, both direct and indirect, that the company has with its stakeholders and the communities in which it operates.

The concept of TBL does not mean that companies are required to maximise returns across three dimensions of performance - in terms of corporate performance, it is recognized that financial performance is the primary consideration in assessing its business success.

The Triple Bottom Line is made up of "Social, Economic and Environmental"

"People, Planet, Profit "

The trend towards greater transparency and accountability in public reporting and communication is reflected in a progression towards more comprehensive disclosure of corporate performance to include the environmental, social and economic dimensions of an entity’s activities. Reporting information on any one or more of these three elements is referred to as TBL (Triple Bottom Line) Reporting. This trend is being largely driven by stakeholders, who are increasingly demanding information on the approach and performance of companies in managing the environmental and social/community impact of their activities and obtaining a broader perspective of their economic impact.

(iii) State the disclosures to be made in relation to Provisions ,Contingent Liabilities and Contingent Assets (AS 29). [5]

Answer:

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

Disclosure of provisions in financial statements

Enterprise should disclose for each class of provision the following:

• Opening balance

• Addition to and use of the provision

• Unused amount written back

• Closing balance of the provision

Besides these the following other disclosures are required:

• A brief description of provision.

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

• The expected reimbursement recognized as an asset.

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

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

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

• Indications of the uncertainties relating to outflow.

• The possibility of any reimbursement.

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

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

DISCLOSURE OF CONTINGENT ASSETS:

Contingent assets are not required to disclosed in financial statement, generally Board of Directors report discloses such contingent assets.

Or,

(b) (i) The following figures for a period were called out from the books of Virat Corporation:

Particulars	₹
sales	**24,80,000**
Purchase of raw materials	**10,00.000**
Agent's commission	**20,000**
Consumable stores	**25,000**
Packing material	**10,000**

Stationery	**10,000**
Audit fees	**4,000**
Staff welfare expenses	**1,58,000**
Insurance	**26,000**
Rent rate & taxes	**16,000**
Managing director's remuneration	**84,000**
Traveling expenses	**21,000**
Fuel and oil	**9,000**
Electricity	**5,000**
Material used in repairs:	
1. Materials to plant and machinery	**24,000**
2. Materials to buildings	**10,000**
Advertisement	**25,000**
Salaries and wages	**6,30,000**
Postage and telegrams	**14,000**
Contribution to provident fund, etc.	**60,000**
Directors' sitting fees & traveling expenses	**40,000**
Subscription paid	**2,000**
Carriage	**22,000**
Interest on loans taken	**18,000**
Dividend to shareholders	**30,000**
Depreciation provided	**55,000**
Income-tax provided	**1,00,000**
Retained earnings	**1,25,000**
Opening stock : raw Material	**85,000**
Finished goods	**2,00,000**
Closing Stock: raw Material	**1,08,000**
Finished goods	**2,40,000**

From the above you are required to prepare a statement detailing the source and disposal to added value. [10]

Answer:

Statement showing the sources and disposal of Added Value

Sources:	**Amount (₹)**	**Amount (₹)**
Sales		24,80,000
Less: Agents' commission		20,000
Add change in finished stocks (W.N 1)		40,000
Gross Output		25,00,000
Less:		
(a) Raw Materials :		
Purchases	10,00,000	
Less: Change in Stock	23,000	
	9,77,000	
Other Materials:		
Consumables	25,000	
Packing Materials	10,000	
Stationary	10,000	

Fuel & oil	9,000	
Electricity	5,000	
Repair – Plant & Machinery	24,000	
Repair – Building	10,000	
Cost of brought in inputs	10,70,000	
(b) Purchased Services:		
Audit Fees	4,000	
Insurance	26,000	
Rent, Rates & Taxes	16,000	
Traveling Expenses	21,000	
Advertisement	25,000	
Postal & Telegraph	14,000	
Subscription	2,000	
Staff Welfare Expenses	1,58,000	
Carriage	22,000	
		13,58,000
Add Value		11,42,000
Disposal:		
To Employee Costs		
MD Remuneration	84,000	
Director Sitting Fees & Expenses	40,000	
Salaries & Wages	6,30,000	
Contribution to PF	60,000	8,14,000
To Government		
Tax Provided		1,00,000
Provider of Finance		
Interest on Loan		18,000
To, Pay Share Holders		
Dividend		30,000
To Entity		
Depreciation	55,000	
Retained Earnings	1,25,000	1,80,000
Added Value		11,42,000

W.N 1 This adjustment is necessary because the cost relating to this closing stock stands included in purchase.

(ii) What are the advantages of preparation of Value Added (VA) statements? [5]

Answer:

Various advantages of preparation of Value Added (VA) Statements are as under:

(i) Reporting on VA improves the attitude of employees towards their employing companies. This is because the VA statement reflects a broader view of the company's objectives and responsibilities.

(ii) VA statement makes it easier for the company to introduce a productivity linked bonus scheme for employees based on VA. The employees may be given productivity bonus on the basis of VA / Payroll Ratio.

(iii) VA based ratios (e.g. VA / Payroll, taxation / VA, VA / Sales etc.) are useful diagnostic and predictive tools. Trends in VA ratios, comparisons with other companies and international comparisons may be useful.
(iv) VA provides a very good measure of the size and importance of a company. To use sales figure or capital employed figures as a basis for company's rankings can cause distortion. This is because sales may be inflated by large bought-in expenses or a capital-intensive company with a few employees may appear to be more important than a highly skilled labour–intensive company.
(v) VA statement links a company's financial accounts to national income. A company's VA indicates the company's contribution to national income.
(vi) VA statement is built on the basic conceptual foundations which are currently accepted in balance sheets and income statements. Concepts such as going concern, matching, consistency and substance over form are equally applicable to VA statement.

8. (a) (i) Discuss the role of Public Accounts Committee. [5]

Answer:

The role of the Public Accounts Committee (PAC) is to assess the integrity, economy, efficiency and effectiveness of government financial management. It achieves this by:

• examining Government financial documents; and

• considering the reports of the Auditor - General.

A significant amount of the committee's work involves following up matters raised in the reports to Parliament by the Auditor - General. This ensures that public sector financial issues are scrutinised for the benefit of the Parliament and the public.

While scrutinising the Appropriation Accounts of the Government of India and the Reports of the Comptroller and Auditor General thereon, it is the duty of the Committee to satisfy itself—

– that the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged;

– that the expenditure conforms to the authority which governs it; and

– that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

An important function of the Committee is to ascertain that money granted by Parliament has been spent by Government "within the scope of the demand". The functions of the Committee extend "beyond the formality of expenditure to its wisdom, faithfulness and economy". The Committee thus examines cases involving losses, nugatory expenditure and financial irregularities.

It is also the duty of the PAC to examine the statement of accounts of autonomous and semi-autonomous bodies, the audit of which is conducted by the Comptroller & Auditor General either under the directions of the President or by a Statute of Parliament.

(ii) List the sources of Government revenue? [5]

Answer:
Sources of Revenue
• Revenue Receipts

- Tax Revenue
  - Sharable with the States
  - Non sharable
- Non-Tax Revenue
  - Interest
  - Dividends
  - Receipts of Commercial Departments
- External Grants
- Capital Receipts
- Miscellaneous Capital Receipts
  - Disposal of Capital Assets
  - Divestment of SOE Shares
- Repayment of Loans.

(iii) Write a note on the objectives of Indian Government Accounting Standard 4 (General Purpose Financial Statements of Government). **[5]**

Answer:

The purpose of this Standard is to lay down the principles to be followed in presentation of general purpose financial reports of Governments and to prescribe the minimum requirements relating to structure and contents of financial statements of government prepared under cash basis of accounting.

The statement of receipts and disbursements during the year and information about cash flows of an Entity enable stakeholders to evaluate the likely sources and uses of cash and the ability of an Entity to generate adequate cash in the future. This information also indicates the expenditure priorities of the Entity in the delivery of goods and services as well as the impact of the taxation policies of the Entity. Stakeholders can then assess the sustainability of the Entity's activities (whether future budgetary resources will be sufficient to sustain public services and to meet obligations as they become due) and appraise financial accountability.

All Financial Statements need to be standardized to obtain optimal information, to ensure comparability with the Entity's own financial Statements of previous periods and with those of other entities. The basis and policies of accounting need to be uniform to permit meaningful consolidation to develop Whole of Government Accounts. Desirable attributes need to defined to obtain a basic standard for financial reporting.

To achieve these objectives, this Standard sets out the financial elements for the presentation of financial reports prepared under the cash basis of accounting. It also requires that the selection of accounting policy should ensure certain qualitative characteristics in the information being presented. Desirable attributes of financial reporting are required to heighten their value to the users.

General Purpose Financial Statements (GPFS) essentially consists of Finance Accounts and Appropriation Accounts. The Financial Statements referred to in this standard are the General Purpose Financial Reports (GPFR).

Or,

(b) (i) State the responsibilities of Government Accounting Standards Advisory Board. [5]

Answer:

Following are the responsibilities of Government Accounting Standards Advisory Board

i. To establish and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
ii. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
iii. To keep the standards current and reflect change in the Governmental environment;
iv. To provide guidance on implementation of standards.
v. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
vi. To improve the common understanding of the nature and purpose of information contained in the financial reports.

(ii) Discuss in brief the Standard – setting procedure of Government Accounting Standards Advisory Board. [10]

Answer:

Standard-setting Procedure for Accounting Standards

A. The following procedures are adopted by the Government Accounting Standards Advisory Board (GASAB) for formulating Standards:

(i) The GASAB Secretariat identifies areas for Standard formulation and places them before the GASAB for selection and approval. While doing so, the Secretariat places before the GASAB all important suggestions, references, proposals received from various sections of the Union and State Governments, members of GASAB, members of Civil Society, Professional Bodies and other stakeholders. The priorities, as approved by the GASAB, guide further functioning of the GASAB Secretariat.
(ii) The GASAB Secretariat thereafter prepares the discussion paper on the selected issues for consideration of the GASAB.
(iii) While doing so, the Secretariat studies the existing rules, codes and principles as internal sources, and documents/pronouncements/Standards issued by other national and international Standard setting and regulatory bodies. The Secretariat may also hold consultation with such other persons as are considered necessary for this purpose.
(iv) On consideration of the Discussion paper and the comments received thereon, the GASAB finalizes the Exposure Draft.
(v) The GASAB may constitute Standing Committee and/or Task based Groups from amongst the Members or their representatives to consider specific areas before finalization.
(vi) The Exposure Draft, as approved for issue by the GASAB, are widely circulated in the public domain and forwarded to all stakeholders. The Exposure Draft is required to be hosted at the website of GASAB.
(vii) Based on the comments received on the Exposure Draft, the Standards are finalized by the GASAB. The Standards, as finalized, are forwarded to the Government for notification in accordance with the provisions of the Constitution of India.

B. The meetings are normally chaired by the Chairperson. In unforeseen circumstances when Chairperson is unable to attend, the senior-most member from the Central Government will chair the meeting. The Comptroller & Auditor General of India will be kept informed of the important developments in the meetings of GASAB.
C. The GASAB may meet as often as is deemed necessary but generally not less than four times in a financial year. The decisions of the GASAB may preferably be by general consensus. In case differences persist, the decision shall be on the basis of voting favoring the recommendation. The dissenting views should also be forwarded to the Government along with the recommendations.
D. GASAB allows an exposure period of 90 days for inviting comments on Exposure Draft.