Paper 18 : Corporate Financial Reporting

Full Marks: 100 **Time : 3 hours**

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

(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.

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

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]**

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]**

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]**

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]**

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 Investments	2,000	3,000
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. Workmen's Compensation Fund (Bombay) disclosed the fact that actually there was a liability of ₹ 20,000 only. As a result the relevant fund amount balance was to be brought down to the required amount. Investments were realised at 10% above the book value.

viii. The taxation liability of the company is settled at ₹ 8.88 lacs and the same is paid immediately.

[15]

(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]**

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.	2,95,000		
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]**

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]**

6. (a) The Balance Sheets of three companies AA Ltd. BB Ltd. and CC Ltd. , as at 31st December,2012 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.(7,500 shares)	18,00,000	-	-
CC Ltd.	3,00,000	-	-
CC Ltd.	-	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]

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]

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

Or,

(b) A company Amrit Ltd. announced a Stock Appreciation Right on 01/04/09 for each of its 525 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, 10 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]**

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, Call	31.05.2012	₹10	2000 units	₹950 p.u

[5]

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

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

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]**

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

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

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

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

Or,

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

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