Paper – 18 - Corporate Financial Reporting

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

(a) Write a note on IFRS.

Answer:

The term IFRS refers to the International Financial Reporting Standards issued by International Accounting Standard Board (IASB). It also encompasses the International Accounting Standards (IAS) issued by the International Accounting Standard Committee (IASC). Interpretations of IASs and IFRSs are developed by the International Financial Reporting Interpretations Committee (IFRIC). IFRIC is the new name for the Standing Interpretations Committee (SIC) approved by the IASC Foundation Trustees. IFRS includes these interpretations also.

(b) As on 1st April, 2011 the Fair Value of Plan Assets was ₹ 1,00,000 in respect of a pension plan of X Ltd. On 30th September, 2011 the plan paid out benefits of ₹ 20,000 and received inward contributions of ₹ 50,000. On 31st March, 2012 the fair value of plan assets was ₹ 1,50,000 and present value of the defined benefit obligation was ₹ 1,48,000. Actuarial losses on the obligations for the year 2011-12 were ₹ 1,000. On 1 st April, 2011 the company made the following estimates, based on its market studies, understanding and prevailing prices :

Interest & Dividend Income, after tax payable by the fund	**9.50%**
Realized and unrealized gains on Plan Assets (after tax)	**2.00%**
Fund Administrative Costs	**(1.25%)**
Expected Rate of Return	**10.25%**

Required: Find the Expected & Actual Returns on Plan Assets for the year 2011-12.

Answer:

A. Closing Balance of Fair Value of Plan Assets	₹ 1,50,000
B. Add : Benefit Paid	₹ 20,000
C. Less : Contributions Received	(₹ 50,000)
D. Less : Opening Balance of Fair Value of Plan Assets	(₹1,00,000)
E : Actual Return on Plan Assets	**₹ 20,000**

A. Return on Opening Balance of Fair Value of Plan Assets [₹ 1,00,000 × 10.25% × 12/12]	₹ 10,250
B. Return on Net Contributions Received [Contributions - Benefits Paid] [(₹ 50,000 - ₹ 20,000) × 5%]	₹ 1,500
C : Expected Return on Plan Assets	**₹ 11,750**

Note : Equivalent Half Yearly Compounding Interest Rate

= $\sqrt{1+\text{Expected Rate of Return}}-1=\sqrt{(1+0.1025)}-1=0.05$ or 5%

(c) A firm of contractors obtained a contract for construction of bridges across a river. The following details are available in the records kept for the year ended 31st March, 2011.

	(₹ in lakhs)
Total Contract Price	**2,000**
Work Certified	**1,000**
Work not certified	**210**
Estimated further Cost to Completion	**990**
Progress Payment Received	**800**
To be Received	**280**

Determine the amount of

- **Contract work-in-progress**
- **Amount due from /to customer.**

Answer:

Contract Work-in-Progress:
= Work certified+ Work not certified
= ₹ (1,000+210) lakhs = ₹ 1,210 lakhs

Amount due from/ to customer:
= Contract costs incurred + Recognised profits - Recognised losses – (Progress payments received + Progress payments to be received)

= ₹1,210 lakhs + NIL - ₹200 lakhs – ₹(800 + 280)lakhs = (₹70)lakhs
i.e amount due to the customer is ₹70 lakhs

Working Note:

Amount of Foreseeable loss:

Particulars	Amount (₹ in lakhs)
Total Cost of Construction (1,000+210+990)	2,200
Less: Total Contract Price	2,000
Total foreseeable loss to be recognised as expenses	200

2.(a) From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2012 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2012

Particulars	Amount ₹ '000	Particulars	Amount ₹ '000
Balance on 1.4.2011	**400**	**Payment to Suppliers**	**2,600**
Issue of Equity Shares	**1,000**	**Purchase of Fixed Assets**	**1,200**
Receipts from Customers	**4,500**	**Overhead expense**	**200**

Sale of Fixed Assets	200	Wages and Salaries	600
		Taxation	450
		Dividend	100
		Repayment of Bank Loan	800
		Balance on 31.3.2012	150
	6,100		6,100

[10]

Answer:

X Ltd.

Cash Flow Statement for the year ended 31st March, 2012 (Using the direct method)

Particulars	₹ '000	₹ '000
Cash flows from operating activities		
Cash receipts from customers	4,500	
Cash payment to suppliers	(2,600)	
Cash paid to employees	(600)	
Cash payments for overheads	(200)	
Cash generated from operations	1,100	
Income tax paid	(450)	
Net cash from operating activities		650
Cash flows from investing activities		
Payment for purchase of fixed assets	(1,200)	
Proceeds from sale of fixed assets	200	
Net cash used in investing activities		(1,000)
Cash flows from financing activities		
Proceeds from issuance of equity shares	1,000	
Bank loan repaid	(800)	
Dividend paid	(100)	
Net cash from financing activities		100
Net increase in cash		(250)
Cash at beginning of the period (01.04.2011)		400
Cash at end of the period(31.03.2012)		150

Or,

(b) Mitra Ltd acquired 25% of shares in Friend Ltd as on 31.03.2012 for ₹9 Lakhs. The Balance Sheet of Friend Ltd as on 31.03.2012 is given below-

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital	15,00,000	Fixed Assets	15,00,000
Reserves and Surplus	15,00,000	Investments	6,00,000
		Current Assets	9,00,000
Total	30,00,000	Total	30,00,000

Following additional information are available for the year ended 3103.2013 –

i. **Mitra Ltd received dividend from Friend Ltd for the year ended 31.03.2012 at 40% from the Reserves.**

ii. **Friend Ltd made a profit After Tax of ₹ 21 Lakhs for the year ended 31.03.2013.**

iii. **Friend Ltd declared a dividend @ 50% for the year ended 31.03.2010 on 30.04.2013.**

Mitra Ltd is preparing consolidated Financial Statements in accordance with AS – 21 for its various subsidiaries.

- **Calculate Goodwill if any on acquisition of Friend Ltd.'s shares.**
- **How Mitra Ltd will reflect the value of investment in Friend Ltd in the consolidated Financial Statements?**
- **How the dividend received from Friend Ltd will be shown in the consolidated Financial Statements?** **[10]**

Answer:

A. Basic Information

Mitra's stake in Friend Ltd	Nature of Investment in Friend Ltd.	Date of Consolidation
25% Shares	Associate in terms of AS 23	31.03.2013

B. Calculation of Goodwill **(₹ in lakhs)**

Particulars	**₹ lakhs**
Mitra's share in the Equity of Friend Ltd (as at the date of investment) [25% of ₹30 lakhs (Equity Capital ₹15 Lakhs + Reserves ₹15 Lakhs)]	7.50
Less: Cost of Investment	(9.00)
Goodwill	**(1.50)**

A. Extract of Consolidate Profit and Loss Account of Mitra Ltd for the year ended 31.03.2013

(₹in lakhs)

Ref No.	**Particulars**		**Note No.**	**As at 1st March, 2013**	**As at 1st January, 2012**
	II.	Other Income		5.25	

(₹in lakhs)

Note to the Profit and Loss Account **Other Income**	**As at 1st January, 2011**	**As at 1st January, 2010**
Share of Profit from Friend Ltd.(25% ×₹21 lakhs) i.e. 5.25 lakhs	5.25	
Dividend from Friend Ltd. (15 Lakhs ×25% ×40%) i.e. 1.50 lakhs Less: Transfer to Investment in Friend Ltd. A/c i.e. 1.50 lakhs	NIL	
Total	5.25	

B. Extract of Consolidated Balance Sheet of Mitra Ltd as at 31.03.2013 **(₹in lakhs)**

Ref No.	Particulars		Note No.	As at 1st March, 2013	As at 1st January, 2012
	II.	Assets		₹	₹
		Non-current investments		12.75	

(₹in lakhs)

Note to the Balance Sheet **Non-current Investments**		**As at 1st January, 2011**	**As at 1st January, 2010**
Investment in Friend Ltd. ₹(9.00+5.25-1.5) Goodwill	₹11.25 ₹1.50	12.75	
Total		12.75	

Note: Dividend declared on 30.04.2013 will not be recognized in consolidated Financial Statements.

3. (a) Globetrotters Ltd. has two divisions – 'Inland' and 'International'. The Balance Sheet as at 31st December, 2010 was as under:

	Inland	**International**	**Total**
	(₹ crores)	**(₹ crores)**	**(₹ crores)**
Fixed Assets:			
Cost	**300**	**300**	**600**
Depreciation	**250**	**100**	**350**
W.D.V. (written down value)	**50**	**200**	**250**
Net Current Assets:			
Current assets	**200**	**150**	**350**
Less: Current liabilities	**100**	**100**	**200**
	100	**50**	**150**
Total	**150**	**250**	**400**
Financed by:			
Loan funds:			
(Secured by a charge on fixed assets)	–	**50**	**50**
Own Funds:			
Equity capital (fully paid up ₹ 10 shares)			**25**
Reserves and surplus			**325**
	?	**?**	**350**
Total	**150**	**250**	**400**

It is decided to form a new company 'Beautiful World Ltd.' for international tourism to take over the assets and liabilities of international division.

Accordingly 'Beautiful World Ltd.' was formed to takeover at Balance Sheet figures the assets and liabilities of international division. 'Beautiful World Ltd.' is to allot 2.5 crore equity shares of ₹ 10 each in the company to the members of 'Globetrotters Ltd.' in full settlement of the consideration. The members of 'Globetrotters Ltd.' are therefore to become members of 'Beautiful World' as well without having to make any further investment.

i. **You are asked to pass journal entries in relation to the above in the books of 'Globetrotters Ltd.' and also in 'Beautiful World Ltd'. Also show the Balance Sheets of both the companies as on 1st January, 2011 showing corresponding figures, before the reconstruction also.**
ii. **The directors of both the companies ask you to find out the net asset value of equity shares pre and post-demerger.**
iii. **Comment on the impact of demerger on "shareholders wealth". [15]**

Answer:

Journal of Globetrotters Ltd.

(₹ in Crores)

Particulars		Dr. (₹)	Cr.(₹)
Current liabilities A/c	Dr.	100	
Loan fund (Secured) A/c	Dr.	50	
Provision for depreciation A/c	Dr.	100	
Loss on reconstruction A/c (Balancing figure)	Dr.	200	
To Fixed assets A/c			300
To Current assets A/c			150
(being the assets and liabilities of International division taken out of the books on transfer of the division to Beautiful World Ltd.; the consideration being allotment to the members of the company of one equity share of ₹10 each of that company at par every share held in the company vide scheme of reorganization)*			

Journal of Beautiful World Ltd.

(₹ in cores)

Particulars		Dr. (₹)	Cr.(₹)
Fixed assets A/c (300 – 100)	Dr.	200	
Current assets A/c	Dr.	150	
To current liabilities A/c			100
To Loan funds (secured) A/c			50
To Equity share capital A/c			25
To capital reserve A/c			175
(being the assets and liabilities of international division of Globetrotters Ltd. taken over by Beautiful World Ltd. and allotment of 2.5 crore equity shares of ₹10 each at par as fully paid up to the members of Globetrotters Ltd.)			

Name of the Company: Globetrotters Ltd.
Balance Sheet as at: 1st January, 2011

(₹ in cores)

Ref No.		Particulars	Note No.	After Reconstruction		Before Reconstruction	
				As at 1st January, 2011	As at 1st January, 2010	As at 1st January, 2011	As at 1st January, 2010
	I	**EQUITY AND LIABILITIES**					
	1	Shareholder's Fund					
		(a) Share capital	1	25		25	
		(b) Reserves and surplus	2	125		325	
		(c)Money received against share warrants					
	2	**Share application money pending allotment**					
	3	**Non-current liabilities**					
		(a) Long-term borrowings					
		(b)Deferred tax liabilities (Net)					
		(c) Other Long term liabilities					
		(d) Long-term provisions					
	4	**Current Liabilities**					
		(a) Short-term borrowings	3			50	
		(b) Trade payables					
		(c)Other current liabilities	4	100		200	
		(d) Short-term provisions					
		Total (1+2+3+4)		**250**		**600**	
	II	**ASSETS**					
	1	Non-current assets					
		(a) Fixed assets					
		(i) Tangible assets	5	50		250	
		(ii) Intangible assets					
		(iii) Capital work-in-progress					
		(iv) Intangible assets under development					
		(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					
		(e) Short-term loans and advances					
		(f) Other current assets	6	200		350	
		Total (1+2)		**250**		**600**	

(₹ in Crores)

	After Reconstruction		**Before Reconstruction**	
Note 1. Share Capital	**As at 1st January, 2011**	**As at 1st January, 2010**	**As at 1st January, 2011**	**As at 1st January, 2010**
Authorized, Issued, Subscribed and paid-up Share capital:				
Equity share of ₹ 10 each	25		25	
Total	25		25	

RECONCILIATION OF SHARE CAPITAL

	After Reconstruction				**Before Reconstruction**			
FOR EQUITY SHARE	**As at 1st January, 2011**		**As at 1st January, 2010**		**As at 1st January, 2011**		**As at 1st January, 2010**	
	Nos.	**Amount (₹)**	**Nos.**	**Amount (₹)**	**Nos.**	**Amount (₹)**	**Nos.**	**Amount (₹)**
Opening Balance as on 1st January ,2010	2.5	25			2.5	25		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)								
	2.5	25			2.5	25		
Less: Buy Back of share								
Total	2.5	25			2.5	25		

	After Reconstruction		**Before Reconstruction**	
Note 2. Reserve & Surplus	**As at 1st January, 2011**	**As at 1st January, 2010**	**As at 1st January, 2011**	**As at 1st January, 2010**

Reserve & Surplus	125		325	
Total	125		325	

	After Reconstruction		Before Reconstruction	
Note 3. Short term Borrowings	**As at 1st January, 2011**	**As at 1st January, 2010**	**As at 1st January, 2011**	**As at 1st January, 2010**
Secured Loans (Assumed to be payable within 1 year)			50	
Total			50	

	After Reconstruction		Before Reconstruction	
Note 4. Other Current Liabilities	**As at 1st January, 2011**	**As at 1st January, 2010**	**As at 1st January, 2011**	**As at 1st January, 2010**
Other Current Liabilities	100		200	
Total	100		200	

	After Reconstruction		Before Reconstruction	
Note 5. Tangible Assets	**As at 1st January, 2011**	**As at 1st January, 2010**	**As at 1st January, 2011**	**As at 1st January, 2010**
Fixed Assets Less Depreciation (₹300-₹250) (₹600-₹350)	50		250	
Total	50		250	

	After Reconstruction		Before Reconstruction	
Note 6. Other Current Assets	**As at 1st January, 2011**	**As at 1st January, 2010**	**As at 1st January, 2011**	**As at 1st January, 2010**
Other Current Assets	200		350	
Total	200		350	

Computation of Reserves and Surplus

(₹ in Crores)

Particulars	After Reconstruction ₹	Before Reconstruction ₹
A. Reserves and surplus	325	325
Less: Loss on reconstruction	200	-
	125	325

Note to Accounts: Consequent to reconstruction of the company and transfer of international divisions of Globetrotters Ltd. to newly incorporated Company Beautiful World Ltd.; the members of the company have been allotted 2.5 crore equity shares of ₹10 each at par of 'Beautiful World Ltd.;

Name of the Company: Beautiful World Ltd.
Balance Sheet as on January 01, 2011

(₹ in Crores)

Ref No.	Particulars		Note No.	As at 1st January, 2011	As at 1st January, 2010
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		Share capital	1	25	
		Reserves and surplus	2	175	
		Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		Long-term borrowings			
		Deferred tax liabilities (Net)			
		Other Long term liabilities			
		Long-term provisions			
	4	Current Liabilities			
		Short-term borrowings	3	50	
		Trade payables			
		Other current liabilities	4	100	
		Short-term provisions			

		Total		350	
	II.	Assets			
	1	Non-current assets			
		Fixed assets	5	200	
		Tangible assets			
		Intangible assets			
		Capital work-in-progress			
		Intangible assets under development			
		Non-current investments			
		Deferred tax assets (Net)			
		Long-term loans and advances			
		Other non-current assets			
	2	Current assets			
		Current investments			
		Inventories			
		Trade receivables			
		Cash and cash equivalents			
		Short-term loans and advances			
		Other current assets	6	150	
		Total		350	

Annexure

	₹	₹
Note 1. Share Capital	**As at 1st January, 2011**	**As at 1st January, 2010**
Share Capital 2.5 Equity shares of ₹ 10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	25	
Total	25	

Reconciliation for Equity Share Capital	**As at 1st January, 2011**		**As at 1st January, 2010**	
	No.	**Amount**	**No.**	**Amount**

		(₹)		(₹)
Opening Balance as on 1.01.2010	-	-	-	-
Add: Fresh Issue	2.5	25		
Less: Buy Back	-	-		
Total	2.5	25		

Note 2. Reserves and Surplus	**As at 1st January, 2011**	**As at 1st January, 2010**
Reserves and Surplus	175	
Total	175	

Note 3. Short term Borrowings	**As at 1st January, 2011**	**As at 1st January, 2010**
Secured Loans (to be payable within 1 year)	50	
Total	50	

Note 4. Other Current Liabilities	**As at 1st January, 2011**	**As at 1st January, 2010**
Current Liabilities	100	
Total	100	

Note 5. Tangible Assets	**As at 1st January, 2011**	**As at 1st January, 2010**
Fixed Assets	200	
Total	200	

Note 6. Other Current Assets	**As at 1st January, 2011**	**As at 1st January, 2010**
Current Assets	150	
Total	150	

A. Net Asset Value of an equity share

Particulars		
Globetrotters Ltd.	Pre – Demerger ₹350 Crores 2.5 Crore Share = ₹140	Post – Demerger ₹150 Crores 2.5 Crore Shares = ₹60
Beautiful World Ltd.		$\frac{\text{₹200 Crores}}{\text{2.5 Crore Shares}}$ = **₹80**

B. Demerger into two companies has no impact on 'net asset value' of shareholding. Pre-Demerger, it was ₹140 per share. After Demerger, it is ₹60 + ₹80 = ₹140 per original share.

It is only the yield valuation that is expected to changes because of separate focusing on two distinct business whereby profitability is likely to improve in account of de – merger.

Or,

(b) The following are the summarized Balance Sheet of AQ Ltd. and BQ Ltd.

Liabilities	AQ Ltd.	BQ Ltd.	Assets	AQ Ltd.	B QLtd.
Equity Share Capital A/c	64,000	56,000	Sundry assets	84,000	66,000
Profit and Loss A/c	10,000	—	Shares in BQ Ltd.	40,000	—
Creditors	30,000	12,000	Profit and Loss A/c	—	2,000
Loan - CQ Ltd.	20,000	—			
	1,24,000	68,000		1,24,000	68,000

Note : Loan from CQ Ltd. assumed to be of less than 12 months, hence treated as short terms borrowings (ignoring interest)

The whole of the shares of AQ Ltd. are held by CQ Ltd. and the entire Share capital of BQ Ltd. is held by AQ Ltd.

A new company PQ Ltd. is formed to acquire the sundry assets and liabilities of AQ Ltd. and BQ Ltd. For the purpose, the sundry assets of AQ Ltd. are revalued at ₹ 60,000 and those of BQ Ltd. at ₹ 40,000.

Show the journal entries and prepare necessary ledgers A/c to close the books of AQ Ltd. and BQ Ltd. [15]

Answer:

In the Books of AQ Ltd.

(₹)

	Particulars		Debit	Credit
1.	Realisation A/c	Dr.	1,24,000	
	To Sundry Assets A/c			84,000
	To Investment in BQ Ltd. A/c			40,000
	[Being sundry assets and shares in BQ Ltd. transferred to Realisation A/c on sale of business of AQ Ltd.]			
2.	Creditors A/c	Dr.	30,000	
	Loan (CQ Ltd.) A/c	Dr.	20,000	
	To Realisation A/c			50,000
	[Sundry creditors and loans transferred to Realisation A/c on sale of business to PQ Ltd.]			
3.	PQ Ltd. A/c	Dr.	10,000	
	To Realisation A/c			10,000
	[Amount of purchase consideration receivable from PQ Ltd.]			

4.	Shares in PQ Ltd. A/c	Dr.	10,000	
	To PQ Ltd. A/c			10,000
	[Amount of purchase consideration received as shares of BQ Ltd.]			
5.	Shares in PQ Ltd. A/c	Dr.	28,000	
	To Realisation A/c			28,000
	[Amount of shares in PQ Ltd. received against investment in PQ Ltd.]			
6.	Shareholders (AQ Ltd.) A/c	Dr.	36,000	
	To Realisation A/c			36,000
	[Loss on realisation transferred to Shareholders A/c]			
7.	Equity Share Capital A/c	Dr.	64,000	
	Profit and Loss A/c	Dr.	10,000	
	To Shareholders A/c			74,000
	[Balance of Share capital and Profit and Loss A/c transfer to Share holder A/c]			
8.	Shareholders (AQ Ltd.) A/c	Dr.	38,000	
	To Shares in PQ Ltd. A/c			38,000
	[Amount payable to shareholders discharged by issue of shares in PQ Ltd. (28,000+10,000)]			

In the Books of BQ Ltd.

	Particulars		Debit	Credit
1.	Realisation A/c	Dr.	66,000	
	To Sundry Assets A/c			66,000
	[Being Sundry Assets and Shares in BQ Ltd. transferred to Realisation account on sale of business to PQ Ltd.]			
2.	Creditors A/c	Dr.	12,000	
	To Realisation A/c			12,000
	[Sundry Creditor is transferred to Realisation A/c on sale of Business to PQ Ltd.]			
3.	PQ Ltd. A/c	Dr.	28,000	
	To Realisation A/c			28,000
	[Amount of purchase consideration receivable from PQ Ltd. on transfer sundry assets, creditor and Loan vide agreement dated.....]			
4.	Equity Share Capital A/c	Dr.	56,000	
	To Shareholders (AQ Ltd.) A/c			56,000

	[Being amount of Share capital transferred to Shareholder A/c]			
5.	Shareholders A/c	Dr.	28,000	
	To Realisation A/c			26,000
	To Profit and Loss A/c			2,000
	[Loss on realisation and Profit and Loss A/c debit balance transferred to Share holders A/c]			
6.	Shares in PQ Ltd. A/c	Dr.	28,000	
	To PQ Ltd. A/c			28,000
	[Amount of purchase consideration received in shares of PQ Ltd.]			
7.	Shareholders (AQ Ltd.) A/c	Dr.	28,000	
	To Shares in PQ Ltd.			28,000
	[Amount payable to shareholders discharged by issue of shares in PQ Ltd.]			

WN # 1 : *Calculation of Purchase Consideration (Net Assets Method)*

Particulars	AQ Ltd.	BQ Ltd.
Value of net assets	60,000	40,000
Creditors	(30,000)	(12,000)
Loans from CQ Ltd.	(20,000)	—
Purchase Consideration	**10,000**	**28,000**

In the Books of BQ Ltd. :

Realisation Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Sundry Assets	66,000	By Creditors A/c	12,000
		By PQ Ltd. (Purchase Consideration)	28,000
		By Shareholders (AQ Ltd.) A/c	26,000
		(Loss on Realisation)	
	66,000		**66,000**

Shareholders (AQ Ltd.) Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Realisation A/c	26,000	By Share Capital A/c	56,000
To Profit and Loss A/c	2,000		
To Shares in PQ Ltd. A/c	28,000		
	56,000		**56,000**

In the Books of AQ Ltd. :

Realisation Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Sundry Assets	84,000	By Creditors A/c	30,000
To Investments in BQ Ltd.	40,000	By Loan (CQ Ltd.)	20,000
		By PQ Ltd. (Purchase consideration)	10,000
		By Shares in PQ Ltd.	28,000
		By Shareholders A/c (Loss on Realisation)	36,000
	1,24,000		**1,24,000**

Sundry Shareholders (AQ Ltd.) Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Realisation A/c	36,000	By Share capital A/c	64,000
To Shares in PQ Ltd. (28,000 from BQ Ltd. 10,000 from PQ Ltd.)	38,000	By Profit and Loss A/c	10,000
	74,000		**74,000**

4.(a) K Ltd. furnishes you with the following Balance Sheet as at 31st March, 2012:

		(₹ in Crores)
Sources of Funds		
Share capital :		
Authorised		**200**
Issued:		
12% redeemable preference shares of ₹ 100 each fully paid	**150**	
Equity shares of ₹ 10 each fully paid	**50**	**200**
Reserves and surplus		
Capital Reserve	**30**	
Securities Premium	**50**	
Revenue Reserves	**520**	**600**
		800
Funds employed in:		
Fixed assets (Tangible) : cost	**200**	
Less: Provision for depreciation	**200**	**nil**

Investments at cost (Market value ₹ 800 Cr.)		**200**
Current assets	**680**	
Less : Current liabilities	**80**	**600**
		800

The company redeemed preference shares on 1st April 2012. It also bought back 100 lakh equity shares of ₹ 10 each at ₹ 50 share. The payments for the above were made out of the huge bank balances, which appeared as a part of Current assets.

You are asked to :

i. Pass journal entries to record the above.

ii. Value equity share on net asset basis. [10]

Answer:

Part I - Journal entries in the books of K Ltd.

(**₹ in Crore**)

Particulars		*Debit*	*Credit*
a. Redemption of Preference Shares on 1st April 2012			
i. Due Entry			
12% Preference Share Capital A/c	Dr.	150	
To Preference Share Hodlers A/c			150
ii. Payment Entry			
Preference Shareholders A/c	Dr.	150	
To Bank A/c			150
b. Shares bought back			
i. On buy back			
Shares bought back A/c	Dr.	50	
To Bank A/c			50
(100 lakhs shares × ₹ 50 per share)			
ii. On Cancellation			
Equity Share capital A/c (100 Lakhs × ₹ 10)	Dr.	10	
Securities premium A/c (100 Lakhs × ₹ 40)	Dr.	40	
To Shares bought back A/c			50
iii. Transfer to Capital Redemption Reserve			
Revenue reserve A/c	Dr.	160	
To Capital Redemption Reserve A/c			160
(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			

Part - III - Net Asset Value of Equity Shares

(₹ in Crores)

Particulars			*Amount*	*Amount*
a.	i.	Fixed assets	Nil	
	ii.	Investments (at market value)	800	
	iii.	Current assets	480	1,280
b.	Less : Current liabilities			(80)
	Net assets available for equity share holders			1,200
c.	No. of equity shares outstanding (in lakhs)			4
d.	Value per equity share of ₹ 10 each = (1,200÷4)			₹ 300

Or,

(b) The following are the Balance sheets of Tufan Ltd. and Tuhin Ltd. for the year ending on 31st March, 2012.

(₹ in Crores)

	Tufan Ltd.	**Tuhin Ltd.**
Equity Share capital. @ ₹ 10 each	**100**	**80**
Preference Share capital - in 12% preference shares of ₹ 100 each	**–**	**120**
Reserves and surplus	**400**	**300**
	500	**500**
Loan - Secured	**200**	**200**
Total	**700**	**700**
Fixed assets (at cost less depreciation) - Tangible	**300**	**300**
Current assets less Current liabilities	**400**	**400**
Total	**700**	**700**

Note : Secured Loan to repayable within 12 months.

The present worth of Fixed assets of Tufan Ltd. is ₹ 400 crores and that of Tuhin Ltd. is ₹ 858 crores.

Goodwill of Tufan Ltd. is ₹ 80 crores and of Tuhin Ltd. is 150 crores.

Tuhin Ltd. absorbs Tufan Ltd. by issuing equity shares at par in such a way that intrinsic networth is maintained.

Goodwill account is not to appear in the books. Fixed assets are to appear at old figures

(i) Draft a statement of valuation of shares on intrinsic value basis and prove the accuracy of your workings; and

(ii) Journal entries in the books of Tuhin Ltd. [10]

Answer:

Purchase consideration

Intrinsic Value of Equity Shares

(₹ in Crores)

	Particulars	Tufan Ltd.	Tuhin Ltd.
a)	**Assets :**		
	i. Goodwill	80	150
	ii. Fixed assets	400	858
	iii. Current asset less Current liabilities	400	400
		880	1,408
b)	**Liabilities**		
	i. Secured Loans	(200)	(200)
	ii. 12% Preference Share capital	-	(120)
c)	Net Assets attributable to Equity shareholders	680	1,088
d)	Number of Shares (in Crores)	10	8
e)	Value per share of ₹ 10 each	₹ 68	₹ 136

Determination of Exchange Ratio and the number of shares to be issued

Exchange Ratio is based on intrinsic value per share of the companies

		Tufan Ltd.	:	Tuhin Ltd.
i.	Intrinsic value	₹ 68	:	₹ 136
ii.	Exchange ratio	1	:	2

1 share of Tuhin Ltd. for 2 shares of TufanLtd.

Therefore, Number of shares to be issued = Number of shares of Tufan Ltd. × %
= 10 crores × 50% (i.e. ratio is 1:2 =50%)
= 5 crores

Journal Entries in the books of Tuhin Ltd.

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

(₹ in Crores)

	Particulars		*Debit* ₹	*Credit* ₹
1.	For Business Purchase			
	Business Purchase A/c	Dr.	50	
	To Liquidator of Tufan Ltd.			50
2.	For assets and liabilities taken over :			
	Fixed Assets A/c	Dr.	300	
	Net Current Assets A/c	Dr.	400	
	To Secured Loans A/c			200
	To Capital Reserve A/c			450
	To Business Purchase A/c			50

3.	For Discahrge of Purchase Consideration :			
	Liquidator of Tufan Ltd. A/c	Dr.	50	
	To Equity Share Capital A/c			50

Statement to prove the accuracy of workings

		(₹ in Crores)
(i)	Equity Share capital (after absorption)	130
	Add: Reserves Surplus (after absorption)	750
	Add: Unrecorded value of goodwill (80+150)	230
	Add: Unrecorded incremental value of Fixed assets (100+558)	658
	Value of the Business	1,768
(ii)	Number of Equity shares (8 + 5)	13 Crores
(iii)	Intrinsic value of an equity share (₹1,768/13)	₹ 136

5.(a) On 31st March, 2011 BA Ltd. became the holding company of CA Ltd. and DA Ltd. by acquiring 1,800 lakhs fully paid shares in CA Ltd. for ₹ 27,000 lakhs and 960 lakhs fully paid shares in DA Ltd. for ₹ 8,640 lakhs. On that date, CA Ltd. showed a balance of ₹ 10,200 lakhs in General Reserve and a credit balance of ₹ 3,600 lakhs in Profit and Loss Account. On the same date, DA Ltd. showed a debit balance of ₹ 1,440 lakhs in Profit and Loss Account. While its Preliminary Expenses Account showed a balance of ₹ 120 lakhs.

After one year, on 31st March, 2012 the Balance Sheets of three companies stood as follows:

			(₹ in lakhs)
Liabilities	**BA Ltd.**	**CA Ltd.**	**DA Ltd.**
Fully paid equity shares of ₹ 10 each	**1,08,000**	**30,000**	**12,000**
General Reserve	**1,32,000**	**12,600**	**-**
Profit and Loss Account	**36,000**	**4,800**	**3,000**
60 lakh fully paid 9.5%			
Debentures of ₹ 100 each	**-**	**-**	**6,000**
Loan from CA Ltd.	**-**	**-**	**300**
Bills Payable	**-**	**-**	**600**
Sundry Creditors	**56,400**	**10,800**	**3,720**
	3,32,400	**58,200**	**25,620**
Assets			
Machinery	**1,56,000**	**30,000**	**8,400**
Furniture and Fixtures	**24,000**	**6,000**	**2,400**
Investments:			

1,800 lakhs shares in CA Ltd.	27,000	-	-
960 lakhs shares in DA Ltd.	8,640	-	-
12 lakhs debentures in DA Ltd.	1,176	-	-
Stocks	66,000	12,000	6,000
Sundry Debtors	36,000	5,400	5,160
Cash and Bank balances	12,804	4,200	3,600
Loan to DA Ltd.	-	360	-
Bills Receivable	780	240	-
Preliminary Expenses	-	-	60
	3,32,400	58,200	25,620

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

(i) All the bills payable appearing in DA Ltd.'s Balance Sheet were accepted in favour of CA Ltd. out of which bills amounting to ₹ 300 lakhs were endorsed by CA Ltd. in favour of BA Ltd. and bills amounting to ₹ 180 lakhs had been discounted by CA Ltd. with its bank.

(ii) On 29th March, 2012 DA Ltd. remitted ₹ 60 lakhs by means of a cheque to CA Ltd. to return part of the loan; CA Ltd. received the cheque only after 31st March, 2012.

(iii) Stocks with CA Ltd. includes goods purchased from BA Ltd. for ₹ 800 lakhs. BA Ltd. invoiced the goods at cost plus 25%.

(iv) In August, 2011 CA Ltd. declared and distributed dividend @ 10% for the year ended 31st March, 2011. BA Ltd. credited the dividend received to its Profit and Loss Account.

You are required to prepare a Consolidated Balance Sheet of BA Ltd. and its subsidiaries CA Ltd. and DA Ltd. as at 31st March, 2012. [15]

Answer:

Consolidated Balance Sheet of BA Ltd. and its subsidiaries CA Ltd. and DA Ltd. as at 31st March, 2012

₹ In Lakhs

Ref No.		Particulars	Note No.	As at 31st March,2012	As at 31st March,2011
	1	**EQUITY AND LIABILITIES**			
		(a) Share capital	1	1,08,000	
		(b) Reserves and surplus	2	1,73,600	
		(c) Money received against share warrants			
	2	**Minority Interest (W.N.2)**		21,948	
	3	**Share application money pending allotment**			
	4	**Non-current liabilities**			

		(a) Long-term borrowings	3	4,800	
		(b)Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	5	**Current Liabilities**			
		(a) Short-term borrowings			
		(b) Trade payables	4	70,920	
		(c)Other current liabilities	5	180	
		(d) Short-term provisions			
		Total (1+2+3+4+5)		**3,79,448**	
	II	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	6	2,26,800	
		(ii) Intangible assets	7	984	
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(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	8	83,840	
		(c) trade receivables	9	46,560	
		(d) Cash and cash equivalents	10	20,664	
		(e)Short-term loans and advances			
		(f) Other current assets	11	600	
		Total (1+2)		**3,79,448**	

₹ In lakhs

Note 1. Share Capital	**As at 31st March,2012**	**As at 31st March,2011**
Authorized, Issued, Subscribed and fully paid-up Share capital:-		
5400 Lakhs Equity share of ₹10 each	1,08,000	
	1,08,000	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	**As at 31st March,2012**		**As at 31st March,2011**	
	Nos.	**Amount(₹)**	**Nos.**	**Amount(₹)**
Opening Balance as on 01.04.11	10,800	1,08,000		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)				
	10,800	1,08,000		
Less: Buy Back of share				
Total	10,800	1,08,000		

Note 2. Reserve & Surplus	**As at 31st March,2012**	**As at 31st March,2011**
General Reserve (WN.4)	1,33,440	
Profit & Loss A/c (WN.4)	40,160	
Total	1,73,600	

Note 3. Long- term borrowings	**As at 31st March,2012**	**As at 31st March,2011**
9.5% Debentures	4,800	
Total	4,800	

Note 4. Trade Payables	**As at 31st March,2012**	**As at 31st March,2011**
Sundry Creditors (56,400+10,800+3,720)	70,920	
Total	70,920	

Note 5. Other Current liabilities	As at 31st March,2012	As at 31st March,2011
Bills Payable	180	
Total	180	

Note 6. Tangible Assets	As at 31st March,2012	As at 31st March,2011
Machinery	1,94,400	
Furniture & Fixture	32,400	
Total	2,26,800	

Note 7.Intangible assets	As at 31st March,2012	As at 31st March,2011
Goodwill (WN.3)	984	
Total	984	

Note 8. Inventories	As at 31st March,2012	As at 31st March,2011
Stock	84,000	
Less: unrealized profit	160	
Total	83,840	

Note 9.Trade Receivables	As at 31st March,2012	As at 31st March,2011
Debtors (more than six months considered good) – (36,000+5,400+5,160)	46,560	
Total	46,560	

Note 10. Cash and cash equivalents	As at 31st March,2012	As at 31st March,2011
Cash and bank	20,604	
Cash-in-transit	60	

Total	20,664	

Note 11.Other current assets	**As at 31st March,2012**	**As at 31st March,2011**
Bills receivables	1,020	
Less: mutual debts(WN.5)	420	
Total	600	

Working Notes:

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

				(₹ in lakhs)
		Pre-acquisition capital profit	Post-acquisition	
			General Reserve	Profit/Loss A/c
CA Ltd.				
General Reserve (Cr.)		10,200	2,400	
Profit and Loss A/c (Cr.)	3,600			
(-) Dividend	3,000	600		4,200
		10,800	2,400	4,200
Holding (60%)		6,480	1,440	2,520
Subsidiary (40%)		4,320	960	1,680

			(₹ in lakhs)
	Pre-acquisition capital profit	Post-acquisition	
		Preliminary expenses	Profit / Loss A/c
DA Ltd.			
Profit and Loss A/c (Cr.)	(1,440)		4,440
Preliminary expenses (Dr.)	(120)	60	
	(1,560)	60	4,440
Holding (80%)	(1,248)	48	3,552

Subsidiary (20%)	(312)	12	888

(ii) Minority Interest (₹ in lakhs)

CA Ltd.				
Share capital			12,000	
Capital profit		4,320		
Revenue General Reserve		960		
Profit/Loss		1,680	6,960	18,960
DA Ltd.				
Share capital			2,400	
Capital profit		(312)		
Revenue profit (Cr.)	888			
Add: Preliminary expenses written off	12	900	588	2,988
				21,948

(iii) Cost of Control (₹ in lakhs)

CA Ltd.			
Investment	27,000		
Less: Dividend received and wrongly credited to Profit and Loss	1,800	25,200	
Less: Paid-up share capital (60%)	18,000		
Capital profit	6,480	24,480	720
Dee Ltd.			
Investment in Shares	8,640		
in debentures	1,176	9,816	
Less: Paid-up share capital (80%)	9,600		
Nominal value of debentures	1,200		
Capital profit	(1,248)	9,552	264
Goodwill			984

(iv) Consolidated General Reserve and Profit and Loss Account (₹ in Lakhs)

	General Reserve ₹	Profit and Loss A/c ₹
BA Ltd.	1,32,000	36,000
Less: Wrong dividend credited	-	1,800
	1,32,000	34,200
CA Ltd.	1,440	2,520
DA Ltd. (3,552 + 48)	-	3,600
	1,33,440	40,320
Less: Unrealised profit on stock	-	160
	1,33,440	40,160

(v) Mutual owing regarding bills = ₹ (600 – 180) lakhs = ₹ 420 lakhs.

(vi) Unrealised profit

$$= 800x \frac{25}{125} \text{Lakhs}$$

= ₹ 160 lakhs

(vii) Amount of dividend wrongly credited to Profit and Loss A/c
= 60% of ₹ 3,000 lakhs = ₹1,800 lakhs.

Or,

(b) Following are the Balance Sheets of Veer Ltd. and Virat Ltd. as at 31.03.2012 -

Liabilities	**Veer Ltd. ₹**	**Viral Ltd. ₹**	**Assets**	**Veet Ltd. ₹**	**Virat Ltd. ₹**
Equity Share Capital of ₹ 100	**3,00,000**	**50,000**	**Land & Building**	**1,00,000**	**50,000**
each fully paid			**Machinery**	**1,40,000**	**25,000**
General Reserve	**25,000**	**15,000**	**350 Shares in Virat Ltd.**	**50,000**	**–**
Profit & Loss Account	**40,000**	**20,000**	**Stock in Trade**	**35,000**	**20,000**
Sundry Creditors	**50,000**	**20,000**	**Debtors**	**75,000**	**10,000**
Bills Payable	**15,000**	**22,500**	**Bills Receivable**	**15,000**	**–**
			Cash at Bank	**15,000**	**22,500**
Total	**8,60,000**	**2,55,000**	**Total**	**8,60,000**	**2,55,000**

Prepare Consolidated Balance Sheet as at 31st March, 2012 and give proper working notes required for the Consolidated Balance Sheet, from the following additional Information -

(i) All the Bills Receivable of Veer Ltd. including those discounted were accepted by Virat Ltd.

(ii) When Veer Ltd. had acquired 300 Shares in Virat Ltd., the latter had ₹ 10,000 in General Reserve and ₹ 2,500 Credit Balance in Profit and Loss Account.

(iii) At the time of acquisition of further 50 Shares by Virat Ltd., the latter had ₹ 12,500 General Reserve and ₹ 14,000 Credit Balance in Profit and Loss Account, from which 20% dividend was paid by Virat Ltd.

(iv) The dividends received by Veer Ltd. on these shares were credited to Profit & Loss Account.

(v) Stock of Virat Ltd. includes goods valued at ₹ 10,000 purchased from Veer Ltd. which has made 25% profit on cost.

(vi) For the financial year ending 31.03.2012, Veer Ltd. had proposed a dividend of 10% and Virat Ltd. has proposed a dividend of 15%, but no effect has yet been given in the above Balance Sheets. [15]

Answer:

1. Basic Information

Company Status	Date of Acquisition	Holding Status
Holding Company = Veer Ltd. Subsidiary = Virat Ltd.	Lot 1 = 300 Shares = DOA - 1 Lot 2 = 50 Shares = DOA - 2	Holding Company = 70% Minority Interest = 30%

Date of Consolidation = 31.03.2012

2. Analysis of Reserves & Surplus of Virat Ltd.

(a) General Reserve as per B/S = ₹ 15,000

As on DOA-1 (Lot 1 date) ₹ 10,000 **Capital**	For the period DOA-1 to DOA-2 (Lot 2 date) ₹ 12,500 - ₹ 10,000 = ₹ 2,500 For 300 Shares (Lot 1): **Revenue** For 50 Shares (Lot 2): **Capital**	From DOA-2 to B/s Date (upto Consolidation) ₹ 2,500) (bal. figure) **Revenue**

Total Capital Profits = ₹ 10,000; Total Revenue Reserves = ₹ 5,000 **(See Note)**

Note: Addition to Reserves of ₹2,500 between DOA-1 and DOA-2 have been considered as Revenue Reserves in full, only for the purpose of determining the share of Minority Interest. After allocating for Minority Interest, the revenue portion of ₹ 250 (i.e. 10% Shares x ₹ 2,500) will be added to Capital Profits.

(b) Profit & Loss Account

	P & L A/c Balance as per B/S	= ₹ 20,000
Less:	Proposed Dividend = 50,000 x 15%	= ₹ 7,500
	Adjusted Balance of Virat Ltd.'s Profits	= ₹ 12,500

As on DOA-1 (Lot 1 date) ₹ 2,500 **Capital**	For the period DOA-1 to DOA-2 (Lot 2 date) ₹ 14,000 - ₹ 2,500 = ₹ 11,500 **Less:** Dividend out of this = ₹ 10,000 Net Balance = **₹ 1,500** For 300 Shares (Lot 1): **Revenue** For 50 Shares (Lot 2): **Capital**	From DOA-2 to B/s Date (upto Consolidation) ₹ **8,500** (bal. figure) **Revenue**

Total Capital Profits = ₹ 2,500; Total Revenue Reserves = ₹ 10,000 **(See Note)**

Note: Addition to P&L A/c ₹1,500 between DOA-1 and DOA-2 have been fully considered as Revenue only for the purpose of determining the share of Minority Interest. After allocating for minority Interest, the revenue portion of ₹ 150 (i.e. 10% Shares x ₹ 1,500) will be added to Capital Profits.

3. Analysis of Net Worth of Virat Ltd.

Particulars	Total ₹	Veer Ltd. ₹	Minority ₹
% of share Holding on Consolidation Date	**100%**	**70%**	**30%**
(a) Equity Share Capital	**50,000**	**35,000**	**15,000**
(b) **Capital Profits:** General Reserve	10,000		
Profit & Loss A/c	2,500		
	12,500	**8,750**	**3,750**
Add: Capital Items [Reserve ₹2,500+P&L A/c ₹1,500]×10%		400	
Net Share in Capital Profit		**9,150**	
(c) Revenue Reserves: General Reserve	**5,000**	**3,500**	**1,500**
Less: Capital Item included in Revenue [₹2,500×10%]		(250)	
Net Share in Revenue Reserves		**3,250**	
(d) Revenue Profits: Profit & Loss A/c	**10,000**	**7,000**	**3,000**
Less: Capital Item included in Revenue[₹1,500×10%]		(300)	
Net Share in Revenue Profit		**6,700**	
(e) Proposed Dividend	**7,500**	**5,250**	**2,250**
Minority Interest			**25,500**

4. Cost of Control

	Particulars		₹
	Cost of Investment in Equity Shares of Virat Ltd.		50,000
Less:	Dividend out of Pre-acquisition profits of Virat Ltd. (Only for Lot 2 - 50 Shares) - (₹ 5,000 x 20%)		1,000
	Adjusted Cost of Investment		49,000
Less:	(1) Nominal Value of Equity Capital	35,000	
	(2) Share in Capital Profit of Virat Ltd.	9,150	44,150
	Goodwill on Consolidation		**4,850**

5. Consolidation of Reserves & Surplus

	Particulars		Gen. Res ₹	P&L A/c ₹
	Balance as per Balance Sheet of Veer Ltd.		25,000	40,000
Less:	Dividend out of Pre-acquisition Profits	(₹ 10,000 x 10%)	–	(1,000)
Less:	Proposed Dividend	(₹ 3,00,000 x 10%)	–	(30,000)
Add:	Share of Dividend from Virat Ltd.	(₹ 7,500 x 70%)	–	5,250
	Adjusted Balance		**25,000**	**14,250**
Add:	Share of Revenue Profits/Reserves of Virat Ltd.		3,250	6,850

	Consolidated Balance	**28,250**	21,100
Less:	Unrealised Profits on Closing Stock ₹ 10,000 x 25 / 125	–	(2,000)
	Adjusted Consolidated Balance	**28,250**	**19,100**

Name of the Company: G Ltd. And its subsidiary Veer Ltd.
Consolidated Balance Sheet as at 31st , March 2012

Ref No.	Particulars		Note No.	As at 31st March, 2012	As at 31st March, 2011
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital @ ₹ 10 each	1	3,00,000	-
		(b) Reserves and surplus	2	47,350	-
		(c) Money received against share warrants		-	-
				3,47,350	-
	2	**Minority Interest**		25,500	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings		-	-
		(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	70,000	-
		(c) Other current liabilities	4	22,500	-
		(d) Short-term provisions	5	30,000	-
				1,22,500	-
		TOTAL (1+2+3+4)		4,95,350	-
	B	**ASSETS**			

Ref No.	Particulars		Note No.	As at 31st March, 2012	As at 31st March, 2011
				₹	₹
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	6	3,15,000	-
		(ii) Intangible assets (goodwill)	7	4,850	-
		(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		-	-
				3,19,850	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories	8	53,000	-
		(c) Trade receivables	9	85,000	-
		(d) Cash and cash equivalents	10	37,500	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets		-	-
				1,75,500	-
		TOTAL (1+2)		4,95,350	-

Annexure

Note1. Share Capital	As at 31st March, 2012	As at 31st March, 2011
Authorised Capital		
Issued and Paid up Capital	3,00,000	
Total	3,00,000	

Note 2. Reserve and Surplus	**As at 31st March, 2012**	**As at 31st March, 2011**
General Reserve	28,250	
Profit & Loss A/c	19,100	
Total	47,350	

Note 3. Trade Payables	**As at 31st March, 2012**	**As at 31st March, 2011**
Creditors (50,000+20,000)	70,000	
Total	70,000	

Note 4. Other Current Liabilities	**As at 31st March, 2012**	**As at 31st March, 2011**
Bills Payable ₹(15,000+22,500)Less: Mutual Indebtedness ₹15,000	22,500	
Total	22,500	

Note 5. Short Term Provision	**As at 31st March, 2012**	**As at 31st March, 2011**
Proposed Dividend	30,000	
Total	30,000	

Note 6. Tangible Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Land and Buildings	1,50,000	
Plant & Machinery	1,65,000	
Total	3,15,000	

Note 7. Intangible Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Goodwill	4,850	
Total	4,850	

Note 8. Inventories	**As at 31st March, 2012**	**As at 31st March, 2011**
Stock [35,000+20,000]-2,000	53,000	
Total	53,000	

Note 9. Trade Receivable	**As at 31st March, 2012**	**As at 31st March, 2011**
Debtors (75,000+10,000)	85,000	
Total	85,000	

Note 10. Cash and Cash equivalent	**As at 31st March, 2012**	**As at 31st March, 2011**
Cash at Bank [15,000+22,500]	37,500	
Total	37,500	

Note 11. Other Current Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Bills Receivable (15,000-15,000)	NIL	
Total	NIL	

6. (a) (i) Mayank buys the following Equity Index option and the seller/writer of this option is Shiva :

- **Date of buy** — **28th March, 2010**
- **Type of options** — **S&P CNX NIFTY-call**
- **Expiry date** — **31st May, 2010**
- **Premium per Unit** — **₹ 21**
- **Contract Multiplier (No. of units)** — **2,500**
- **Margin per unit** — **₹180**
- **Strike price** — **₹920**

Margin calculated by SPAN is as follows:
On, 29.03.2010 is ₹5,00,000; On 30.03.2010 is ₹3,50,000; On 31.03.2010 is ₹4,10,000;
On 31.03.2010, the prevailing Premium Rate for the above option is ₹16 per unit.
Give the accounting treatment in the books of both the parties.

[9]

Answer:

Books of Mayank (Buyer/Holder) :

Dr. Cr.

I. Journal Entries :

Date	Particulars	Debit (₹)	Credit (₹)
28.3.10	Equity Stock Option Premium A/c Dr. To Bank A/c (Being Premium paid @ ₹ 21 per Unit for 2500 Units)	52,500	 52,500
31.3.10	Profit and Loss A/c Dr. To Provision for Loss on Equity Stock Option A/c (Being Provision made for Loss on Equity Stock Option A/c to the extent of ₹ 5 per Uni [₹ 21 – ₹ 16] for 2,500 Units)	12,500	 12,500

II. Extract of Balance Sheet of Mayank as on 31st March, 2010.

Liabilities	₹	Assets	₹	₹
		Current Assets, Loans & Advances:		
		Equity Index Option Premium	52,500	
		Less : Provision for Loss	12,500	40,000

Books of Shiva (Seller/Writer)

I. Journal Entries :

Date	Particulars	Debit (₹)	Credit (₹)
28.03.10	**Bank A/c Dr.** To Equity Stock Option Premium A/c (Premium received ₹ 21 on 2500 units on Sale of Stock option)	52,500	 52,500
28.03.10	Equity Index Option Margin A/c Dr. To Bank A/c (Initial margin paid on option contract at ₹ 180/- per Unit for 2500 Units)	4,50,000	 4,50,000
29.03.10	Equity Index option Margin A/c Dr. To Bank A/c (Further margin collected by the Stock Exchange as per SPAN i.e. ₹ 5,00,000 – ₹ 4,50,000)	50,000	 50,000
30.3.10	Bank A/c Dr. To, To Equity Index Option Margin A/c (Excess margin received as per SPAN i.e. ₹ 5,00,000 – ₹ 3,50,000)	1,50,000	 1,50,000
31.3.10	Equity Index Option Margin A/c Dr. To Bank A/c (Further margin collection by the Stock Exchange as per SPAN (₹ 4,10,000–₹ 3,50,000)	60,000	 60,000

As per AS – 30 Profit on Option (margin money) as on the reporting date should be ignored

II. Extract Balance Sheet of Shiva as on 31.3.2010 :

Liabilities	**₹**	**Assets**	**₹**
Current Liabilities & Provisions :		Current Assets :	
Equity Stock Option Premium	52,500	Equity Index Option Margin	4,10,000

(ii) The following information has been extracted from the Annual Report 2011-12 of STTERAZE LTD.

Balance Sheet as on March 31st

	2011	2012
Sources of Fund:		
Shareholders' Funds	350	350
Reserve and Surplus	13,250	17,450
Secured Loans	-	-
Total	13,600	17,800
Application of Fund:		
Fixed Assets (Gross Block)	4,500	5,750
Less: depreciation	1,800	2,050
Net Block	2,700	3,700
Capital Work-in-Progress	3,900	4,220
Investments	880	950
Deferred	105	120
Current Assets, Loans and Advances:		
Sundry debtors	3,050	3,400
Cash and Bank	6,500	9,000
Loans & Advances	2,700	3,100
	12,250	15,500
Less: Current liabilities & Provisions:		
Liabilities	1,135	1,240
Provisions	2,400	1,750
	3,535	2,990
Net Current Assets	8,715	12,510
Total	13,600	17,800

Profit and Loss Account for the year ended on March 31st

	2011	2012
Income:		
Sales and Operational Income	15,600	20,250
Other Income	680	510
Total	16,280	20,760
Expenditure		
Product Development expenses	8,800	11,100
Gross Profit	7,480	9,660
General and Administrative expenses	1,620	1,730
Selling and Marketing expenses	730	920
Profit before Interest and taxes	5,130	7,010
Interest	-	-
Profit after Interest and taxes	5,130	7,010
Provision for taxes	650	910
Profit after taxes	4,480	6,100

Other information is available from the Annual Report for 2011-2012.

- Beta variant	**1.20**
- Return on Risk free Investment	**8%**
- Equity risk Premium	**7.5%**

Required:
Calculate the Economic value Added of SITERAZE LTD. for the year 2011-12. **[6]**

Answer:

SITERAZE LTD.

I. Calculation of Capital Employed :

	(₹ in Million) 2011	2012
Share Capital	350	350
Reserves and Surplus	13,250	17,450
Less : Deferred tax Assets	(105)	(120)
Total	13,495	17,680
Average Capital Employed : (13495 + 17680)/2	₹ 15,587.50 Million	

II. Cost of equity of Siteraze Ltd :

$$8\% + 1.20 \times 7.5\% = 17\%$$

Since there is no debt in the Balance Sheet, WACC for Siteraze Ltd will be 17%.

CALCULATION OF ECONOMIC VALUE ADDED (EVA)

FOR THE YEAR 2009-10	(₹ in Million)
Profit before Interest and Taxes	7010
Less : Other Income	510
Operating Profit before Taxes	6500
Less : Taxes	910
Net Operating Profit after Taxes (NOPAT)	5590
Less : Cost of Capital (15587.5 × 0.17)	2650 (rounded off)
Economic Value Added (EVA)	2940

Or,

(b) (i) Discuss the process of Triple Bottom Line Reporting. **[8]**

Answer:

The major steps involved in undertaking the reporting process are:

1. Planning for Reporting

• Understand the national, international and industry sector trends in Triple Bottom Line Reporting (TBL) reporting

• Identify key stakeholders

• Establish the 'business case' and set high-level objectives for TBL reporting

• Secure support from the Board and senior executives

• Identify resource requirements and determine budget

2. Setting the Direction for TBL Reporting

• Engage with stakeholders to understand their requirements

• Prioritise stakeholder requirements and concerns

• Set overall objectives for TBL reporting

• Review current approach and assess capability to deliver on reporting objectives

• Identify gaps and barriers associated with current approach, and prioritise risks associated with overall reporting objective

• Review of associated legal implications

• Develop TBL reporting strategy

• Determine performance indicators for inclusion in report

• Establish appropriate structure and content of the report

3. Implementation of TBL Reporting Strategy

• Implementation of TBL reporting strategy (including required data collection and review processes)

• Clarify relationship to statutory financial reporting

4. Publication of TBL Report

• Prepare draft report

• Review content and structure of report internally, and modify accordingly

• Obtain independent assurance - external verification

• Publish TBL report

• Seek feedback from stakeholders and incorporate into planning for the next period's reporting.

(ii) **Life of Debenture = 5 years**
Face Value = ₹100 lacs
Interest rate = 14%
Maturity value = ₹ 100 lacs.
Yield = 10%

Conversion option to holder at the end of 3 years. Consideration - ₹132 lacs.
Give required accounting treatments taking the debenture as an embedded derivative instrument. [7]

Answer:

Fair value of debt = ₹14 x 3.791 + ₹100 x 0.621
= ₹53.07 + ₹62.10
= ₹115.17

Now, the total consideration will be divided in two parts
Liability = ₹115.17 issuer prospective
Equity = ₹16.83

Date	Particular		Debit ₹	Credit ₹
31.03.2012	Bank A/c	Dr.	132	

	To, To Liability To, Equity (security premium)		115.17 16.83
	In the Books of Investors		
	Investment in debt A/c Dr. Investment in Derivative A/c Dr. To Bank A/c	115.17 16.83	 132

7. (a) (i) Write a note on Sustainability Reporting. [4]

Answer:

A sustainability report is an organizational report that gives information about economic, environmental, social and governance performance.
An increasing number of companies and organizations want to make their operations sustainable. Establishing a sustainability reporting process helps them to set goals, measure performance, and manage change. A sustainability report is the key platform for communicating positive and negative sustainability impacts.
To produce a regular sustainability report, organizations set up a reporting cycle – a program of data collection, communication, and responses. This means that their sustainability performance is monitored on an ongoing basis. Data can be provided regularly to senior decision makers to shape company strategy and policy, and improve performance.
Sustainability reporting is therefore a vital step for managing change towards a sustainable global economy – one that combines long term profitability with social justice and environmental care Sustainability reporting can be considered as synonymous with other terms for non-financial reporting; triple bottom line reporting, corporate social responsibility (CSR) reporting, and more. It is also an intrinsic element of integrated reporting; a recent development that combines the analysis of financial and non-financial performance.
A sustainability report enables companies and organizations to report sustainability information in a way that is similar to financial reporting, which gives comparable data, with agreed disclosures and metrics.

(ii) State the disclosures to be made as per AS 24 (Discontinuing Operations). [6]

Answer:

Disclosures required to be made as per AS 24 are as follows:

INITIAL DISCLOSURE EVENT

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

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

PRESENTATION AND DISCLOSURE

• Initial disclosure: First disclosure after initial disclosure event occurs about the discontinuing operations.
Description of the discontinuing operation.
Business or geographical segments in which it is reported.
Date and nature of initial disclosure event.
Timing of expected completion of discontinuance.
Carrying amount of total assets and liabilities to be disposed of.
Amount of revenue and expense attributable to discontinuing operation.
Amount of pre-tax profit or loss and tax expense attributable to discontinuing operation.
Net cash flows after initial disclosure event occurs about the discontinuing operations.
Other disclosure:
When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation, the following other informations are also disclosed.
- Amount of gain or loss recognized on the disposal of assets or settlement of liabilities and related income-tax.
- Net selling price from the sale of those net assets for which the enterprise has entered into binding sale agreements and the expected timing thereof and carrying amount of those assets.

MANNER OF DISCLOSURE

The disclosure of amount of pre-tax profit or loss and tax expense and amount of gain or loss recognized on the disposal of assets and settlement of liabilities should be disclosed on the face of statement of profit/loss accounts, other information should be disclosed in the notes to accounts.

UPDATING THE DISCLOSURE

The disclosure required for discontinuing operation should continue in financial statements for the period up to and including the period in which the discontinuance is completed, the disclosure required should be updated.

Or,

(b) (i) A factory started it activities on 1st April, 2012. From the following data, compute the value of closing stock on 30th April, 2012.

- **Raw Materials purchased during April - 40,000 kg at ₹24 (out of which Excise Duty = ₹ 4 per kg). Stock on hand as on 30th April – 2,500 kg.**
- **Production during April – 7,000 units (of which 5,000 units were sold). In addition to the production, 500 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).**
- **Wages and Production Overheads - ₹60**
- **Selling Price - ₹ 220 per unit (of which Excise Duty is ₹20 per unit).** **[5]**

Answer:

Particulars	Computation	₹
1. Raw Material Valuation (net of Input Excise Duty)	2,500kg x ₹ 20 per kg	50,000
2. WIP Valuation (net of RM input duty)	(₹100 + 60% of ₹60) x 500 units	68,000
3. Finished Goods Valuation (including ED on SP)	(RM 100 + Lab & OH 60 + ED 20) = ₹180 x (7,000 units – 5,000 units)	3,60,000
Total		**4,78,000**

Computation of Cost per unit of production:

- Raw Materials: (40,000 – 2,500) = 37,500 kg for 7,500 units total = 5 kg x ₹ 20 (net of ED) = ₹100
- Wages and Production Overhead = ₹60 per completed unit (given)

(ii) Explain the term Extensible Business Reporting Language (XBRL). [5]

Answer:

XBRL stands for e**X**tensible **B**usiness **R**eporting **L**anguage. It is one of a family of "XML" languages which is becoming a standard means of communicating information between businesses and on the internet. XBRL provides major benefits in the preparation, analysis and communication of business information and is fast becoming an accepted reporting language globally. It offers major benefits to all those who have to create, transmit, use or analyse such information.

Let us take a closer look at the meaning of the term:

(a) Extensible: means the user can extend the application of a particular business data beyond its original intended purpose and the major advantage is that the extended use can be determined even by the users and not just the ones who merely prepare the business data. This is achieved by adding tags which are both human and machine readable – describing what the data is.

The property of extensibility is very handy in situations when list of items reported for various elements of the financial statements are not the same across firms, industries, and countries. For example, many of item constituting non-current assets in Oil and Gas Industry (items like rigs, exploratory oil and gas wells) may not be applicable to companies in general. In a situation of this kind, XBRL may prepare a taxonomy called a 'Global Common Document' (GCD) for items common to all the firms, industries, and countries, and, any country specific, industry specific and firm-specific variations (extensions / limitations) can, then, be written as independent taxonomies that can be imported and incorporated with the GCD.

(b) Business: means relevant to the type of business transaction. XBRL focus is on describing the financial statements for both public and private companies.

(c) Reporting: the intention behind promoting use of XBRL is to have all companies report their financial statements in a consolidated manner using the specified formats.

(d) Language: XBRL is based on XML, which prescribes the manner in which the data can be "marked-up" or "tagged" to make it more meaningful to human readers as well as to computers-based system.

8. (a) (i) Describe the process of election of Public Accounts Committee. [5]

Answer:

Composition

The Committee on Public Accounts is constituted by Parliament each year for examination of accounts showing the appropriation of sums granted by Parliament for expenditure of Government of India, the annual Finance Accounts of Government of India, and such other Accounts laid before Parliament as the Committee may deem fit such as accounts of autonomous and semi-autonomous bodies (except those of Public Undertakings and Government Companies which come under the purview of the Committee on Public Undertakings).

The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajya Sabha elected by that House in like manner are associated with the Committee. The Chairman is appointed by the Speaker from amongst its members of Lok Sabha. The Speaker, for the first time, appointed a member of the Opposition as the Chairman of the Committee for 1967-68. This practice has been continued since then. A Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment.

(ii) Write a note on Indian Government Accounting Standard 2. [7]

Answer:

Indian Government Accounting Standard 2
Accounting and Classification of Grants-in-aid

Grants-in-aid are payments in the nature of assistance, donations or contributions made by one government to another government, body, institution or individual. Grants-in-aid are given for specified purpose of supporting an institution including construction of assets. The general principle of grants-in-aid is that it can be given to a person or a public body or an institution having a legal status of its own. Such grants-in-aid could be given in cash or in kind used by the recipient agencies towards meeting their operating as well as capital expenditure requirement.

Grants-in-aid are given by the Union Government to State Governments and by the State Governments to the Local Bodies discharging functions of local government under the Constitution. This is based on the system of governance in India, which follows three-tier pattern with the Union Government at the apex, the States in the middle and the Local Bodies (LBs) consisting of the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) at the grass root level. Accounts of these three levels of Government are separate and consequently the assets and liabilities of each level of government are recorded separately. Grants-in-aid released by the Union Government to the State Governments are paid out of the Consolidated Fund of India as per Articles 275 and 282 of the Constitution. The Union Government releases grants-in-aid to the State/ Union Territory Government under Central Plan Schemes and Centrally Sponsored Schemes. Sometimes, the Union Government disburses funds to the State Governments in the nature of Pass-through Grants that are to be passed on to the Local Bodies. Funds are also released directly by the Union Government to District Rural Development Agencies (DRDAs) and other specialized agencies including Special Purpose Vehicles (SPVs) for carrying out rural development, rural employment, rural housing, other welfare schemes and other capital works schemes like construction of roads, etc.

The 73rd and 74th Constitutional Amendment Acts envisage a key role for the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) in respect of various functions such as education, health, rural housing, drinking water, etc. The State Governments are required to devolve funds, functions and functionaries upon them for discharging these functions. The extent of devolution of financial resources to these bodies is to be determined by the State Finance Commissions. Such funds received by the Local Bodies from the State Governments as grants-in-aid are used for meeting their operating as well as capital expenditure requirements. The ownership of capital assets created by Local Bodies out of grants-in-aid received from the States Government lies with the Local Bodies themselves.

Apart from Grants-in-aid given to the State Governments, the Union Government gives substantial funds as Grants-in-aid to other agencies, bodies and institutions. Similarly, the State Governments also disburse Grants-in-aid to agencies, bodies and institutions such as universities, hospitals, cooperative institutions and others. The grants so released are utilized by these agencies, bodies and institutions for creation of capital assets as well as for meeting day-to-day operating expenses.

This Standard applies to the Union Government and the State Governments in accounting and classification of Grants-in-aid received or given by them.

Objective

The objective of this Standard is to prescribe the principles for accounting and classification of Grants-in-aid in the Financial Statements of Government both as a grantor as well as a grantee. The Standard also aims to prescribe practical solutions to remove any difficulties experienced in adherence to the appropriate principles of accounting and classification of Grants-in-aid by way of appropriate disclosures in the Financial Statements of Government.

(iii) Discuss the applicability of IGAS 10 (Public Debt and Other Liabilities of Governments: Disclosure Requirements). [3]

Answer:

The proposed IGAS shall apply to the financial statements prepared by the Union and State Governments and Union Territories with legislature. The IGAS shall also cover "other obligations" as defined in paragraph 4 of this Standard relating to definitions. The IGAS shall not include in its ambit, guarantees and other contingent liabilities and non-binding assurances.

Or,

(b) (i) Discuss the structure of Indian Government Accounting Standards Advisory Board. [5]

Answer:

Government Accounting Standards Advisory Board (GASAB) is a representative body and is represented by main stakeholders connected with accounting reforms of Union Government of India and States. The board consists of the following members:
1. Deputy Comptroller and Auditor General (Accounts) as Chairperson
2. Controller General of Accounts
3. Financial Commissioner, Railways

4. Controller General of Defence Accounts
5. Member (Finance) Telecom Commission, Department of Telecom
6. Additional / Joint Secretary (Budget), Ministry of finance, Govt. of India
7. Secretary, Department of Post
8. Deputy Governor, Reserve Bank of India or his nominee
9. Director General, National Council of Applied Economic Research (NCAER)
10. President, Institute of Chartered Accountants of India (ICAI) or his nominee
11. President, Institute of Cost and Works Accountants of India or his nominee
12-15. Principal Secretary (Finance) of four States by rotation
16. Principal Director in GASAB as Member secretary.

(ii) Write a note on –
Methods of Government Accounting,
and Setup of Audit Board in Commercial Audit. [2×5]

Answer:

Methods of Government Accounting

The mass of the Government accounts being on cash basis is kept on Single Entry. There is, however, a portion of the accounts which is kept on the Double Entry System, the main purpose of which is to bring out by a more scientific method the balance of accounts in regard to which Government acts as banker or remitter, or borrower or lender. Such balances are, of course, worked out in the subsidiary accounts of single entry compilations as well but their accuracy can be guaranteed only by a periodical verification with the balance brought out in the double entry accounts.
Business and merchant accounting methods are different than government accounting system because government accounting system is ruling over the nation and keeps various departments i.e. production, service utility or entertainment industry etc. The operations of department of government sometimes include under taking of a commercial or quasi-commercial character and industrial factory or a store. It is still necessary that the financial results of the undertaking should be expressed in the normal commercial form so that the cost of the services or undertaking may be accurately known.

Setup of Audit Board in Commercial Audit

A unique feature of the audit conducted by the Indian Audit and Accounts Department is the constitution of Audit Boards for conducting comprehensive audit appraisals of the working of Public Sector Enterprises engaged in diverse sectors of the economy.
These Audit Boards associate with them experts in disciplines relevant to the appraisals. They discuss their findings and conclusions with the managements of the enterprises and their controlling ministries and departments of government to ascertain their view points before finalisation.
The results of such comprehensive appraisals are incorporated by the Comptroller and Auditor General in his reports.