Paper 18 – Corporate Financial Reporting

Whenever necessary suitable assumptions may be made and disclosed by way of note.

Working Notes should form part of the answers

Answer all the questions.

1. Answer any two of the following: [2×5]

(a) Santro Ltd. acquired a patent at a cost of ₹1,10,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹13,20,000 per annum. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹35,00,000, ₹45,00,000, ₹48,00,000, ₹45,00,000 and ₹32,00,000. Find out the amortization cost of the patent for each of the years.

(b) X Ltd. acquired 45% of shares in Y Ltd. as on 31.3.2012 for ₹ 8 lakhs. The summarised balance sheet of Y Ltd. as on 31.3.2012 is given below:

	₹
Share Capital	8,00,000
Reserves and Surplus	7,00,000
	15,00,000
Fixed Assets	8,00,000
Investments	3,00,000
Current Assets	4,00,000
	15,00,000

During the year ended 31.3.2013 the following are the additional information available:

(i) X Ltd. received dividend from Y Ltd., for the year ended 31.3.2012 at 40% from the Reserves.

(ii) Y Ltd., made a profit after tax of ₹ 10 lakhs for the year ended 31.3.2013.

(iii) Y Ltd., declared a dividend @ 50% for the year ended 31.3.2013 on 30.4.2013.

X Ltd. is preparing Consolidated Financial Statements in accordance with AS – 21 for its various subsidiaries. Calculate:

(i) Goodwill if any on acquisition of Y Ltd.'s shares.

(ii) How X Ltd., will reflect the value of investment in Y Ltd., in the Consolidated Financial Statements?

(iii) How the dividend received from Y Ltd. will be shown in the Consolidated Financial Statements?

(c) Rahman Ltd. has initiated a lease for three years in respect of an equipment costing ₹ 2,70,000 with expected useful life of 4 years. The asset would revert to Rahman Limited under the lease agreement. The other information available in respect of lease agreement is:

(i) The unguaranteed residual value of the equipment after the expiry of the lease term is estimated at ₹30,000.

(ii) The implicit rate of interest is 10%.

(iii) The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of asset.

Ascertain in the hands of Rahman Ltd.

(i) The annual lease payment.

(ii) The unearned finance income.

2.(a) Techno Ltd. has 2 divisions Laptops and Mobiles.

Division Laptops has been making constant profits while division Mobiles has been invariably suffering losses.

On 31st March 2012 the division-wise draft Balance Sheet was: (₹ in crores)

		Laptops	Mobiles	Total
Fixed assets cost		250	500	750
Depreciation		(225)	(400)	(625)
Net Assets	(A)	25	100	125
Current assets:		200	500	700
Less: Current liabilities		(25)	(400)	(425)
	(B)	175	100	275
Total (A+B)		200	200	400
Financed by:				
Loan funds		-	300	300
Capital: Equity ₹10 each		25	-	25
Surplus		175	(100)	75
		200	200	400

Division Mobiles along with its assets and liabilities was sold for ₹50 crores to Turnaround Ltd. a new company, who allotted 1 crore equity shares of ₹10 each at a premium of ₹40 per share to the members of Techno Ltd. in full settlement of the consideration, in proportion to their shareholding in the company.

Assuming that there are no other transactions, you are asked to:

(i) Pass journal entries in the books of Techno Ltd.

(ii) Prepare the Balance Sheet of Techno Ltd. after the entries in (i).

(iii) Prepare the Balance Sheet of Turnaround Ltd. **[15]**

Or,

(b) Given below summarized balance sheets of X Limited and Y Limited as at 31.3.2012.

	X Ltd.	*Y Ltd.*

		₹ *in Lakhs*		₹ *in Lakhs*
Sources of Funds				
Shareholders' funds		600		400
Equity Shares of ₹ 100 each				
Reserves and surplus				
General Reserve		300		200
Profit and Loss A/c		100		100
Loan Funds				
Secured Loans		300		300
Unsecured Loans		200		200
		1,500		1,200
Applications of Funds:				
Fixed Assets				
Gross block		1,000		900
Less: Depreciation		(200)		(250)
Net block		800		650
Investments - in 2.4 lakhs shares of Y Ltd.		300		–
Others		–		200
Current assets, Loans and Advances				
Less: Current liabilities	600		500	
Net Current assets	(200)		(150)	
		400		350
		1,500		1,200

Note: Secured and unsecured loans are assumed to be of more than 12 months hence treated as long term borrowing . (ignoring interest)

X Ltd. agreed to take over all the assets and liabilities of Y Ltd. at book value and discharge the claims of minority shareholders by issuing its one share for every two shares held. Minorities claims are to be discharged on the basis of intrinsic value per share. For computing intrinsic value per share net Fixed assets of Y Ltd are to be valued at ₹ 850 Lakhs. Prepare post merger Balance Sheet of X Ltd. Show all your workings. **[15]**

3. (a) The draft consolidated data of A Ltd., and its 100% subsidiary B Ltd. and also information of C Ltd. relating to the year end 31st March, 2012 is given below:

DRAFT BALANCE SHEET (₹ in thousand)

	CBS of A Ltd. and its 100% Subsidiary B Ltd.	C Ltd.
Issued ordinary share capital	2,000	1,000
Reserves	3,450	2,000
Debentures	2,000	1,500
Current liabilities	4,550	2,500

Total	12,000	7,000
Fixed assets (net)	6,500	4,000
Investment in C Ltd. at cost	2,000	-
Current assets	3,500	3,000
Total	12,000	7,000

PROFIT AND LOSS ACCOUNT (DRAFT)

	A Ltd and its 100% Subsidiary B Ltd.	C Ltd.
Sales	2,000	1,200
Expenses	(900)	(500)
Trading profit before tax	1,100	700
Dividend from Uncertain Ltd.	100	—
Taxation	(600)	(200)
Profit after tax	600	500
Opening Balance	3,150	1,100
Dividends paid	(300)	(200)
Retained Profit	3,450	1,400

A Ltd. acquired 50% of the ordinary share capital of C Ltd. on 1st April, 2011 for ₹2,000 thousands when its reserves were ₹1,700 thousands and sold this holding on 3rd April, 2012 for ₹2,050 thousands.

You are required to prepare the 'Group' Profit and Loss account (draft) and Balance Sheet (draft) on four bases as follows:

1. When C Ltd. is treated as a subsidiary
2. When C Ltd. is treated as an associated company
3. When C Ltd. is treated as an investment
4. When C Ltd. is treated as a Joint Venture. **[15]**

Or,

(b) The summarized balance sheets of Good Ltd. and Luck Ltd as at 31.12.2012 are as follows-

Liabilities	Good Ltd. ₹	Luck Ltd. ₹	Assets	Good Ltd. ₹	Luck Ltd. ₹
Equity Share Capital (₹10)	17,50,000	5,00,000	Fixed assets	18,00,000	8,00,000
			Current Assets	5,20,000	80,000
Reserves	2,00,000	50,000	Investments at cost:		-
Profit & Loss Account – as at 01.01.2012	3,00,000	1,00,000	30,000 Shares in Luck Ltd	3,50,000	
Add: Profit for the year	80,000	80,000			
Add: Dividends from Luck Ltd	40,000	-			
	-				
Less: Dividends paid		(50,000)			
Creditors	3,00,000	2,00,000			

Total	26,70,000	8,80,000	Total	26,70,000	8,80,000

Good Ltd acquired 40,000 shares in Luck Ltd at ₹20 each on 01.01.2012 and sold 10,000 of them at the same price on 30.09.2012 sale at cum- dividend price. An interim dividend of 10% was paid by Luck Ltd on 01.07.2012.

Prepare the consolidated Balance Sheet as at 31.12.2012. **[15]**

4. (a) A Ltd. agreed to absorb B Ltd. on 31st march 2012, whose summarized balance sheet stood as follows

Equity and Liabilities	₹	Assets	₹
Share capital			
80,000 shares of ₹10 each fully paid	10,00,000	Fixed Assets	8,00,000
Reserves & Surplus		Investments	-
General reserve	1,00,000	Current Assets	
Secured Loan	-	Loans & Advances	
Unsecured Loan	-	Inventory in trade	2,00,000
Current Liabilities & Provisions		Trade receivables	2,00,000
Trade payables	1,00,000		
	12,00,000		12,00,000

The consideration was agreed to be paid as follows:

(a) A payment in cash of ₹5 per share in B Ltd. and

(b) The issue of shares of ₹ 10 each in A Ltd., on the basis of 2 Equity Shares (valued at ₹15)and one 10% cum. preference share (valued at ₹10) for every five shares held in B Ltd.

The whole of the share capital consists of shareholdings in exact multiple of five except the following holding.

Ram	232	
Shyam	152	
Jodhu	144	
Modhu	56	
Other individuals	16	(eight members holding one share each)
	600	

It was agreed that A Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in B Ltd. i.e.₹65 for five shares of ₹50 paid.

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

Or,

(b) The draft balance sheet of H Ltd. as on 31.3.12: (Figures in ₹ Lakhs)

Liabilities	*Amount*	*Assets*	*Amount*
Equity Share Capital (in equity shares of ₹ 10 each)	4.00	Fixed Assets less depreciation to date	6.00

10% Preference Share Capital	3.00	Stock and debtors	5.30
General Reserve	1.00	Cash and Bank	0.70
Profit & Loss Account	1.00		
Creditors	3.00		
	12.00		12.00

M Ltd. another existing company holds 25% of equity Share capital of H Ltd. purchased at ₹10 per share.

It was agreed that M. Ltd. should take over the entire undertaking of H Ltd. on 30.9.12 on which date the position of Current assets (except cash and bank balances) and creditors was as follows.

Stock and debtors	4 lakhs
Creditors	2 lakhs

Profits earned for half year ended 30.9.12 by H Ltd. was ₹ 90,000 after charging depreciation of ₹ 32,500 on fixed assets. H Ltd. declared 10% dividend for 2011-12 on 30.8.12 and the same was paid within a week.

Goodwill of H Ltd. was valued at ₹ 1,20,000 and block assets were valued at 10% over their book value as on 31.3.12 for purposes of take over. Preference shareholders of H Ltd. will be allotted 10% preference shares of ₹ 10 each by M Ltd. Equity share holders of H Ltd. will receive requisite number of equity shares of ₹ 10 each from M Ltd. valued at ₹ 10 per share.

a) Compute the purchase consideration.

b) Explain, how the Capital reserve or goodwill, if any, will appear in the balance sheet of M Ltd. after absorption. **[10]**

5. (a) X Ltd. purchases a financial asset as on 29th March 2008 for ₹500 lakhs. The fair value of the asset on 31st March 2008 (year end) and 2nd April 2008 (Settlement date) are ₹505 lakhs and ₹503 lakhs respectively. Accounting treatment of the transaction would depend upon classification of the financial asset.

Pass entries for –

(a) Trade date accounting

(b) Settlement date accounting **[10]**

Or,

(b)(i) From the following data, prepare a Value Added Statement of Robin Ltd., for the year-ended 31.03.2013.

Particulars	₹	Particulars	₹
Decrease in Stock	48,000	Sales	80,38,000
Purchases	40,40,000	Other income	1,10,000

Wages & Salaries	20,00,000		
Manufacturing & Other Expenses	4,60,000		
Finance Charges	9,38,000		
Depreciation	4,88,000		
Profit Before Taxation	1,74,000		
Total	81,48,000	Total	81,48,000

	Particulars	₹
	Profit Before Taxation	1,74,000
Less:	Tax Provisions	(80,000)
	Income Tax Payments (for earlier years)	(6,000)
Add:	Earlier Year Profit brought forward	76,000
	Profit After Taxation	1,64,000
Appropriations of PAT		
	Debenture Redemption Reserve	20,000
	General Reserve	20,000
	Proposed Dividend	70,000
	Balance carried to Balance Sheet	54,000
	Total	1,64,000

[5]

(b)(ii) State the drawbacks of National Level Environmental Accounting. **[5]**

6. (a)(i) A company Amrit Ltd. announced a Stock Appreciation Right (SAR)on 01/04/09 for each of its 550 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, 20 employees left the company in 2009-10, 10 left in 2010-11 and 8 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. **[8]**

(ii) A Ltd. sold goods to B Ltd. on 01/07/2010 for ₹20 lakhs on credit. The payment will fall due on 31/12/2010. As per the purchase agreement, B Ltd. will issue an adequate number of its own equity shares to settle the obligation.

Required: State whether it will be the liability or equity of B Ltd. if—

(a) B Ltd. issues the number of share by dividing the amount due (₹20 lakhs) by market price of B Ltd. share on 31/12/2010.
(b) B Ltd. issues the number of shares to A Ltd. on due date by dividing the amount due ₹ 20 lakhs by market price of B Ltd. share on 01/ 07/2010. **[7]**

Or,

(b)(i) DM Ltd grants ₹15 Lakhs loan to its employees on January 1, 2008 at a concessional interest rate of 4% per annum. Loan is to be re-paid in five equal annual installments along with interest. Market rate of interest for such loan is 10% per annum. At what value loan should be recognized initially and also calculate the amortized cost for all the subsequent five years. **[10]**

(ii) Jalan & Co. has existing assets in which it has capital invested of ₹120 Crores. The after tax operating income on assets-in-place is ₹15 Crores. The Return on Capital Employed of 15% is expected to be sustained in perpetuity and Company has a Cost of Capital of 10%. Estimate the present value of Economic Value Added (EVA) to the firm from its assets-in-place. **[5]**

7(a) The draft consolidated balance sheet of Helpful Ltd. group as at 31.03.12 is given below:

Liabilities	₹ in 000	Assets	₹ in 000
Share Capital	1,200	Fixed Assets	3,000
Capital Reserve	30	Investment in Need Ltd.	180
Profit & Loss A/c	875	Investment in Desire Ltd.	375
Minority Interest	450	Current Assets	500
Non- current liabilities	900		
Current Liabilities	600		
	4,055		4,055

Helpful Ltd. acquired 25% stake in Need Ltd. for ₹1.80 lakh and 40% stake in joint venture Desire Ltd. for ₹3.75 lakh on 01.01.2011. Profit & Loss A/c balances of Need Ltd. and Desire Ltd. on that date were ₹2 lakhs and ₹3 lakh respectively.

Summarised balance Sheets of Need Ltd. and Desire Ltd. as at 31.012.2011 are given below:

Liabilities	Need Ltd. (₹ in 000)	Desire Ltd. (₹ in 000)	Assets	Need Ltd. (₹ in 000)	Desire Ltd. (₹ in 000)
Share capital	500	600	Fixed Assets	600	800
Profit & Loss A/c	300	400	Current Assets	400	700
Non- current Liabilities	100	150			
Current Liabilities	100	350			

	1,000	1,500		1,000	1,500

Earnings of Need Ltd. for the first quarter 2012 was ₹ 32,000. There were no changes in long term assets and liabilities. Current assets and liabilities increased during the period by ₹27,000 and ₹ 18,000 respectively.

In first quarter of 2012, Desire Ltd. redeemed debentures of ₹1 lakh at par (standing in the books as non-current liability) and earned ₹40,000. Current assets and liabilities increased during the period by ₹38,000 and ₹25,000 respectively.

Adjust the draft consolidated balance sheet if necessary. **[10]**

Or,

(b) A Ltd. has made the following investments in B Ltd. a few years before –

1. 6,000 Equity Shares of ₹ 10 each at ₹ 2,50,000.
2. 200 12% Preference Shares of ₹ 100 each at ₹ 30,000.
3. 500 10% Debentures at ₹ 95 per Debenture.

The Capital Profits of B Ltd. have been ascertained at ₹ 96,000.
Determine the cost of control, under the following situations –

1. Shares were purchased Cum-Dividend and Equity Dividend was declared at 20% and the dividends were
   (a) Credited to Profit and Loss Account
   (b) Credited to Investment Account
2. Shares were purchased Ex-Dividend and Equity Dividend was declared at 20% and the dividends were
   (a) Credited to Profit and Loss Account
   (b) Credited to the Investment Accounts **[10]**

8.(a)(i) State the methods of Government Accounting System. **[7]**

(ii) Write a note on the Indian Government accounting Standard 10 (IGAS – 10) on "Public Debt and Other Liabilities of Governments: Disclosure Requirements. **[8]**

Or,

8.(b)(i) State the responsibility of Comptroller and Auditor General of India. **[10]**

(ii) Distinguish between Commercial Accounting and Government Accounting. **[5]**