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.

Solution:

Santro Limited amortised ₹13,20,000 per annum for the first two years i.e. ₹26,40,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	Net cash flows ₹	Amortization Ratio	Amortization Amount ₹
I	-	0.120	13,20,000
II	-	0.120	13,20,000
III	35,00,000	0.170	14,21,200
IV	45,00,000	0.220	18,39,200
V	48,00,000	0.234	19,56,240
VI	45,00,000	0.220	18,39,200
VII	32,00,000	0.156	13,04,160
Total	2,05,00,000	1.000	1,10,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹ 83,60,000 has been amortized in the ratio of net cash flows arising from the product of Santro Ltd.

Note: The answer has been given on the basis that the patent is renewable and Santro Ltd. got it renewed after expiry of five 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?

Solution:

In terms of AS 23 Y Ltd. will be considered as an associate company of X Ltd. as shares acquired represent to more than 20%.

(i) Calculation of Goodwill

Cost of investment	8.00	
Less: Share in the value of Equity of Y Ltd.		
as at the date of investment		
[45% of ₹15 lakhs (₹5 lakhs + ₹ 7 lakhs)]		6.75
Goodwill	**1.25**	

(II) X LTD.

Consolidated Profit and Loss Account for the year ended 31st March, 2012 (extracts) ₹ in lakhs

	By Share of profits in Y Ltd.		4.50
	By Dividend received from Y Ltd. (8,00,000 x 40% x 45%) Transfer to investment A/c	1.44 1.44	 Nil

(III) A LTD.

Consolidated Balance Sheet as on 31.3.2012 (extracts) ₹ in lakhs

	Investment in Y Ltd.		
	Share in Y Ltd.' s Equity Less: Dividend received	6.75 1.44	
	 Add: Share of Profit for 2012– 2013	5.31 4.50	
	 Add: Goodwill	9.81 1.25	 11.06

Working Notes:

1. Dividend received from Y Ltd. amounting to ₹ 1.44 lakhs will be reduced from investment value in the books of X Ltd. However goodwill will not change.
2. Y Ltd. made a profit of ₹ 10 lakhs for the year ended 31st March, 2013. X Ltd.'s share in the profits of ₹ 10 lakhs is ₹ 4.50 lakhs. Investment in Y Ltd. will be increased by ₹ 4.50 lakhs and consolidated profit and loss account of X Ltd. will be credited with ₹ 4.50 lakhs in the consolidated financial statement of X Ltd.
3. Dividend declared on 30th April, 2013 will not be recognised in the consolidated financial statements of X Ltd.

(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.

Solution:

(i) Calculation of Annual Lease Payment

	₹
Cost of the equipment	2,70,000
Unguaranteed Residual Value	30,000
PV of residual value for 3 years @ 10% (₹ 30,000 x 0.751)	22,530
Fair value to be recovered from Lease Payment (₹ 2,70,000 – ₹ 22,530)	2,47,470
PV Factor for 3 years @ 10%	2.487
Annual Lease Payment (₹ 2,47,470/ PV Factor for 3 years @ 10% i.e. 2.487)	99,506
(ii) Unearned Financial Income	
Total lease payments [₹ 99,506 x 3]	2,98,518
Add: Residual value	30,000
Gross Investments	3,28,518
Less: Present value of Investments (₹ 2,47,470 + ₹ 22,530)	2,70,000
Unearned Financial Income	58,518

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]**

Solution:

Journal of Techno Ltd. (₹ in crores)

		Dr. ₹	Cr. ₹
(1)	Turnaround Ltd. Dr.	50	
	Loan Funds Dr.	300	
	Current Liabilities Dr.	400	
	Provision for Depreciation Dr.	400	
	To Fixed Assets		500
	To Current Assets		500
	To Capital Reserve		150
	(Being division Mobiles along with its assets and liabilities sold to Turnaround Ltd. for ₹ 25 crores)		
	Capital Reserve Dr.	50	
(2)	To Turnaround Ltd.		50
	(Being allotment of 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)		

Notes:

(1) Any other alternative set of entries, with the same net effect on various accounts, may be given by the students.

(2) Profit on sale of division may, alternatively, be credited to Profit and Loss Account instead of Capital Reserve, in accordance with the requirements of AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and changes in Accounting Policies.

Techno Ltd,

Balance Sheet after reconstruction

		Note No.		
I.	**Equity and liabilities**			
	(1) **Shareholders' funds**			
	(a) Share Capital		25	
	(b) Reserves and surplus	1	175	200
	(2) **Current Liabilities**			25
	Total			225
II.	**Assets**			
	(1) **Non-current assets**			
	(a) Fixed assets			25
	(2) **Current assets**			200
	Total			225

Notes to Accounts

1.		(₹ in crores)
	Reserves and Surplus	75
	Add: Capital Reserve on reconstruction	100
		175

Note to Accounts: Consequent on transfer of Division Mobiles to newly incorporated company Turnaround Ltd., the members of the company have been allotted 1 crore equity shares of ₹10 each at a premium of ₹15 per share of Turnaround Ltd., in full settlement of the consideration in proportion to their shareholding in the company.

Balance Sheet of Turnaround Ltd.

		Note No.		
1.	**Equity and liabilities**			
	(1) **Shareholders' funds**			
	(a) Share Capital	1	10	
	(b) Reserves and surplus:			
	Securities Premium		40	50
	(2) **Non-current liabilities**			
	Long term borrowings			300
	(3) **Current liabilities**			400
	Total			750
	Assets			
II.	**(1) Non-current assets**			
	Fixed assets			
	(i) Tangible assets			
	(ii) Intangible assets	2	100	
			150	
				250
	(2) Current assets			500
	Total			750

Notes to Accounts

		(₹ in crores)
1.	**Share Capital:**	
	Issued and Paid-up capital	
	1 crore Equity shares of ₹ 10 each fully paid up	10
	(All the above shares have been issued for consideration other than cash, to the members of Techno Ltd. on take over of Division Mobiles from Techno Ltd.)	
2.	**Intangibles Assets:**	
	Goodwill (WN 1)	150

Working Note

1. Calculation of Goodwill/Capital Reserve for Turnaround Ltd.

Assets taken over

Non Current Assets	100
Current Assets	500
Total Assets(A)	600
Loan Funds	300
Current Liabilities	400
	700

Total Liabilities (B)	(100)
Net Assets C= (A-B)	50
Purchase Consideration (given) D	150
Goodwill (D-C)	

Or,

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

		X *Ltd.* ₹ *in Lakhs*		**Y *Ltd.* ₹ *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]**

Solution:

Part I : ***Calculation of Purchase Consideration***

WN # 1 : ***Computation of Intrinsic Value***

(₹ in Lakhs)

	X Ltd	*Y Ltd*
Fixed assets	800	850
Investments: In Y Ltd. (2.4 x 225)	540	–
Other investments	–	200
Current assets, Loans and Advances	600	500
Less: Current liabilities	(200)	(150)
Less: Unsecured Loans	(200)	(200)
Less: Secured Loans	(300)	(300)
Net Assets	1240	900
Intrinsic Value (Net Assets ÷ No. of shares outstanding)	1240/6 = 206.67	900/4 = 225

WN # 2 : ***Purchase Consideration***

Particulars	
Total number of shares outstanding (lakhs)	4,00,000
Less: Shares held by X Ltd. (lakhs)	2,40,000
Shares held by Outsiders (lakhs)	1,60,000
Exchange Ratio (lakhs)	1:2
No. of shares to be issued (lakhs)	80,000
Intrinsic Value Per share	206.67
Purchase Consideration (80,000 × ₹ 206.67)	₹ 1,65,33,600

Part II - ***In the Books of Purchasing Co. X Ltd***

- *Nature of Amalgamation*: Merger
- *Method of Accounting* : Pooling of interest

(₹ in *amount*)

	Particulars			*Debit*	*Credit*
1.	For Purchase Consideration Due:				
	Business Purchase A/c		Dr.	1,65,33,600	
	To Liquidator of Y Ltd A/c				1,65,33,600
2.	For Assets and Liabilities Takeover:				
	a. Aggregate Consideration				
	i. Already Paid	3,00,00,000			
	ii. Balance Payable	1,65,33,600			
		4,65,33,600			
	b. Less: Paid-up Capital of Vendor Co.	(4,00,00,000)			

c. Excess

(The above excess to be adjusted against:

*General Reserves of Y Ltd. 65,33,600

d. Balance of General Reserves of Y Ltd. to be incorporated (2,00,00,000 – 65,33,600) 1,34,66,400

Fixed Assets A/c	Dr.	9,00,00,000	
Investments A/c	Dr.	2,00,00,000	
Current Assets A/c	Dr.	5,00,00,000	
To Provision for depreciation A/c			2,50,00,000
To Current liabilities and Provisions A/c			1,50,00,000
To Secured Loans A/c			3,00,00,000
To Unsecured Loans A/c			2,00,00,000
To Business Purchase A/c			1,65,33,600
To Investments in Y Ltd A/c			3,00,00,000
To General Reserve A/c			1,34,66,400
To Profit and Loss A/c			1,00,00,000

3. For Discharge of Purchase Consideration

Liquidator of Y Ltd A/c	Dr.	1,65,33,600	
To Equity Share Capital A/c			80,00,000
To Securities Premium A/c			85,33,600

Name of the Company: X Ltd.					
Balance Sheet as at 31.03.2012					
Ref No.		**Particulars**	**Note No.**	**As at 31st March, 2012**	**As at 31st March, 2011**
				(₹ in Lakhs)	**(₹ in Lakhs)**
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	6,80,00,000	
		(b) Reserves and surplus	2	7,20,00,000	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			

		(a) Long-term borrowings	3	10,00,00,000	
		(b)Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c)Other current liabilities	4	3,50,00,000	
		(d) Short-term provisions			
		Total (1+2+3+4)		27,50,00,000	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	14,50,00,000	
		(ii) Intangible assets			
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments	6	2,00,00,000	
		(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	7	11,00,00,000	
		Total (1+2)		27,50,00,000	

Notes on accounts

		(₹in Lakhs)
Note 1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
A. Authorised Capital	-	
B. Issued, Subscribed and paid up Capital of ₹100 each[out of which 30,000 shares were issued for consideration other than for cash)	6,80,00,000	
Total	6,80,00,000	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2012**		**As at 31st March, 2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.11	6	6,00,00,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	0.80	80,00,000	NIL	NIL
	6.80	6,80,00,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	6.80	6,80,00,000	NIL	NIL

Note 2. Reserves and Surplus	**As at 31st March, 2012**	**As at 31st March, 2011**
General Reserve (3,00,00,000 + 1,34,66,400)	4,34,66,400	
Securities Premium	85,33,600	
Profit and Loss A/c (1,00,00,000 + 1,00,00,000)	2,00,00,000	
Total	7,20,00,000	

Note 3. Long Term Borrowings	**As at 31st March, 2012**	**As at 31st March, 2011**
Secured (3,00,00,000 + 3,00,00,000)	6,00,00,000	
Unsecured (2,00,00,000 + 2,00,00,000)	4,00,00,000	
Total	10,00,00,000	

Note 4. Other Current Liabilities	**As at 31st March, 2012**	**As at 31st March, 2011**

Current Liabilities (2,00,00,000 + 1,50,00,000)	3,50,00,000	
Total	3,50,00,000	

Note 5. Tangible assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Fixed Assets	19,00,00,000	
Less Accumaleted Depreciation	4,50,00,000	
Total	14,50,00,000	

Note 6. Non Current Investment	**As at 31st March, 2012**	**As at 31st March, 2011**
Investment	2,00,00,000	
Total	2,00,00,000	

Note 7. Other Current assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Current assets	11,00,00,000	
Total	11,00,00,000	

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]**

Solution:

When C Ltd. is treated as a subsidiary or an Investment company

	Particulars	**Subsidiary**	**Investment**
a.	Accounting Standard Applicable	21	13
b.	Method	Full Consolidation	Cost method
c.	Date of Acquisition	1st April 2011	1st April 2011
d.	Shareholding	A Ltd -50% Minority Int. - 50%	Not applicable
e.	Analysis of reserves	1) Opening balance 1,700 thousands pre- acquisition 2) Current year retained profit 300 thousands post-acquisition	Not applicable
f.	Apportionment of Profits 1) Pre-acquisition 2) Post-acquisition	1) A Ltd. - 850 thousand 2) Minority – 850 thousands 1)A Ltd.-150 thousands 2) Minority - 150 thousands	Not applicable
g.	Outsider's interest	Minority Interest 1) Share capital - 500 thousands 2) Pre-acquisition - 850 thousands 3) Post acquisition - 150 thousands Total $\boxed{1500}$ thousands	
h.	Goodwill/Capital Reserve	1) Cost of Investment -2,000. thousands 2) Share of Net Assets on the date of Investment - Share Capital 500 thousands - Capital Profits 850 thousands 1350 thousands	Not applicable

		3) Goodwill 650 thousands	
I.	Inter Company Transactions 1) Inter Company Owings 2) Unrealised Profits	 Eliminate in full Eliminate in full	Not applicable
J.	Reserves for CBS	*	Not applicable
k.	Carrying amount of Investment in CBS	Nil	2000 thousand

When C Ltd. treated as an associated company or as a Joint Venture

	Particulars	Associate	Joint venture
a.	Accounting Standard Applicable	23	27
b.	Method	Equity method	Proportionate consolidation
c.	Date of Acquisition	1st April 2011	1st April 2011
d.	Shareholding	Extent of investment 50%	Extent of financial interest 50%
e.	Analysis of reserves	1) Opening balance 1,700 thousand pre-acquisition 2) Current year retained profit 300 thousands post acquisition	1) Opening balance 1,700 thousand pre-acquisition 2) Current year retained profit 300 thousands post acquisition
f.	Apportionment of Profits 1) Pre-acquisition 2) Post-acquisition	 1) A Ltd. – 850 thousand (investing Co. Interest) 2) A Ltd. – 150 thousands	 1) A Ltd. – 850 thousand (investing Co. Interest) 2) A Ltd. – 150 thousands.
g.	Outsider's interest	Not applicable	Not applicable
h.	Goodwill/Capital Reserve	1) Cost investment 2,000 thousands 2) Share of net assets on the date of investment -share capital 500 thousands -capital profits <u>850</u> thouisands Total <u>1,350</u> thousands - Goodwill 650 thousands	1) Cost investment 2000 thousands 2) Share of net assets on the date of investment -share capital 500 thousands -capital profits <u>850</u> thouisands Total <u>1,350</u> thousands - Goodwill 650 thousands
I.	Inter Company Transactions 1) Inter Company Owings 2) Unrealised Profits	 Not applicable Eliminate to the extent of investing co's interest	 Eliminate to the extent of venturer's interest
J.	Reserves for CBS	*	*

k.	Carrying amount of Investment in CBS	a) Amount invested i) Share of Net Assets 1,350 thousands ii) Goodwill - 650 thousands 2000 thousands b) Add: Share of Post Acquisition profits 250 thousands c) Less: Dividend Received 100 thousands Total 2150 thousands	Nil

* Reserves for CBS

Draft Consolidate Profit and Loss A/c
as at 31.03.2012

₹ in thousands

Particulars	Subsidiary	Investment	Associate	Joint Venture
Sales	3,200	2,000	2,000	2,600
Expenses	(1,400)	(900)	(900)	(1,150)
Dividend	-	100	-	-
PBT	1,800	1,200	1,100	1,450
Tax	(800)	(600)	(600)	(700)
PAT	1,000	600	500	750
Share of profits from Associate	-	-	250	-
Opening Balance B/d	3,150	3,150	3,150	3,150
Dividend Paid	(300)	(300)	(300)	(300)
Share of Minority Interest	(250)	-	-	-
Balance carried forward to Balance Sheet	3,600	3,450	3,600	3,600

Draft Consolidated Balance Sheet
As at 31.03.2012

₹ in thousands

	If Subsidiary	If Investment	If Associate	If Joint Venture
Equity and Liabilities				
Share Capital	2,000	2,000	2,000	2,000
Reserves	3,600	3,450	3,600	3,600
Debentures	3,500	2,000	2,000	2,750
Current Liabilities	7,050	4,550	4,550	5,800
Minority Interest	1,500	-	-	-
Total Assets	17,650	12,000	12,150	14,150

Non-current assets Fixed Assets				
Tangible Assets	10,500	6,500	6,500	8,500
Intangible Assets	650	-	-	650
Investments	-	2,000	2,150 (Goodwill - ₹ 650 thousands)	-
Current Assets	6,500	3,500	3,500	5,000
Total	17,650	12,000	12,150	14,150

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 Tharini 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 Tirtha Ltd on 01.07.2012.

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

Solution:

1. Basic Information

Company Status	**Dates**	**Holding Status**
Holding company = Good Ltd. Subsidiary = Luck Ltd.	Acquisition: 01.01.12 Consolidation: 31.12.12	Holding Co: = 60% Minority Interest: = 40%

2. Analysis of Reserves and surplus of Luck Ltd

(a) **General Reserve**

Balance as on 31.12.2012 ₹50,000

Balance on 01.01.2012 (date of acquisition)	Transfer during 2012 (upto consolidation)
₹ 50,000	(balancing figure) ₹ **NIL**
(Capital Profit)	**(Revenue Reserve)**

(b) **Profit and Loss Account**

Balance as on 31.12.2012 ₹1,30,000

Balance on 01.01.2011 (date of acquisition)	Profit for 2012 (upto consolidation)	80,000
₹1,00,000	Less: Interim Dividend	50,000
(Capital Profit)	Revenue Profit	30,000

2. Computation of Cost of Control & Minority Interest

Particulars	Total	Minority Interest	Pre-Acquisition	Post Acquisition Gen.Res.	Post Acquisition P&L A/c
Luck Ltd (Holding 60%, minority 40%)					
Equity Capital	5,00,000	2,00,000	3,00,000		
General Reserves	50,000	20,000	30,000		
Profit and Loss A/c	1,30,000	52,000	60,000		18,000
Minority interest		2,72,000			
Total [Cr.]			3,90,000		
Cost of Investment [Dr.] (Note 1)			(3,50,000)	2,00,000	4,20,000
Parent's Balance (Note 1)					
For consolidated balance sheet			(40,000) (Capital Reserve)	2,00,000	4,38,000

Note: adjustment for dividend is required since the shares are sold on cum – dividend basis i.e. including dividend. The dividend when declared will be received by the buyer of the shares.

Name of the Company: Good Ltd. And its subsidiary Luck Ltd.

Balance Sheet as at 31.12.2012

Ref No.	**Particulars**	**Note No.**	**As at 31.12.12**	**As at 31.12.11**
			(₹)	(₹)

I		**EQUITY AND LIABILITIES**			
	1	**Shareholders' fund**			
		(a) Share capital	1	17,50,000	
		(b) Reserves and surplus	2	6,78,000	
		(c) Money received against share warrants			
	2	**Minority Interest (W.N)**		2,72,000	
	3	**Share application money pending allotment**			
	4	**Non-current liabilities**			
		(a) Long-term borrowings			
		(b)Deferred tax liabilities (Net)			
		(c)Other Long term liabilities			
		(d) Long-term provisions			
	5	**Current Liabilities**			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c)Other current liabilities	3	5,00,000	
		(d) Short-term provisions			
		Total		**32,00,000**	
II		**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	28,00,000	
		(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	5	4,00,000	
		Total		**32,00,000**	

Notes on accounts (₹)

1. Share capital	**31.12.12**	**31.12.11**
1,75,000 Equity Share Capital @10 each	17,50,000	
Total	**17,50,000**	
2. Reserve and Surplus	**31.12.12**	**31.12.11**
General Reserve	2,00,000	
Profit & Loss A/c Capital Reserve	4,38,000	
Total	**6,78,000**	

3. Other current liabilities	**31.12.12**	**31.12.11**
Current Liabilities (30,000 + 20,000)	5,00,000	
Total	**5,00,000**	

4. Tangible Assets	**31.12.12**	**31.12.11**
Other Fixed Assets (18,00,000+8,00,000)	26,00,000	
Total	**26,00,000**	

5. Other Current Assets	31.12.12	31.12.11
Current Assets (5,20,000 + 80,000)	6,00,000	
Total	**6,00,000**	

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]

Solution:

(a) Schedule of Fraction

	Holding of Shares (A)	Exchangeable in nearest multiple of five (B)	Exchange in equity (C) = (B)/5X2	Preference Exchangeable (D) = (B) / 5 X1	Non (E) = (A)-(B)

Ram	232	230	92	46	2
Shyam	152	150	60	30	2
Jodhu	144	140	56	28	4
Modhu	56	55	22	11	1
Others	16	-	-	-	16
	600	575	230	115	25

(b) Share Exchangeable: Equity Shares in A Ltd.

		No.		No.
(i)	1,00,000-600 (Total A above)	99,400	2/5 there of	39,760
	600-25 (Total E Above)	575	2/5 there of	230
		99,975		39,990

Shares Exchangeable: Preference Shares in A Ltd.

Shares held			
as in b (i)	99,400	1/5 there of	19,880
as in b (ii)	575	1/5 there of	115
	99,975		19,995

(c) There are 25 shares in B Ltd. which are not capable of exchange into equity and preference shares of A Ltd. they will be paid $250 \times \frac{65}{50}$ = ₹325

	₹
Purchase Consideration	
39,990 Equity Shares @ ₹15 each	5,99,850
19,995 Preference share @ ₹10 each	1,99,950
Cash on 99,975 @ ₹5 each	4,99,875
	12,99,675
Add: Cash for 25 shares	325
	13,00,000

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]

Solution:

Draft balance sheet of H Ltd. as at 30.09.12

Liabilities	*Amount* ₹	*Assets*		*Amount* ₹
Equity Share capital		Block Assets	6,00,000	
(40,000 equity shares of ₹ 10 each)	4,00,000	Less: Depreciation	(32,500)	5,67,500
10% Preference Share capital	3,00,000	Stock and Debtors		4,00,000
Reserves and surplus		Cash and Bank (balancing figure)		1,52,500
General Reserve	1,00,000			
Profit and Loss A/c*	1,20,000			
Creditors	2,00,000			
	11,20,000			**11,00,500**

Profit & Loss Account (draft)

Particulars	***Amount***
Opening Balance	1,00,000
Add: Half year profit	90,000
Less: Preference dividend @ 10%	(30,000)
Less: Equity dividend @ 10%	(40,000)
Closing balance	1,20,000

a. Purchase Consideration - Net Assets Method

Particulars	***Amount***	***Amount***
Fixed assets	6,60,000	
Stock and Debtors	4,00,000	
Cash and Bank	1,52,500	

Goodwill	80,000	12,92,500
Less: Creditors		(2,00,000)
Net Assets Taken over		**10,92,500**

Net Assets ₹ 10,92,500

Preference Shareholders ₹ 3,00,000 → Satisfied by issuing 10% preference share at par

Net Assets pertaining to Equity shareholders ₹7,92,500 → Proportionate net assets for the outside shareholders (75%) → 5,94,375

Total Purchase Consideration

	Particulars	***Amount*** ₹
a.	10% Preference Share Capital	3,00,000
b.	Equity Share Capital (Outsiders)	5,94,375
c.	***Total***	8,94,375

Calculation of Capital Reserve

	Particulars		***Amount*** ₹
a.	Net Assets takenover		10,92,500
b.	Less:		
	i) Preference shares to be alloted	3,00,000	
	ii) Equity shares to be allotted	5,94,375	
	iii) Cost of Investments	1,00,000	(9,94,375)
c.	***Capital Reserve***		**98,125**

Balance sheet of M Ltd. as on 30th September 2012 (Extracts)

Liabilities	₹	***Assets***		₹
		Intangible Assets		
		Goodwill	1,20,000	
		Less: Capital Reserve	98,125	21,875

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 –
(i) Trade date accounting
(ii) Settlement date accounting **[10]**

Solution:

(i) Trade date Accounting

(Amount in ₹ lakhs)

Date	Held to maturity investment carried at amortized cost	Available for sale asset re-measured at fair value with changes in equity	Assets at FVTPL re-measured at fair value with changes in P&L
29th March 2008 Financial Assets Dr. To Financial Liability	500 500	500 500	500 500
31st March 2008 Financial Assets Dr. To P&L A/c			5 5
Financial Assets Dr. To Fair Value Reserve A/c		5 5	
2nd April 2008 P&L A/c Dr. To Financial Asset			2 2
Fair Value Reserve A/c Dr. To Financial Asset		2 2	
Financial Liability Dr. To Cash	500 500	500 500	500 500

Note: No fair value change between trade and settlement date is recognized for held to maturity financial assets.

(ii) Settlement Date Accounting

Date	Held to maturity investment carried at amortized cost	Available for sale asset re-measured at fair value with changes in equity	Assets at FVTPL re-measured at fair value with changes in P&L
29th March 2008	No entry on Trade date	No entry on Trade date	No entry on Trade date

31st March 2008 Receivables Dr. To P&L A/c			 5 5
Receivables Dr. To Fair Value Reserve A/c		 5 5	
2nd April 2008 Financial Assets Dr. To Financial Liability/ Cash	 500 500		
Financial Asset Dr. Fair Value Reserve A/c Dr. To Financial Liability/ cash To Receivable		503 2 500 5	
Financial Asset Dr. P & L A/c Dr. To Financial Liability/cash To receivable			503 2 500 5

Note: No fair value change between trade and settlement date is recognized for held for maturity financial asset.

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]

Solution:

Value Added Statement of Robin Ltd. for the year ended 31.03.2013

	Particulars	₹	₹
	Sales/Turnover		80,38,000
Less:	Bought in Materials		
	• Decrease in Stock	48,000	
	• Purchases	40,40,000	40,88,000
	Value Added by Trading Activities		39,50,000
Add:	Other Income		1,10,000
	GROSS VALUE ADDED		**40,60,000**
Applied as follows -			
	1. To Employees Salaries, Wages, etc.	20,00,000	
	2. To Other Service Providers as Manufacturing & Other expenses	4,60,000	
		86,000	
	3. To Government as Taxes, Duties, etc. (40,000 + 3,000)	9,38,000	
	4. To Financiers as Interest on borrowings	70,000	
	5. To "Shareholders as Dividends		
	6. To Retained Earnings as –	4,88,000	
	• Depreciation	20,000	
	• Debenture Redemption Reserve	20,000	
	• General Reserve		
	TOTAL APPLICATION		**40,82,000**
	VALUE DEFICIT (Reduction in P & L A/c balance = 76,000 - 54,000)		(22,000)

Note: *Alternatively, the reduction in Retained Profits (76,000 - 54,000) may be considered as an adjustment / reduction against the entry "To Retained Earnings" and the Value Deficit need not be shown.*

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

Solution:

Drawbacks of National Level Environmental Accounting

In its present format, the System of National Accounts (SNA) does not include full economic value of environmental resources. SNA has to be amended in view of the following problems with the present system of national accounts.

(a) Non-recognition of Environmental Expenditure: Expenditure to protect the environment from damage or to mitigate the environmental degradation cannot be identified and segregated from the SNA data.

(b) Non-marketed Goods and Services: The environment provides certain goods which are not sold but which are of high value e.g. fuel-wood and building materials generated in forests, medicinal plants etc. However, some countries do not include these in their annual income accounts, estimating total consumption and then using market prices of comparable products as an alternative method to calculate the value of non-marketed goods and services.

(c) Consumption of Natural Capital: The SNA treats gradual depletion of Physical Capital (plant and machinery etc.) as depreciation rather than income. However, the depletion of Natural Capital, forests in particular is accounted as income. Most experts of environmental accounting agree that depletion of natural capital should be accounted for in the same manner as in case of other physical assets.

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]

Solution:

Dr. Provision of SARs Account (For 2009-10) Cr.

Particulars	₹	Particulars	₹
To Balance c/d	3,43,000	By Employees Compensation Expense	3,43,000
	3,43,000		3,43,000
Provision of SARs Account (For 2010-11)			
To Balance c/d	7,22,200	By Balance b/d	3,43,000
		By Employee Compensation Expenses	3,79,200

	7,22,200		7,22,200
Provision of SARs Account (For 2011-12)			
To Balance c/d	11,56,800	By Balance b/d	7,22,200
		By Employee Compensation Expenses	4,34,600
	11,56,800		11,56,800
Provision of SARs Account (For 2012-13)			
To Bank (48,200x25)	12,05,000	By Balance b/d	11,56,800
		By Employee Expenses	48,200
	12,05,000		12,05,000

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

Working Notes:

Year 2009-10

A. Number of employees to whom SARs were announced (482+20+10+8) = 520 employees

B. Total number of employees after three years, on the basis of the estimation in 2009-10 = (520 x 0.98 x 0.98 x0.98) = 490 employees

C. No. of SARs expected to vest = 490 employees x 100 = 49,000 SAR

D. Fair value of SARs = 49,000 SARs x ₹21 = ₹10,29,000

E. Vesting period = 3 years

F. Recognized as expense in 2009-10 = ₹10,29,000/3 years = ₹3,43,000

Year 2010-11

G. Total number of employees after three years, on the basis of the estimation in 2010-11 = [(520-20)x0.97x0.97)=471 employees

H. No. of SARs expected to vest =471 employees X 100 = 47,100 SARs

I. Fair value of SARs = 47,100 SARs X ₹23 = ₹10,83,300

J. Vesting period = 3 years

K. No. of years expired = 2 years

L. Cumulative value of SARs to recognized as expense = 10,60,300/3 x 2 =₹7,22,200

M. SARs recognize as expense in 2010-11 = ₹7,22,200 - ₹3,43,000 = ₹3,79,200

Year 2011-12

N. Fair value of SARs = ₹24

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

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

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

R. Value of SARs to be recognized as an expense = ₹11,56,800 – ₹7,22,200 = ₹4,34,600

Year 2012-13

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

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

(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]

Solution:

Answer of the following is as under –

In the case of (a), B Ltd. will recognize the payment due to A Ltd. as a financial liability of ₹20 lakhs. B Ltd. is using its shares as currency as such a contract represents a right or obligation for a specified amount rather than a specified residual equity interest.

In the case of (b), B Ltd. will recognize ₹20 lakhs as equity as the A Ltd. is getting residual equity interest under the contract on 01/ 07/2010. Under this circumstance the A Ltd. may get the payment by equity shares for more or less than the specified amount (₹20 lakhs) as the share prices will vary on the date of settlement i.e., on 31-12-2010.

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]

Solution:

(a) Calculation of initial recognition amount of loan - that will be discounted present value of future cash flows from the re-payment of the loan

Year end	Cash in flows		Total	Discount factor at 10%	Discounted Value
	Principal	Interest			
2008	3,00,000	60,000	3,60,000	0.9090	3,27,240
2009	3,00,000	48,000	3,48,000	0.8263	2,87,552
2010	3,00,000	36,000	3,36,000	0.7512	2,52,403
2011	3,00,000	24,000	3,24,000	0.6829	2,21,260
2012	3,00,000	12,000	3,12,000	0.6208	1,93,690
Present Value or Fair Value					**12,82,145**

Entries
01-01-2008

Staff Loan A/c	Dr.	15,00,000	
To bank			15,00,000
Staff Cost	Dr.	2,17,855	
To Staff Loan			2,17,855

(As the fair value of Loan is ₹12,82,145 it will be initially recognized at this value balance amount debited to staff cost account)

(b) Calculation of amortized cost at the end of each year

Year	Balance	Interest to be recognized (10%)	Re-payment(including interest)	Amortised cost
2008	12,82,145	1,28,215	3,60,000	10,50,360
2009	10,50,360	1,05,036	3,48,000	8,07,396
2010	8,07,396	80,740	3,36,000	5,52,136
2011	5,52,136	55,214	3,24,000	2,83,350
2012	2,83,350	28,650*	3,12,000	NIL

Balancing figure (rounding off)
Entry for 2008

Staff Loan A/c	Dr.	1,28,215	
To Interest on staff Loan			1,28,215
Bank A/c	Dr.	3,60,000	
To Staff Loan			3,60,000
Interest on Staff Loan	Dr.	1,28,215	
To profit & Loss A/c			1,28,215

(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]

Solution:

Operating Profit after Tax = ₹15 Crores

Return on Capital Employed = 15%, but Cost of Capital = 10%

Present Value of Economic Value Added (EVA) = Operating Profit after Taxes ÷ Cost of Capital

= ₹15 Crores ÷ 10% = **₹150 Crores.**

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]

Solution:

Consolidate Balance Sheet as at 31.03.12

Particulars	Note No.	(₹ in 000)

1. **Equity and Liabilities**		
(1) Shareholder's Funds		
(a) Share Capital		1,200
(b) Reserves and Surplus	1	994
(2) Minority Interest		450
(3) Non-Current Liabilities (900 + 20)		920
(4) Current Liabilities (600 + 150)		750
Total		4,314
II. **Assets**		
(1) Non-current assets		
Fixed assets		
Tangible assets (3,000 + 320)		3,320
Intangible assets	2	20
(2) Non- current Investment in Need Ltd.		208
(3) Current assets (500 + 266)		766
Total		4,314

Notes to Accounts

		(₹)	(₹)
1.	Reserves and surplus		
	Capital Reserve		30
	Profit & Loss A/c		
	Helpful Ltd. and its subsidiary	875	
	Need Ltd. [25% of (332-200)]	33	
	Desire Ltd. [40% of (440-300)]	56	964
			994
2.	Intangible Assets		
	Goodwill (Need Ltd.)	5	
	Goodwill (Desire Ltd.)	15	20

Working Notes:

1. **Draft Balance Sheets of Need Ltd. and Desire Ltd. as at 31.03.12 are drawn 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	332	400	Current Assets	450	665
Non- current Liabilities	100	50	(Bal. fig.)		
Sundry Liabilities	118	375			
	1,050	1,465		1,050	1,465

2. Closing equity (Need Ltd.) = 25% of (500 + 332) = ₹208 thousand

   Pre-acquisition equity (Need Ltd.) = 25% of (500 + 200) = ₹175thousand

   Goodwill = 180 -175 = ₹5 thousand

Adjustment under equity method for investment in associate Need Ltd

	₹ in 000	₹ in 000	

Investment in Need Ltd, Dr.	28		= 208 -180
Goodwill Dr.	5		= 180 -175
To Profit and Loss A/c		33	= 208 -175

3. Closing equity (Desire Ltd.) = [40% of (600 + 440)] = ₹ 416 thousand
   Pre-acquisition equity (Desire Ltd.) = [40% of (600 + 300)] = ₹ 360 thousands

   Goodwill = 375-360 = ₹15 thousand

Adjustment for proportionate consolidation in respect of Investment in Joint Venture Desire Ltd.

	₹ in 000	₹in 000	
Investment in Desire Ltd. Dr.	41		= 416-375
Goodwill Dr.	15		= 375-360
To Profit and Loss A/c		56	= 416-360
Fixed Assets A/c Dr.	320		= 40% of 800
Current Assets A/c Dr.	266		= 40% of 665
To Non-current Liabilities		20	= 40% of 50
To Current Liabilities		150	= 40% of 375
To Investment in Desire Ltd.		416	= 40% of 1,040

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]**

Solution:

1. Cost of Control

Particulars			Cum-Dividend		Ex-Dividend	
Credited to			P&L A/c	Invt. A/c	P&L A/c	Invt. A/c
Cost of Investment						
	Equity Capital		2,50,000	2,50,000	2,50,000	2,50,000
	Preference Capital		30,000	30,000	30,000	30,000
	Total Cost of Investment		2,80,000	2,80,000	2,80,000	2,80,000
Adjustment for Dividend out of Pre–Acquisition Profits						
Less:	**Only for Cum Dividend Purchase**					
	Preference Dividend	(12% x ₹ 20,000)	(2,400)	–	N.A.	N.A.
	Equity Dividend	(20% x ₹ 60,000)	(12,000)	–	N.A.	N.A.
Add:	**Only for Ex-Dividend Purchase**					
	Preference Dividend	(12% x ₹ 20,000)	N.A.	N.A.	–	2,400
	Equity Dividend	(20% x ₹ 60,000)	N.A.	N.A.	–	12,000
	Corrected Cost of Investment (A)		**2,65,600**	**2,80,000**	**2,80,000**	**2,94,400**
	Nominal Value of Equity Capital (6,000 x ₹ 10)		60,000	60,000	60,000	60,000
	Nominal Value of Pref. Capital (200 x ₹ 100)		20,000	20,000	20,000	20,000
	Share in Capital Profit		96,000	96,000	96,000	96,000
	Total of Above	**(B)**	**1,76,000**	**1,76,000**	**1,76,000**	**1,76,000**
	Goodwill (if A > B)	**(A - B)**	**89,600**	**1,04,000**	**1,04,000**	**1,18,400**
	Capital Reserve (if B < A)	**(B - A)**	**10,400**	**–**	**–**	**–**

Note: Investment in Debentures are not considered for determining Cost of Control since as per AS 21, Cost of Control is required to be determined only to the extent of share in the Equity of the Subsidiary i.e. Shareholders Networth. Debentures are excluded in computing Shareholders Networth and hence should not be considered in the determining Cost of Control. Gain or Loss on elimination of mutually held Debentures in the consolidation process will be adjusted against Group Reserves.

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

Solution:

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 talking 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. In the government account there are few problems affected adversely. In the case of central and state government transaction communication procedure, bank accounts and uniformity are improper. In the paper it suggested Central and state government should adopt it fully computerized accounting system in routine procedure of all transactions and adopted accounting system should be familiar with global accounting standards. Improvement programs i.e. symposium, seminar is helpful for sustaining the accounting system. Graduate level accounting syllabus should be modified as per government accounting procedure and methods.

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

Solution:

Public Debt and Other Liabilities of Governments: Disclosure Requirements (IGAS 10)

In terms of Article 292 of the Constitution, the executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by Law. Article 293(1) of the Constitution provides a similar provision in respect of State Governments. Section 48A(1) of the Government of Union Territory Act 1963 and Section 47A(1) of Government of NCT of Delhi Act 1991, also provides for borrowing upon the security of the Consolidated Fund of the Union Territory concerned or Consolidated Fund of the Capital within such limits, if any, as may be fixed by Parliament by law and the stipulations indicated therein.

Objective

The objective of the IGAS is to lay down the principles for identification, measurement and disclosure of public debt and other obligation of Union and the State Governments including Union Territories with legislatures in their respective financial statements. It ensures consistency with international practices for accounting of public debt in order to ensure transparency and disclosure in the financial statements of Government for the benefit of various stake holders.

Scope

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,

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

Solution:

Under section 10 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (56 of 1971),the Comptroller and Auditor General shall be responsible -

(a) for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and

(b) for keeping such accounts in relation to any of the matters specified in clause (a) as may be necessary;

Provided that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-

(i) the said accounts of the Union (either at once or gradually by the issue of several orders); or

(ii) the accounts of any particular services or departments of the Union;

Provided further that the Governor of a State with the previous approval of the President and after consultation with Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-

(i) the said accounts of the State (either at once or gradually by the issue of several orders); or

(ii) the accounts of any particular services or departments of the State;

Provided also that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for keeping the accounts of any particular class or character.

Where, under any arrangement, a person other than the Comptroller and Auditor General has, before the commencement of this Act, been responsible-

(i) for compiling the accounts of any particular service or department of the Union or of a State, or

(ii) for keeping the accounts of any particular class or character, such arrangement shall, notwithstanding anything contained in subsection (1), continue to be in force unless, after consultation with the Comptroller and Auditor General, it is revoked in the case referred to in clause (i), by an order of the President or the Governor of the State, as the case may be, and in the case referred to in clause (ii) by an order of the President.

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

Solution:

The principles of Commercial and Government Accounting differ in certain essential points. The difference is due to the fact that, while the main function of a commercial concern is to take part in the production, manufacture or inter-change of gods or commodities between different groups or individuals and thereby to make profit, Government is to govern a country and, in connection therewith, to administer the several departments of its activities in the best way possible.

Government Accounts are designed to enable Government to determine how little money it need take out of the pockets of the tax-payers in order to maintain its necessary activities at the proper standard of efficiency. Non-Government Commercial accounts, on the other hand, are meant to show how much money the concern can put into the pockets of the proprietors consistently with the maintenance of a profit-earning standard in the concern.