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) Differentiate the following items with reference to 'Accounting Standards' (AS applicable in India) and International Financial Reporting Standards (IFRS):

(i) Extra ordinary items

(ii) Contingencies. **[5]**

(b) What are the need for convergent of AS with IFRS? **[5]**

(c) Explain the difference between the GAAP and IFRS with regards to Cash Flow Statement. **[5]**

2. (a) Given below are the summarized Balance Sheets of A Ltd. and T Ltd. as on 31.12.2013. T Ltd. was merged with A Ltd. with effect from 1.1.2014 and the merger was in the nature of purchase.

Summarised Balance Sheets as on 31.12.2013

Equity and Liabilities	A Ltd. ₹	T Ltd. ₹	Assets	A Ltd. ₹	T Ltd. ₹
Share Capital:			Fixed Assets	9,50,000	4,00,000
Equity Shares of ₹10 each	7,00,000	2,50,000	Investments (Non-trade)	2,00,000	50,000
General Reserve	3,50,000	1,20,000	Inventory	1,20,000	50,000
Surplus (P & L A/c)	2,10,000	65,000	Trade receivables	75,000	80,000
Export Profit Reserve	70,000	40,000	Advance Tax	80,000	20,000
12 % Debentures	1,00,000	1,00,000	Cash & Bank Balances	2,75,000	1,30,000
Trade payables	30,000	55,000			
Prov. for Taxation	1,00,000	50,000			
Proposed Dividend	1,40,000	50,000			
	17,10,000	7,30,000		17,00,000	7,30,000

A Ltd. would issue 12% Debentures to discharge the claims of the debenture holders of T Ltd. at par. Non-trade investments of A Ltd. fetched @25% while those of T Ltd. fetched @18%. Profit before of A Ltd. and T Ltd. during 2011, 2012 and 2013 and were as follows:

	A Ltd. ₹	T Ltd. ₹
2011	5,25,000	1,50,000
2012	5,75,000	1,90,000
2013	6,25,000	2,00,000

Goodwill may be calculated on the basis of capitalisation method taking 20% as normal rate of return for profit before tax. Purchase consideration is discharged by A Ltd. on the basis of intrinsic value per share. Prepare Balance Sheet of A Ltd. after merger. **[15]**

OR,

(b) The following are the summarized Balance Sheets of X Ltd and Y Ltd as on 31st December 2013.

(Amount in ₹)

Equity and Liabilities	X Ltd	Y Ltd	Assets	X Ltd	Y Ltd
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets	7,00,000	5,00,000
(i) Equity Shares of ₹10 each	6,00,000	6,00,000	(b) Non-Current Investments		
(ii) 10% Pref. Shares of ₹10 each	2,00,000	2,00,000	(i) 6,000 Shares of Y Ltd	80,000	
			(ii) 10,000 Shares of X Ltd		1,60,000
(b) Reserves & Surplus	3,00,000	4,00,000	(2) Current Assets:		
(2) Non-Current Liabilities:			(a) Inventories	2,40,000	6,40,000
- Long Term Borrowings	2,00,000	3,00,000	(b) Trade Receivables		
(12% Debentures)			(i) Debtors	3,60,000	3,80,000
(3) Current Liabilities:			(ii) Bills Receivable	60,000	40,000
- Trade Payables			(c) Cash & Cash		
(i) Sundry Creditors	2,20,000	2,50,000	Equivalents	1,10,000	80,000
(ii) Bills Payable	30,000	50,000			
Total	15,50,000	18,00,000	Total	15,50,000	18,00,000

Fixed Assets of both the Companies are to be revalued at 15% above Book Values and Stock and Debtors are to be taken over at 5% less than their Book Values. Both the Companies are to pay 10% Equity Dividends, Preference Dividends having been paid already. After the above transactions are given effect to, X Ltd will absorb Y Ltd on the following terms -

(a) 8 Equity Shares of ₹10 each will be issued by X Ltd, at par against 6 Shares of Y Ltd.

(b) 10% Preference Share of Y Ltd will be paid off at 10% Discount, by issue of 10% Preference Shares of ₹100 each of X Ltd at par.

(c) 12% Debenture Holders of Y Ltd are to be paid off at a 8% Premium by 12% Debentures in X Ltd, issued at a Discount of 10%.

(d) ₹ 30,000 to be paid by X Ltd to Y Ltd for Liquidation Expenses.

(e) Sundry Creditors of Y Ltd, include ₹20,000 due to X Ltd.

Prepare: (a) Statement of Purchase Consideration payable by X Ltd, (b) Balance Sheet of X Ltd after its absorption of Y Ltd. **[15]**

3. (a) As on 30th June, 2012 the draft balance sheets of the companies showed, the following position:

	R Ltd. ₹	K Ltd. ₹	C Ltd. ₹
Fixed assets	2,70,000	60,000	70,000
Investments at cost	3,20,000	1,50,000	10,000
	5,90,000	2,10,000	80,000
Current assets:			
Inventory	1,10,480	36,840	61,760
Trade Receivables	2,20,140	69,120	93,880
Balances at bank	2,62,580	16,540	52,610
	5,93,200	1,22,500	2,08,250
Less: Current liabilities:			
Trade payables	2,24,120	73,130	78,190
Taxation	60,000	—	22,000
Proposed dividends	2,00,000	60,000	40,000
	4,84,120	1,33,130	1,40,190
Net current assets / (liabilities)	1,09,080	(10,630)	68,060
	6,99,080	1,99,370	1,48,060

Financed by:			
Issued ordinary shares of ₹10 each	4,00,000	1,50,000	80,000
Capital reserve	1,00,000	—	23,000
Revenue reserve	1,99,080	49,370	45,060
	6,99,080	1,99,370	1,48,060

You also obtain the following information:

(i) K Ltd. acquired 6,800 shares in C Ltd. at ₹22 per share in 2009 when the balance on capital reserve was ₹15,000 and on revenue reserve ₹30,500 consolidated.

(ii) R Ltd. purchased 8,000 shares in K Ltd. in 2009 when the balance on the revenue reserve was ₹40,000. R Ltd. purchased a further 4,000 shares in K Ltd. in 2010 when the balance on the revenue reserve was ₹45,000. R Ltd. held no other investments on 30th June, 2012.

(iii) Proposed dividends from subsidiary companies are included in the figure for Trade Receivables in the accounts of the parent companies.

Prepare the consolidated balance sheet of R Ltd. and its subsidiaries as on 30th June, 2012, together with the consolidation schedules. **[15]**

OR

(b) Given below are the Separate Balance Sheets and Profit and Loss Statements of H Ltd. and its subsidiary S Ltd.:

Separate Balance Sheets of H Ltd. and S Ltd as on 31.3.2012		
	H Ltd. 31.3.2012 (₹ in lacs)	S Ltd. 31.3.2012 (₹ in lacs)
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Equity Share capital	2000	1000
(b) Reserves and Surplus	12600	1838
(2) Non-current Liabilities		
(a) Long Term Borrowings	2000	2700
(b) Deferred Tax Liabilities	600	450
(c) Other Long Term Liabilities	350	300
(d) Long term provisions	400	300
(4) Current Liabilities		
(a) Short term Borrowings	300	200
(b) Trade payables	120	100
(c) Other Current Liabilities	370	100
(d) Short term provisions	340	300
Total	19080	7288
II. Assets		
(1) Non-current Assets		
(a) Fixed Assets		
(i) Tangible Assets	6000	3000
(ii) Intangible Assets	200	100

(iii) Capital Work in Progress	3000	2000
(b) Non-current Investments	4000	200
(c) Long term Loans and Advances	3000	200
(d) Other Non-current Assets	100	200
(2) Current Assets		
(a) Current Investments	500	200
(b) Inventories	450	400
(c) Trade Receivables	200	150
(d) Cash and Cash equivalents	1080	50
(e) Short term Loans and Advances	300	600
(f) Other Current Assets	250	188
Total	19080	7288

Profit and Loss Statement for the year ended on 31.3.2012	₹ in lacs	₹ in lacs
I. Revenue from Operations	11000	5000
II. Other Income	800	200
III. Total Revenue	11800	5200
IV. Expenses	7220	3660
Cost of materials consumed	5500	2400
Purchase of stock-in-trade	300	200
Changes in inventories of finished goods, work in progress and stock in trade	-500	-300
Employee Benefits Expense	1100	800
Finance Costs	200	140
Depreciation and Amortization Expense	320	220
Other Expenses	300	200
V. Profit Before Exceptional and Extraordinary Items and tax	4580	1540
VI. Exceptional Items	50	30
VII. Profit before Extraordinary Items and tax	4630	1570
VIII. Extraordinary items	10	2
IX. Profit before Tax	4620	1568
X. Tax Expense	1386	470
(1) Current tax	220	100
(2) Deferred tax	50	20
XI. Profit/(Loss) for the Period from Continuing Operations	3234	1098
XII. Profit/(Loss) from Discontinuing Operations	0	-80
XIII. Tax Expense of discontinuing operations	0	20
XIV. Profit/(Loss) from Discontinuing Operations (after tax)	0	-60
XV. Profit/(Loss) for the Period	3234	1038

H Ltd. acquired 80% of shares of S Ltd. on 1.4.2011. Balance of reserve and surplus as on the date of acquisition was ₹1000 lacs. H Ltd. paid ₹ 2000 lacs for this acquisition. S Ltd. paid dividend of ₹200 lacs during 2011-12 for the accounting year 2010-11.

As on 31.3.2012 the following inter-company transactions are recorded:

(i) H Ltd. sold goods to S Ltd. amounting to ₹900 lacs which is included in raw materials consumed of S Ltd.
(ii) Trade receivables of H Ltd. include an amount of ₹50 lacs due from S Ltd.
(iii) Non-current and current borrowings of S Ltd. are from H Ltd.
(iv) Finance cost of S Ltd. represents interest on money borrowed from H Ltd.

Applying consolidation procedures explained in AS 21, prepare consolidated financial statements.

[15]

4. (a) S Ltd. is considering buying the business of B Ltd.; the final accounts of which for the last three years were as follows:

Draft Profit and Loss Accounts for the years ended 31st Dec.

	2011	2012	2013
Sales	2,20,000	2,08,000	2,24,000
Less: Material consumed	1,00,000	95,000	1,12,000
Business expenses	80,000	80,000	82,000
Depreciation	12,000	13,000	14,000
Net Profit	28,000	20,000	16,000

Draft Balance Sheets as at 31st Dec.

	2010 ₹	2011 ₹	2012 ₹	2013 ₹
Fixed Assets, at cost	1,00,000	1,20,000	1,40,000	1,80,000
Less: Depreciation	(70,000)	(82,000)	(95,000)	(1,09,000)
	30,000	38,000	45,000	71,000
Inventory-in-trade	16,000	17,000	18,500	21,000
Trade receivables	21,000	24,000	26,000	28,000
Cash in hand and at Bank	32,000	11,000	28,000	13,200
Prepaid Expenses	1,000	500	2,000	1,000
	1,00,000	90,500	1,19,500	1,34,200
Equity Capital	50,000	50,000	70,000	70,000
Securities Premium	—	—	5,000	5,000
General Reserve	16,000	24,000	26,000	42,000
Debentures	20,000	—	—	—
Trade payables	11,000	13,000	14,000	14,000
Accrued Business Expenses	3,000	3,500	4,500	3,200
	1,00,000	90,500	1,19,500	1,34,200

S Ltd. wishes the offer to be based upon trading cash flows rather than book profits. By trading cash flow is meant cash received from Trade receivables less cash paid to Trade payables and for business expenses (excluding depreciation), together with an allowance for average annual expenditure on fixed assets of ₹20,000 per year.

The actual expenditure on fixed assets is to be ignored, as is any cash received or paid out on the issue or redemption of shares or debentures.

S Ltd. wishes the trading cash flow to be calculated for each of the years 2011, 2012 and 2013, and for these to be combined using weighting of 20% for 2011, 30% for 2012 and 40% for 2013 to give an average annual trading cash flow.

S Ltd. considers that the average annual trading cash flow should show a return of 10% on its investment.

You are required to calculate:

(a) the trading cash flow for each of the years 2011, 2012 and 2013;
(b) the weighted average annual trading cash flow
(c) the price which Smith Ltd. should offer for the business. **[10]**

OR,

(b)(i) The acquiree possesses a show room on operating lease in a prime location of the city @ ₹1 million rent p.a. for a period of 3 years. It is a non- cancellable lease. Its current market value is ₹2 million p.a. But the lease is non- transferable. Should the acquirer recognize any intangible assets? Discount factor: 10%. **[5]**

(ii) X Ltd. and Y Ltd. merged together under the following terms and conditions:
All assets and liabilities of Y Ltd. will be transferred to X Ltd. and such assets and liabilities will be presented in the financial statements of X Ltd. After merger, X Ltd. will rename as XY Ltd. Y Ltd. has 100 million equity shares of ₹10 each of which X Ltd. holds 20% of shares. 9% of the shareholders objected to this merger. Their claims are discharged paying cash at 6 months average price. Claims of other equity shareholders were discharged by issuance of shares of X Ltd. However, debentures of ₹100 million required to be discharged since the debenture holders did not agree to the merger.

Can this merger be classified as amalgamation in the nature of merger? **[5]**

5. (a) ABC Ltd. grants 1000 employees stock options on 1.4.2010 at ₹40, when the market price is ₹160. The vesting period is 2 ½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2012. 600 options are exercised on 30.6.2013.100 vested options lapse at the end of the exercise period.

Pass necessary journal entries giving suitable narrations. **[10]**

OR,

(b)(i) A Mutual Fund raised 100 Lakhs on April 1,2013 by issue of 10 Lakh units of ₹ 10 per unit. The fund invested in several Capital Market instruments to build a portfolio of ₹90 Lakhs. The initial expenses amounted to ₹6 Lakhs. During April, 2013 the fund sold certain securities of Cost ₹38 Lakhs for ₹40 Lakhs and purchased certain other securities for ₹28.20. The fund management expenses for the month amounted to ₹4.50 Lakhs of which ₹0.25 Lakh was in arrears. The dividend earned was ₹1.20 Lakhs. 75% of the realized earnings were distributed. The market value of the portion on 30.04.2013 was ₹101.90 Lakh. Determine NAV per unit. **[5]**

(ii) The Capital Structure of Nidhi Ltd is as under:

- 80,00,000 Equity Shares of ₹10 each = ₹ 800 Lakhs
- 1,00,000 12% Preference Shares of ₹250 each = ₹250 Lakhs
- 1,00,000 10% Debentures of ₹500 each = ₹500 Lakhs
- Term Loan from Bank (at 10%) = ₹450 Lakhs.

The Company's Profit and Loss Account for the year showed a balance PAT of ₹100 lakhs, after appropriating Equity Dividend at 20%. The Company is in the 30% tax bracket. Treasury Bonds carry 6.5% interest and beta factor for the Company may be taken at 1.5. The long run market rate of return may be taken at 16.5%. Calculate EVA. **[5]**

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

Particulars	Skilled	Unskilled
(i) Annual average earning of an employee till the retirement	₹60,000	₹40,000
(ii) Age of retirement	60 years	60 years
(iii) Discount rate	15%	15%
(iv) No. of employees in the group	30	40
(v) Average age	57 years	58 years

[8]

(ii) Explain the disclosure requirement under AS 27 'Financial Reporting of Interest in Joint Ventures'.

[7]

OR,

(b)(i) The following particulars in respect of Stock Options granted by a Company are available.

Grant date	April 1,2010
Number of Employees covered	500
Number of Options granted per employee	100
Fair Value of Option per share on grant date (₹)	50

The Vesting Period shall be determined as below:

1. If the Company earns ₹ 120 Crores or above after taxes in 2010-11, the Options will vest on 31.03.2011.
2. If condition (a) is not satisfied but the Company earns ₹ 250 Crores or above after taxes in aggregate in 2010-11 and 2011-12, the Options will vest on 31.03.2012.
3. If conditions (a) and (b) are not satisfied but the Company earns ₹ 400 Crores or above after taxes in aggregate in 2010-11, 2011-12 and 2012-13, the Options will vest on 31.03.2013.

Position on 31.03.2011	Position on 31.03.2012
(a) Company earned₹ 115 Crores after taxes in 2010-11	(a) Company earned ₹ 130 Crores after taxes in 2011-12
(b) Company expects to earn ₹ 140 Crores in 2011-12 after taxes	(b) Company expects to earn ₹ 160 Crores in 2012-13 after taxes
(c) Expected vesting date: 31.03.2012	(c) Expected vesting date: 31.03.2013
(d) No. of employees expected to be entitled to Option = 474	(d) No. of employees expected to be entitled to Option = 465

Position on 31.03.2013 (a) The Company earned ₹ 165 Crores after taxes in 2012-13 (b) No. of employees on whom Option actually vested = 450	

Compute the expenses to recognize in each year. **[10]**

(ii) While closing its books of accounts on 31.03.2013 a Non-Banking Financial Company has its advances classified as follows:

Particulars	₹in Lahks
Standard Assets	25,200
Sub-Standard Assets	2,010
Secured portion of Doubtful Debts:	
- Upto one year	480
- One year to three years	135
- More than three years	45
Unsecured Portion	145
Loss Assets	72

Calculate the amount of provision to be made against the advances. **[5]**

7. (a) From the following summarized Balance Sheet of A Ltd. and its subsidiary B Ltd., prepare a consolidated Balance Sheet as on 31st December, 2011.

Equity and Liabilities	A Ltd.	BLtd.	Assets	A Ltd.	BLtd.
Share Capital			Sundry Assets	1,86,000	64,000
Equity Shares of₹ 10 each	2,00,000	40,000	Shares in B Ltd. 1,200 shares at ₹15 each	36,000	
Profit on sale of shares	6,000				
Profit and Loss A/c					
Brought forward	12,000	14,400			
For the year	4,000	9,600			
	2,22,000	64,000		2,22,000	64,000

A Ltd. bought in earlier year 3,200 equity shares in B Ltd. @ 15 when the Profit and Loss Account balance in B Ltd. was ₹8,800. A sold 800 shares @ ₹22.50, credited the difference between the sale proceeds and cost to 'Profit on sale of investment account' on 30th June, 2009 and crediting the balance to the investment account. Profit during the year accrued uniformly. **[10]**

OR,

(b)(i) H Ltd. sold goods to its 100% subsidiary S. Ltd. amounting to ₹1,00,000 - cost ₹1,03,000 which is lying in the godown of S Ltd. at the year end. It is found that market value of such goods is ₹105,000 at the year end and in the normal course of business it is possible to realize only ₹1,05,000. Therefore, inventory was valued at cost by S Ltd. which is ₹1,00,000. For S Ltd. cost remains lower than the net realizable value. While preparing consolidated balance sheet how should H Ltd. eliminate unrealized loss in terms of Paragraph 17, AS 21? **[5]**

(ii) A Ltd. holds 35% of voting right in B Ltd. But it has been analyzed that—

(a) Majority members of the Board of B Ltd. are representatives of A Ltd. "

(b) 80% of the purchase transactions of B Ltd. are with A Ltd. in a term unfavourable to B Ltd. Market price of the goods purchased is at least 10% less than at what rate the transactions are agreed upon with outside parties.

(c) Another 30% of the voting right of the company are with various financial institutions, which are supporting the existing management to protect their interest.

(d) Another 20% of the voting right are held by X Ltd. and its subsidiaries.

(e) Balance 15% of the voting right are with miscellaneous investors.

Should B Ltd. be treated as a subsidiary of A Ltd.? **[5]**

8.(a)(i) Explain the objectives and scope of Indian Government Accounting Standard – 7 'Foreign Currency Transaction and Loss or Gain by Exchange Rate variance. **[7]**

(ii) What are the roles of Public Accounts Committee as constituted by Parliament? **[8]**

OR,

(b)(i) Write a note on Indian Government Accounting Standard – 8, Contingent Liabilities (other than Gurantees) and Contingent Assets. **[10]**

(ii) State the responsibilities of the Government Accounting Standards advisory Board. **[5]**