Paper 18 – Corporate Financial Reporting

Syllabus 2012

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) State the objectives and scope of International Accounting Standard 8. **[5]**

(b) What are the recognition criteria of share Based Payment under International Financial Reporting Standard (IFRS) – 2 ? **[5]**

(c) Cost of Production of product A is given below:

Raw material per unit	₹160
Wages per unit	₹50
Overhead per unit	₹50
	₹260

As on the balance sheet date the replacement cost of raw material is ₹110 per unit. There are 100 units of raw material on 31.3.12.

Calculate the value of closing stock of raw materials in the following conditions:

(i) If finished product is sold at ₹ 275 per unit, what will be the value of closing stock of raw material?

(ii) If finished product is sold at ₹ 240 per unit, what will be the value of closing stock of raw material?

[5]

2. (a) The summarized Balance Sheets of S Ltd. and H Ltd. as on 31.3.12 were as follows.

(₹ in Lakhs)

Liabilities	S Ltd.		H Ltd.	
Equity Share capital		100		30
Reserves and surplus		500		90
10% 25,000 Debentures of ₹ 100 each		-		25
Other Liabilities		150		-
Total		750		145
Assets				
Fixed assets at cost	250		100	
Less: Depreciation	125	125	55	45
Investment in H Ltd.				
- 2 Lakhs Equity shares of ₹ 10 each at cost	32			
- 10% 25,000 debentures of ₹ 100 each at cost	24	56		
Current assets	1,000		300	
Less: Current liabilities	431	569	200	100

Total		750		145

In a scheme of absorption duly approved by the Court, the assets of 'H' Ltd. were taken over at an agreed value of ₹ 140 lakhs. The liabilities were taken over at par. Outside shareholders of 'H' Ltd. were allotted equity shares in S Ltd. at a premium of ₹ 90 per share in satisfaction of other claims in 'H' Ltd. for purposes of recording in the books of 'S' Ltd. Fixed assets taken over from 'H' Ltd. were revalued at ₹ 50 lakhs.

The scheme was put through on 1st April, 2012.

a. Pass journal Entries in the books of 'S' Ltd.

b. Show the balance of 'S' Ltd. after absorption of 'H' Ltd. **[15]**

OR,

(b) The following are the Balance Sheets of A Ltd. and B Ltd. as on 31st December 2012.

Liabiltiies	*A Ltd.* ₹	*B Ltd.* ₹	*Assets*	*A Ltd.* ₹	*B Ltd.* ₹
Share capital			Fixed Assets	14,00,000	5,00,000
Equity shares of ₹ 10 each	12,00,000	6,00,000	Investment:		
10% Preference shares of			6,000 shares of B Ltd.	1,60,000	-
₹10 each	4,00,000	2,00,000	5,000 shares of A Ltd.	-	1,60,000
Reserves and surplus	6,00,000	4,00,000	Current Assets:		
Secured loans:			Stock	4,80,000	6,40,000
12% Debentures	4,00,000	3,00,000	Debtors	7,20,000	3,80,000
Current liabilities:			Bills receivable	1,20,000	40,000
Sundry creditors	4,40,000	2,50,000	Cash at bank	2,20,000	80,000
Bills payable	60,000	50,000			
	31,00,000	18,00,000		31,00,000	18,00,000

Fixed assets of both the companies are to be revalued at 20% above book value. Stock in—-trade and Debtors are taken over at 10% lesser than their book value. Both the companies are to pay 10% Equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, A Ltd. will absorb B Ltd. on the following terms.

i. 8 Equity shares of ₹ 10 each will be issued by A Ltd. at par against 6 shares of B Ltd.

ii. 10% Preference Shareholders of B Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in A Ltd.

iii. 12% Debentureholders of B Ltd. are to be paid at 8% premium by 12% Debentues in A Ltd. issued at a discount of 10%.

iv. ₹ 60,000 is to be paid by A Ltd. to B Ltd. for Liquidation expenses. Sundry creditors of B Ltd. include ₹ 20,000 due to A Ltd.

Prepare :

(a) Absorption entries in the books of A Ltd.

(b) Statement of consideration payable by A Ltd. **[15]**

3. (a) On 31.03.2012 the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows (in ₹ Lakhs) -

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share Capital: Authorised	30,000	12,000	Land and Buildings	5,436	–
			Plant and Machinery	9,810	9,800
Issued and Subscribed:			Furniture and Fittings	3,690	1,172
Equity Shares (₹10) Fully Paid	24,000	9,600	Investments in shares in S Ltd.	6,000	–
General Reserve	5,568	2,760	Stock	7,898	3,912
Profit and Loss Account	5,430	3,240	Debtors	5,200	2,726
Bills Payable	744	320	Cash and Bank Balances	2,980	408
Sundry Creditors	2,922	1,708	Bills Receivable	720	398
Provision for Taxation	1,710	788	Sundry Advances	1,040	–
Proposed Dividend	2,400	–			
	42,774	18,416		42,774	18,416

The following information is also provided to you:

1. H Ltd. purchased 360 Lakhs shares in S Ltd. on 01.04.2011 when the balances to General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 6,000 Lakhs and ₹ 2,400 Lakhs respectively.
2. On 04.07.2011 S Ltd. declared a dividend @ 20% for the year ended 31.03.2011. H Ltd. credited the dividend received by it to its Profits and Loss Account.
3. On 01.01.2012 S Ltd. issued 3 fully paid-up shares for every 5 shares held as Bonus Shares out of balances in its General Reserve as on 31.03.2011.
4. On 31.03.2012 all the Bills Payable in S Ltd.'s Balance Sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 Lakhs of these acceptances in hand, the rest having been endorsed in favour of its Creditors.
5. On 31.03.2012 S Ltd.'s stock included goods which it had purchased for ₹ 200 Lakhs from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31.03.2012 bearing in mind the requirements of AS 21. **[15]**

OR

(b) X Ltd. is a holding Company and Y Ltd. and Z Ltd. are subsidiaries of X Ltd. Their Balance Sheets as on 31.12.2012 are given below-

Liabilities	X Ltd.	Y Ltd.	Z Ltd.	Assets	X Ltd.	Y Ltd.	Z Ltd.
Share Capital	1,50,000	1,50,000	90,000	Fixed Assets	30,000	90,000	64,500
Reserves	42,000	15,000	13,500	Investments in:			
Profit & Loss A/c	24,000	18,000	13,500	- Shares of Y Ltd.	1,12,500	—	—
Z Ltd. Balance	4,500	—	—	- Shares of Z Ltd.	19,500	79,500	—
Sundry Creditors	10,500	7,500	—	Stock in Trade	18,000	—	—
X Ltd. Balance	—	10,500	—	Y Ltd. Balance	12,000	—	—
				Sundry Debtors	39,000	31,500	48,000
				X Ltd. Balance	—	—	4,500
Total	2,31,000	2,01,000	1,17,000	Total	2,31,000	2,01,000	1,17,000

The following particulars are given:

1. The Share Capital of all Companies is divided into shares of ₹ 10 each.
2. X Ltd. held 12,000 shares in Y Ltd. and 1,500 shares of Z Ltd.
3. Y Ltd. held 6,000 shares of Z Ltd.
4. All these investments were made on 30.6.2011.
5. On 31.12.2011, the position was as shown below: (Amount in ₹)

Particulars	Reserve	P&LA/c	Creditors	Fixed Assets	Stock	Debtors
Y Ltd. Z Ltd.	12,000 11,250	6,000 4,500	7,500 1,500	90,000 64,500	6,000 53,250	72,000 49,500

6. 10% Dividend is proposed by each Company.
7. The whole of stock in trade of Y Ltd. as on 30.06.2012 (₹ 4,000) was later sold to X Ltd. for ₹ 4,400 and remained unsold by X Ltd. as on 31.12.2012.
8. Cash in transit from Y Ltd. to X Ltd. was ₹ 1,500 as at the close of business. You are required to prepare the Consolidated Balance Sheet of the group as at 31.12.2012. **[15]**

4. (a) Star Ltd. agreed to absorb Moon Ltd. on 31st March, 2012, whose Balance sheet stood as follows :

Liabilities	₹	*Assets*	₹
Share capital - 80,000 shares of ₹ 100 each fully paid	60,00,000	Fixed assets	76,00,000
Reserves and surplus:		Current assets:	
General Reserve	20,00,000	Stock in trade	4,00,000
Current Liabilities and Provisions:		Sundry Debtors	10,00,000
Sundry creditors	10,00,000		
	90,00,000		90,00,000

The consideration was agreed to be paid as follows:

a. A payment in cash of ₹ 50 per share in Moon Ltd. and

b. The issue of shares of ₹ 100 each in Star Ltd., on the basis of 3 Equity Shares (valued at ₹ 150) and two 10% cumulative preference share (valued at ₹ 100) for every five shares held in Moon Ltd.

It was agreed that Star Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in Moon Ltd. i.e. ₹ 650 for five shares of ₹ 500 paid.

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

Bharati	76	
Sonu	56	
Hitesh	52	
Jagat	8	
Other individuals	8	(eight members holding one share each)
	200	

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

OR,

(b) The following are the Balance sheets (as at 31.3.2011) of A Ltd. and C Ltd.:

Liabilities	A Ltd. ₹	C Ltd. ₹	Assets	A Ltd. ₹	C Ltd. ₹
Share Capital:			Fixed Assets	75,00,000	45,00,000
Equity Shares of ₹.10 each	54,00,000	27,00,000	Investments	7,50,000	7,50,000
10% Preference shares of ₹.100 each	18,00,000	-	Current Assets		
			Stock	27,00,000	18,00,000
12% Preference shares of ₹.100 each	-	9,00,000	Debtors	22,50,000	18,00,000
			Bills receivable	75,000	15,000
Reserve and Surplus:			Cash at Bank	2,25,000	1,35,000
Statutory Reserve	1,50,000	1,50,000			
General Reserve	37,50,000				
Secured Loan		25,50,000			
15% Debentures	7,50,000	-			
12% Debentures	-				
Current Liabilities		7,50,000			
Sundry creditors	16,20,000	19,20,000			
Bills payable	30,000	30,000			
	1,35,00,000	90,00,000		1,35,00,000	90,00,000

Contingent liabilities for bills receivable discounted ₹ 30,000.

(A)	The following additional information is provided to you:		
		A Ltd.	C Ltd.
		₹	₹
	Profit before Interest and Tax	22,12,500	11,70,000
	Rate of Income-tax	40%	40%
	Preference dividend	1,80,000	1,08,000
	Equity dividend	5,40,000	4,05,000
	Balance profit transferred to Reserve account.		

(B) The equity shares of both the companies are quoted on the Mumbai Stock Exchange. Both the companies are carrying on similar manufacturing operations.

(C) A Ltd proposes to absorb business of C Ltd. as on 31.3.2011. The agreed terms for absorption are:

(i) 12% Preference shareholders of C Ltd. will receive 10% Preference shares of A Ltd. sufficient to increase their present income by 20%.

(ii) The Equity shareholders of C Ltd. will receive equity shares of A Ltd. on the following terms:

(a) The Equity shares of C Ltd. will be valued by applying to the earnings per share of C Ltd. 60 per cent of price earnings ratio of A Ltd. based on the results of 2010-11 of both the Companies.

(b) The market price of Equity shares of A Ltd. is ₹ 40 per share.

(c) The number of shares to be issued to Equity shareholders of C Ltd. will be based on the 80% of market price.

(d) In addition to Equity shares, 10% Preference shares of A Ltd. will be issued to the equity shareholders of C Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2010-11.

(i) 12% Debentureholders of C Ltd. are to be paid at 8% premium by 15% debentures in A Ltd. issued at a discount of 10%.

(ii) ₹ 24,000 is to be paid by A Ltd. to C Ltd. for liquidation expenses. Sundry Creditors of C Ltd. include ₹ 30,000 due to A Ltd. Bills receivable discounted by A Ltd. were all accepted by C Ltd.

(iii) Fixed assets of both the companies are to be revalued at 20% above book value. Stock in trade is taken over at 10% less than their book value.

(iv) Statutory reserve has to be maintained for two more years

(v) For the next two years no increase in the rate of equity dividend is anticipated.

(vi) Liquidation expense is to be considered as part of purchase consideration.

You are required to:

(i) Find out the purchase consideration and

(ii) Give journal entries in the books of A Ltd. **[10]**

5. (a) What are the roles of Audit Committee of the company under clause 49 of listing agreement? **[10]**

OR,

(b)(i) State the disclosure requirement of Contingent liabilities and Assets under AS 29 "Provisions, Contingent liabilities and Contingent Assets". **[5]**

(ii) What information can we gather from Value Added Statements? **[5]**

6. (a)(i) On the basis of the following information related to trading in Options, you are required to pass relevant Journal Entries (at the time of inception and at the time of final settlement) in the books of Tom (Buyer) and Jerry (Seller). Assume that the price on expiry is ₹950/- and both Tom and Jerry follow the calendar year as an accounting year.

Date of Purchase	Option Type	Expiry Date	Premium per unit	Contract Lot	Multiplier
29.03.2013	Equity Index, Call	31.05.2013	₹10	1,000 units	₹850 p.u

[7]

(ii) A Company purchased a plant for ₹50 Lakhs during the financial year and installed it immediately. The price charged by the Vendor included Excise Duty (CENVAT Credit Available) of ₹5 Lakhs. During this year, the Company also produced excisable goods on which Excise Duty chargeable is ₹5.00 Lakhs. Show the Journal Entries describing CENVAT Credit treatment. At what amount should the Plant be capitalized? **[8]**

OR,

(b)(i) Explain the need and significance of Environmental Accounting. **[10]**

(ii) On April 1, 2012, a company Sky Blue Ltd. offered 100 shares to each of its 1,500 employees at ₹60 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant date is ₹70 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹68 per share.

On April 30, 2012, 1,200 employees accepted the offer and paid ₹60 per share purchased. Nominal value of each share is ₹10.

Record the issue of shares in book of the Sky Blue Ltd. under the aforesaid plan. **[5]**

7. (a) From the following information, prepare cash flow statement by using indirect method as per AS-3.

Balance Sheet

Liabilities	*31.3.2013*	*31.3.2014*	*Assets*	*31.3.2013*	*31.3.2014*
Capital	50,00,000	60,00,000	Plant & Machinery	27,30,000	42,70,000
Retained Earnings	26,50,000	36,90,000	*Less* : Depreciation	6,10,000	7,90,000
Debentures	—	9,00,000		21,20,000	34,80,000
Current Liabilities :			*Current Assets :*		
Creditors	8,80,000	8,20,000	Debtors	23,90,000	28,30,000
Bank Loan	1,50,000	3,00,000	*Less* : Provision	1,50,000	1,90,000
Liability for Expenses	3,30,000	2,70,000		22,40,000	26,40,000

Dividend Payable	1,50,000	3,00,000	Cash	15,20,000	28,20,000
Creditors for plant	—	2,00,000	Marketable Securities	11,80,000	15,00,000
and machinery			Inventories	20,10,000	19,20,000
purchased			Prepaid Expenses	90,000	1,20,000
	91,60,000	1,24,80,000		91,60,000	1,24,80,000

Additional Information:

(1) Net Income for the year ended 31.03.2014, after charging depreciation of ₹1,80,000 is ₹22,40,000.

(2) Debtors of ₹ 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account.

(3) The Board of Directors declared dividend of ₹ 12,00,000.

Note: Marketable securities are treated as cash equivalents. **[10]**

OR,

(b) X Ltd. acquired 75% of the Equity Shares of Y Ltd. From the following Balance Sheet as at 31st March 2014 of Y Ltd. and additional information furnished, determine Minority Interest in Y Ltd. as on Balance Sheet date

Liabilities	₹	Assets	₹
<u>Share Capital:</u>		<u>Fixed Assets:</u>	
Equity Capital (₹ 100)	40,00,000	(Net Block) (Tangible)	80,00,000
<u>Reserves:</u>		<u>Current Assets:</u>	
Securities Premium	6,00,000	Stock in Trade	40,00,000
General Reserve	14,00,000	Debtors	24,00,000
Profit and Loss Account	24,00,000	Other Current Assets	16,00,000
<u>Current Liabilities:</u>			
Creditors	28,00,000		
Bank Overdraft	48,00,000		
Total	1,60,00,000	Total	1,60,00,000

When X Ltd. acquired shares, balances in Reserves of Y Ltd. were as under - (a) Securities Premium ₹6,00,000; (b) General Reserve ₹ 2,00,000; (c) Profit and Loss Account ₹ 8,00,000. **[10]**

8.(a)(i) What are the procedures are adopted by the Government Accounting Standard Advisory Board for formulating the Standards? **[10]**

(ii) State the principles of Government Accounting. **[5]**

OR,

(b)(i) Explain the objectives and scope of IGAS 4 "General Purpose Financial Statements of Government". **[10]**

(ii) Give a brief comparison between Government Accounting and Commercial Accounting. **[5]**