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]

Answer:

International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" -

Objective

The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Scope

This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with IAS 12 *Income Taxes.*

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

Answer:
Recognition of Share Based Payment

The following are recognition criteria under Paras 7-9 of IFRS-2:

(i) The goods or services received or acquired in a share-based payment transaction are recognised when the goods are obtained or as the services are received. The entity shall recognise a corresponding increase in equity is recognised if the goods or services were received in an equity-settled transaction.

(ii) The goods or services received or acquired in a share-based payment transaction are recognised when the goods are obtained or as the services are received. The entity shall recognise a corresponding increase in liability if the goods or services were acquired in a cash-settled transaction. For example, in case of employee stock option, it is difficult to assess the fair value of the service rendered, and therefore, the transaction should be measured at fair value of the equity.

(iii) The goods or services received in a share-based payment transaction may qualify for recognition as an asset. If they are not so qualified then they are recognised as expense.

(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]

Solution:

(i) The realizable value of the product is more than the total cost of the product. The cost of raw material per unit is more than the replacement cost, hence, raw materials should be valued on actual cost.

Therefore, the value of raw materials: 100 units x ₹160 per unit = ₹16,000

(ii) The realizable value of the product is less than the total cost of the product. Though the cost of raw material per unit is more than the replacement cost, hence, raw materials should be valued on replacement cost.

Therefore, the value of raw materials: 100 units x ₹110 per unit= ₹11,000

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]

Solution :

WN # 1 : *Purchase consideration of shares to be issued*

Purchase Consideration ₹ 140 lakhs = Debentures ₹ 25 lakhs + Equity Share holders ₹ 115 lakhs

Equity Share holders ₹ 115 lakhs = Worth of shares belonging to S Ltd. $\frac{2.4 \text{ lakh}}{3 \text{ lakh}} \times 115 = ₹92$ lakhs

+

Amount pertaining to outsiders 115 – 92 = ₹23 lakhs

Number of shares to be issued to outside shareholders @ ₹10 each at a premium of ₹ 90 each

$= \frac{₹23{,}00{,}000}{100} = 23{,}000$ Shares.

a) Part - II Journals entries in the Books of S Ltd.

- Nature of Amlagamation - Purchase Method
- Method of Accounting - Purchase Method

(₹ in Lakhs)

	Particulars	*Debit*	*Credit*
i.	For Purchase Consideration Due : Business Purchase A/c Dr. To Liquidator for H Ltd." A/c (Being the purchase consideration payable to liquidator of H Ltd. for business purchase)	 23	 23
ii.	For assets and liabilities taken over: Fixed Assets A/c Dr. Current Assets A/c Dr. To Current Liabilities A/c To Liability for 10% Debentures A/c To Business Purchase A/c To Investment in H Ltd. A/c To Capital Reserve (balancing figure) (Being the assets and liabilities taken over from H Ltd)	 50 300	 200 25 23 32 70
iii.	Discharge of purchase consideration: Liquidator of H Ltd. A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being the allotment of 23,000 equity shares of ₹ 10 each to outside shareholders of H Ltd. at a premium of ₹90 per share.)	 23	 2.30 20.70
iv.	Cancellation of Liability of Debentures: 10% Debenetures A/c Dr. To Investments in Debentures A/c To Capital Reserve A/c (Being the cancellation of debentures of H Ltd.)	 25	 24 1

Name of the Company: S Ltd.					
Balance Sheet as at 01.04.2012					
Ref No.		**Particulars**	**Note No.**	**As at 1st April, 2012**	**As at 1st April, 2011**
				(₹ in lakhs)	**(₹ in lakhs)**
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	102.30	
		(b) Reserves and surplus	2	591.70	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		(a) Long-term borrowings			
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c) Other current liabilities	3	781.00	
		(d) Short-term provisions			
		Total		**1,475.00**	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	4	175.00	
		(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	1,300.00	
		Total		**1,475.00**	

	(₹ in Lakhs)	
Note 1. Share Capital	As at 1st April, 2012	As at 1st April, 2011
Authorised, Issued, Subscribed & paid up		
10.23 lakhs Equity Shares of ₹ 10 each [of the above shares, 23,000 Equity shares are allotted as fully paid up for consideration other than cash]	102.30	
Total	102.30	

RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 1st April 2012**		**As at 1st April 2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.11	10	100.00	NIL	NIL
Add: Fresh Issue (Incld, Bonus shares, Right shares, split shares, shares issued other than cash)	0.23	2.30	NIL	NIL
	10.23	102.30	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	10.23	102.30	NIL	NIL

Note: It has been assumed that Current assets have been taken over by S Ltd. at their book value.

Note 2. Reserves and Surplus	As at 1st April, 2012	As at 1st April, 2011
Reserves	500.00	
Capital Reserve (70 + 1)	71.00	
Securities Premium	20.70	
Total	591.70	

Note 3. Other Current Liabilities	As at 1st April, 2012	As at 1st April, 2011
Other Liabilities	150.00	
Current Liabilities (431+200)	631.00	
Total	781.00	

Note 4. Tangible assets	As at 1st April, 2012	As at 1st April, 2011
Fixed asset (125+50)	175.00	
Total	175.00	

Note 5. Other Current Assets	As at 1st April, 2012	As at 1st April, 2011
Current Assets (1,000 + 300)	1,300.00	
Total	1300.00	
Note : It has been assumed that Current assets have been taken over by S Ltd. as their book value.		

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 ₹10 each	**4,00,000**	**2,00,000**	**6,000 shares of B Ltd.**	**1,60,000**	**-**
			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]**

Solution:

Part - I *Purchase consideration payable by A Ltd.*

A. *Equity share holders:-*

No of equity shares of B Ltd.	60,000
Less:- Held by A Ltd.	12,000
No. of equity shares held by outsiders	48,000
Exchange ratio	8:6
No. of equity shares to be issued by A Ltd. (48,000 × 8/6)	64,000
Less: Already held by B Ltd. in A Ltd.	(10,000)
No. of equity shares to be issued now	54,000
Value of shares to be issued 54,000 × 10 =	₹ 5,40,000

B. *Preference share holders:-*

Preference Share capital of B Ltd.	2,00,000
Payable at discount of 10% [2,00,000 - (10% of 2,00,000)]	1,80,000
10% Preference shares to be issued at par by A Ltd. to B Ltd.	₹ 1,80,000

C. *Purchase consideration (A+B)* ₹ 7,20,000

Part II* - *Absorption entries* in *the books of A Ltd.

***A. Pre - Amalagamation Events* :-**

	Particulars		***Debit***	***Credit***
1.	Revaluation of Fixed assets			
	Fixed Assets A/c	Dr.	2,80,000	
	To Revaluation Reserve A/c			2,80,000
2.	Dividend received from B Ltd. on 12,000 shares			
	Bank A/c	Dr.	12,000	
	To Reserves and Surplus			12,000
3.	Dividend on equity Share capital @ 10%			
	i. Due entry			
	Reserves and Surplus	Dr.	1,20,000	
	To Proposed Dividend A/c			1,20,000

ii. Payment entry			
Proposed Dividend A/c	Dr.	1,20,000	
To Bank A/c			1,20,000

B. *Amalgamation Events*

Nature of Amalgamation - Purchase

Method of Accounting - Purchase

Particulars		***Debit***	***Credit***
1. For Purchase Consideration Due:			
Business purchase A/c	Dr.	7,20,000	
To Liquidator of B Ltd.			7,20,000
2. For assets and liabilities taken over			
Fixed Assets (120% of 5,00,000)	Dr.	6,00,000	
Stock A/c (90% of 6,40,000)	Dr.	5,76,000	
Debtors A/c (90% of 3,80,000)	Dr.	3,42,000	
Bills Receivable A/c	Dr.	40,000	
Bank A/c *	Dr.	30,000	
To 12% Debentures of B Ltd A/c			3,24,000
To Sundry creditors A/c			2,50,000
To Bills payable A/c			50,000
To Business Purchase A/c			7,20,000
To Investment in B Ltd. A/c			1,60,000
To Capital Reserve A/c (Balancing Figure)			84,000
3. For Discharge of Purchase consideration			
Liquidator of B Ltd A/c	Dr.	7,20,000	
To Equity Share Capital A/c			5,40,000
To 10% Preference Share Capital A/c			1,80,000
4. Liquidation expenses incurred by B Ltd, later reimbursed by A Ltd.			
Capital Reserve A/c	Dr.	60,000	
To Bank A/c			60,000
5. Discharge to debenture holders of B Ltd.			
12% Debenture Holders A/c	Dr.	3,24,000	
Discount on Issue of debentures A/c	Dr.	36,000	
To 12% Debentures A/c.			3,60,000
6. Cancellation of inter company owings			
Sundry Creditors A/c	Dr.	20,000	
To Sundry Debtors A/c			20,000

* Bank Balance of B Ltd.

Balance as per Balance Sheet	80,000
Add : Dividend Received from A Ltd (10% on 1,00,000)	10,000
Less : Dividend paid on Share capital (10% on 6,00,000)	(60,000)
	30,000

\# 12% Debentures of B Ltd. = 3,00,000

Payable at 8% premium 3,00,000 × 108% = 3,24,000

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]**

Solution:

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = H Subsidiary = S	Acquisition: 01.04.2011 Consolidation: 31.03.2012	Holding Company = 60% Minority Interest = 40%

Shareholding Pattern - % of Holding by H Ltd.

Date	Particulars	No. of Shares
01.04.2011	Original Purchase	36
01.01.2012	First Bonus Issue (3/5 x 3,60,000)	21.6
31.03.2012	Total Shares held by H Ltd. in S Ltd.	**57.6**
	Total Shares outstanding in S Ltd. (₹9,600 Lakhs / ₹10)	**96**
	% of Holding (57.60 / 96)	**60%**

2. Analysis of Reserves and Surplus of S Ltd. (₹ Lakhs)

(a) General Reserves

Balance as on 31.03.2012 ₹ 2,760

	Balance on 1.4.2011 (as on acqn. date)	₹ 6,000	Transfer during 2011-12 (upto Consolidation
Less:	Bonus Issue (216/60% x ₹ 10)	₹ 3,600	(balancing figure) ₹ **360**
	Balance **Capital Profit**	**₹ 2,400**	**Revenue Reserve**

(b) Profit and Loss Account

Balance as on 31.03.2012 ₹ 3,240

	Balance on 01.04.2011 (as on acqn. date)	₹ 2,400	Profit for 2011-12 (upto Consolidation)
Less:	Dividend (₹ 6000 x 20%)	₹ 1,200	(balancing figure) ₹ **2,040**
	Balance **Capital Profit**	₹ 1,200	**Revenue Profit**

3. Analysis of Net Worth of S Ltd. (₹ Lakhs)

	Particulars		Total	H	Minority
			100%	**60%**	**40%**
(a)	**Equity Capital**		**9,600**	5,760	3,840
(b)	**Capital Profits**	General Reserve Profit and Loss Account	2,400 1,200		
		Total Capital Profits	**3,600**	2,160	1,440
(c)	**Revenue Res.**	General Reserve	**360**	216	144
(d)	**Revenue Profit**	Profit and Loss Account	**2,040**	1,224	816
	Minority Interest				**6,240**

4. Cost of Control

	Particulars		₹ Lakhs
	Cost of Investment		6,000
Less:	Pre-Acquisition Dividend Received (₹ 3,600 x 20%)		720
	Adjusted Cost of Investment		5,280
Less:	Nominal Value of Share Capital	5,760	
	Share in Capital Profit of S Ltd.	2,160	(7,920)
	Capital Reserve on Consolidation		**2,640**

5. Consolidation of Reserves and Surplus (₹ Lakhs)

	Particulars	Gen. Res.	P&LA/c
	Balance as per Balance Sheet of H Ltd.	5,568	5,430
Less:	Pre-Acquisition Dividend wrongly credited to P&L A/c		(720)
	Adjusted Cost of Investment	5,568	4,710
Add:	Share of Revenue from S Ltd.	216	1,224
	Consolidated Balance	5,784	5,934
Less:	Unrealized Profit on Closing Stock (₹ 200 x 25%/125%)		(40)
	Adjusted Consolidated Balance	**5,784**	**5,894**

Name of the Company: H Ltd. And its subsidiary S Ltd.

Consolidated Balance Sheet as at 31st March 2012

Ref No.	Particulars		Note No.	As at 31st March, 2012	As at 31st March, 2011
				₹ in lakhs	**₹ in lakhs**
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital @ ₹ 10 each	1	24,000	-
		(b) Reserves and surplus	2	14,318	-
	2	**Minority Interest**		6,240	-
	3	**Current liabilities**			
		(a) Trade payables	3	4,630	-
		(b) Other current liabilities	4	1,019	-
		(c) Short-term provisions	5	4,898	-
		TOTAL (1+2+3)		**55,105**	**-**
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	6	29,908	-
	2	**Current assets**			
		(a) Inventories	7	11,770	-
		(b) Trade receivables	8	7,926	-
		(c) Cash and cash equivalents	9	3,388	-
		(d) Short-term loans and advances (Sundry advance)		1,040	-

		(f) Other current assets	10	1,073	-
		TOTAL (1+2)		**55,105**	-

Note 1. Share Capital

	Current Year	Previous Year
Authorised Capital	30,000	-
1,200 Issued and Paid Up equity shares capital @ ₹10 each	24,000	-
	24,000	-

Note 2. Reserve and Surplus :-

	Current Year	Previous Year
General Reserve	5,784	-
Profit and loss	5,894	-
Capital Reserve on Consolidation	2,640	-
	14,318	-

Note 3. Trade Payable

	Current Year	Previous Year
Sundry Creditors		
H	2,922	-
S	1,708	-
	4,630	-

Note 4. Other Current Liabilities :-

	Current Year	Previous Year
Bills Payable:-		
- H Ltd	744	-
- S Ltd	320	-
	1,064	-
Less: Mutual Oweings	(45)	-
	1,019	-

Note 5. Short Term Provisions

	Current Year	Previous Year
Prov. For taxations		
H Ltd.	1,710	-
S Ltd.	788	-
	2,498	-
Proposed dividend	2,400	-
	4,898	-

Note 6. Tangible Assets:-

	Current Year	Previous Year
Land and Building	5,436	-
Plant and Machinery (9,810 + 9,800)	19,610	-
Furniture (3,690 + 1,172)	4,862	-
	29,908	-

Note 7. Inventories :-

	Current Year	Previous Year
Stock		
H Ltd	7,898	-
S Ltd. (3,912 - 40)	3,872	-
	11,770	-

Note 8. Trade Receivable:-

	Current Year	Previous Year
Debtors		
H Ltd	5,200	-
S Ltd.	2,726	-
	7,926	

Note 9. Cash and cash equivqlent :-		
	Current Year	Previous Year
Cash & Bank		
H Ltd	2,980	-
S Ltd.	408	-
	3,388	-

Note 10. Other Current assets :-		
	Current Year	Previous Year
Bills Receivable		
H Ltd	720	
S Ltd.	398	-
	1118	-
Less: set off	(45)	-
	1,073	-

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.	12,000	6,000	7,500	90,000	6,000	72,000
Z Ltd.	11,250	4,500	1,500	64,500	53,250	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]**

Solution:

1. Basic Information

Company Status		Dates	Holding Status		
Holding Company	= X Ltd.	Acquisition: 30.06.2011		Y Ltd.	Z Ltd.
Subsidiary	= Y Ltd.	Consolidation: 31.12.2012	a. Holding Co.	(X) 80%	(X) 16.67%
Sub–Subsidiary	= Z Ltd.			–	(Y) 66.66%
			b. Minority Int.	20%	16.67%

Note: *The Shareholding Pattern is as under*

Company	Held by X	Held by Y	Total Holdings	Minority Interest	Total No. of Shares
Y Ltd.	12,000 (80%)	N. A.	12,000 (80%)	3,000 (20%)	15,000 (100%)
Z Ltd.	1,500 (16.67%)	6,000 (66.67%)	7,500 (83.33%)	1,500 (16.67%)	9,000 (100%)

2. Analysis of Reserves and Surplus of Subsidiary Companies

(a) General Reserve

Y Ltd.				Z Ltd.		
Balance on 31.12.2012 ₹ 15,000				31.12.2012 ₹ 13,500		
1.1.12 Prev. B/s 12,000 Capital	Tfr in 2012 ₹ 3,000			1.1.12 Prev. B/s 11,250 Capital	Tfr in 2012 ₹ 2,250	
	1.1.06 to DOA ₹ 1,500 Capital	DOA to DOC ₹ 1,500 Revenue			1.1.12 to DOA ₹ 1,125 Capital	DOA to DOC ₹1,125 Revenue
Capital Profit - ₹ 13,500; Revenue Profit - ₹ 1,500				Capital Profit - ₹ 12,375; Revenue Profit - ₹ 1,125		

(b) Profit & Loss Account

Y Ltd.			Z Ltd.		
	Balance on 31.12.2012	18,000		Balance on 31.12.2012	13,500
Less:	Proposed Dividend (10% x 1,50,000)	(15,000)	Less:	Proposed Dividend (10%x90,000)	9,000
Add:	Dividend from Z Ltd. (6/12 x 9,000 x 66.67%)	3,000		Adjusted Balance	4,500
	Adjusted Balance	6,000			

1.1.12 Prev. B/s 6,000 Capital	Profit in 2012 NIL		1.1.12 Prev. B/s 4,500 Capital	Profit in 2012 NIL Revenue

3. Analysis of Net Worth of Subsidiary Companies (Indirect Method)

	Particulars	X Ltd.		Minority Interest	
		80%	**16.67%**	**Y Ltd.**	**Z Ltd.**
		Y 66.67% Z		**20%**	**16.67%**
(a)	**Share Capital**	**1,50,000**	**90,000**		
Less:	Minority Interest	(30,000)	(15,000)	30,000	15,000
	Holding Co's Share	**1,20,000**	**75,000**		
(b)	**Capital Profits**				
	General Reserve	13,500	12,375		
	Profit & Loss Account	6,000	4,500		
		19,500	**16,875**		
Trfr.	Y's share in Z (66.67% x ₹ 16,875)	11,250	(11,250)		
		30,750	5,625		
Less:	Minority Interest	(6,150)	(2,812)	6,150	2,812
	Holding Co's Share	**24,600**	**2,813**		
(c)	**Revenue Reserve:**	1,500	1,125		
Trfr.	B's share in C (66.67% x ₹ 750)	750	(750)		
		2,250	375		
Less:	Minority Interest	(450)	(188)	450	188
Holding Co.'s Share		**1,800**	**187**		
(d)	**Revenue Profits**	**NIL**	**NIL**	–	–
(e)	**Proposed Dividend**	15,000	9,000		
Less:	Minority Interest	(3,000)	(1,500)	3,000	1,500
	Holding Co's Share	**12,000**	**7,500**		
	Minority Interest Before Stock Reserve Adjustment			**39,600**	**19,500**
Less:	Share of Minority Interest of Y in Unrealized Profits (4,400 - 4,000) x 20%			(80)	–
	Minority Interest			**39,520**	**19,500**

4. Cost of Control

	Particulars			₹
Cost of Investment:	X Ltd. in Y Ltd.		1,12,500	
	X Ltd. in Z Ltd.		19,500	
	Y Ltd. in Z Ltd.		79,500	**2,11,500**
Less: Dividend out of Pre-acqn. Pfts		(For 01.01.2012 to 30.06.2012)		
From Y Ltd.		(12,000 Shares x ₹ 10 x 10% x 6/12]	6,000	

	From Z Ltd. (7,500 Shares x ₹ 10 x 10% x 6/12)		3,750	**9,750**
	Adjusted Cost of Investment			**2,01,750**
Less:	(a) Nominal Value in Share Capital of:	Y Ltd.	1,20,000	
		Z Ltd.	75,000	(1,95,000)
	(b) Share in Capital Profits	Y Ltd.	24,600	
		Z Ltd.	2,813	**(27,413)**
	Capital Reserve on Consolidation			**20,663**

5. Consolidation of Reserves and Surplus

	Particulars		Gen. Res.	P & L A/c
	Balance as per Balance Sheet of X Ltd.		42,000	24,000
Less:	Proposed Dividend	(₹ 1,50,000 x 10%)	–	(15,000)
Add:	Share of Proposed Dividend	(01.07.2012 to 31.12.2012) from		
		Y (12,000 Shares x ₹ 10 x 10% x 6/12)	–	6,000
		Z (1,500 Shares x ₹ 10 x 10% x 6/12)	–	750
	Adjusted Balance		**42,000**	**15,750**
Add:	Share of Revenue from	Y Ltd.	1,800	NIL
		Z Ltd.	187	NIL
	Consolidated Balance		43,987	15,750
Less:	Stock Reserve [₹ 4,400 - ₹ 4,000] x 80%		–	(320)
	Corrected Consolidated Balance		**43,987**	**15,430**

Name of the Company: X Ltd. And its subsidiary Y & Z Ltd.

Consolidated Balance Sheet as at 31st, December 2012

Ref No.	Particulars		Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	150,000	-
		(b) Reserves and surplus	2	80,080	-
	2	**Minority Interest** (39,520 + 19,500)		59,020	-
	3	**Current liabilities**			
		(a) Trade payables	3	18,000	-
		(b) Short-term provisions	4	15,000	-
		TOTAL (1+2+3+4)		**3,22,100**	-
	B	**ASSETS**			
	1	**Non-current assets**			

Ref No.	Particulars		Note No.	As at 31st December, 2012 ₹	As at 31st December, 2011 ₹
		(a) Fixed assets			
		(i) Tangible assets	5	1,84,500	-
	2	**Current assets**			
		(a) Inventories (18,000 – 400)		17,600	-
		(b) Trade receivables	6	1,18,500	-
		(c) Cash and cash equivalents		1,500	-
		TOTAL (1+2)		**3,22,100**	-

Note 1. Share Capital		
	Current Year	**Previous Year**
Authorised Capital	-	-
Issued and Paid Up: Equity Share capital	1,50,000	-
	1,50,000	-

Note 2. Reserve and Surplus		
	Current Year	**Previous Year**
General Reserve	43,987	-
Profit & Loss A/c	15,430	-
Capital Reserve on Consolidation	20,663	-
	80,080	

Note 3. Trade Payable		
	Current Year	**Previous Year**
Sundary Creditors		
X	10,500	-
Y	7,500	-
	18,000	-

Note 4. Short Term Provisions		
	Current Year	**Previous Year**
Proposed Dividend	15,000	-
	15,000	

Note 5. Tangible Assets		
	Current Year	**Previous Year**
Fixed Assets		
X	30,000	-
Y	90,000	-
Z	64,500	-
	1,84,500	-

Note 6. Trade Receivable		
	Current Year	**Previous Year**
Sundry Debtors		
X	39,000	
Y	31,500	
Z	48,000	
	1,18,500	

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]

Solution :

WN # 1 : ***Statement of consideration paid for fraction shares***

Particulars	**Bharti**	**Sonu**	**Hitesh**	**Jagat**	**Others**	**Total**
a. Holding of shares	76	56	52	8	8	200
b. Non-exchangeable shares (Payable in Cash)	1	1	2	3	8	15
c. Exchangeable Shares [(a) - (b)]	75	55	50	5	—	185
d. Above shares						
i. in Equity shares (2:5)	45	33	30	3	—	111
ii. in Preference shares (1:5)	30	22	20	2	—	74

WN # 2 : Number of shares to be issued

a. Exchangeable shares :

= Total shares – Non Exchangeable shares

= 60,000 – 15 = 59,985

b. Equity shares to be issued :

$$= \frac{59,985}{5} \times 3 = 35,991 \text{ Shares (i.e. 3 shares for every 5 shares)}$$

c. Preference shares to be issued

$$= \frac{59,985}{5} \times 2 = 23,994 \text{ Shares (i.e. 2 shares for every 5 shares)}$$

WN # 3 : *Cash to be paid*

	Particulars	₹
a.	59,985 shares @ ₹ 50 each	29,99,250
b.	Consideration for non-exchangeable $[15\times100]\times\frac{650}{500}$ (i.e. ₹ 650 for five shares of ₹ 500 paid)	1,950
c.	Total	30,01,200

Statement of Purchase Consideration :

Particulars		₹
a. In Shares :		
i. 35,991 Equity shares @ ₹ 150 each	53,98,650	
ii. 23,994 Preference shares @ ₹ 100 each	23,99,400	77,98,050
b. In Cash (WN # 3)		30,01,200
c. Total (a+b)		1,07,99,250

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]

Solution: ₹

(i)	For Preference Shareholders Present Income of Preference Shareholders of C Ltd. Add : 20% increase	1,08,000 21,600 1,29,600
	10% Preference Shares to be issued of ₹ 12,96,000 (1,29,600/10x 100) **For Equity Shareholders** Valuation of Equity Shares of C Ltd. = Number of shares x Value of one share (i.e. EPS of C Ltd. x P/E ratio of A Ltd. x 60/100) = 2,70,000 × (₹ 2 × 20 ×60/100) = 2,70,000 × 24 = ₹ 64,80,000 **Issue of Equity Shares** No. of Equity Shares to be issued at 80% of Market Price i.e. 80% of ₹ 40 = ₹ 32 64,80,000/32 = 2,02,500 shares Equity Share Capital = 2,02,500 × ₹ 10 = ₹ 20,25,000 Securities premium = 2,02,500 x ₹ 22 = 44,55,000 **= ₹ 64,80,000**	
	Issue of Preference Shares Present Equity Dividend Less: Expected Equity Dividend from A Ltd. (20,25,000 × 10/100)	₹ 4,05,000 2,02,500
	Loss in income	2,02,500
	10% Preference Shares to be issued of ₹ 20,25,000 (2,02,500/10 × 100)	20,25,000
Purchase Consideration: - Preference Shares Capital [₹12,96,000 + ₹ 20,25,000] Equity Share Capital (2,02,500 shares of ₹ 10 each at ₹ 32 per share) Liquidation Expenses (in cash)		33,21,000 64,80,000 24,000
		98,25,000

(ii) Journal Entries in the Books of A Ltd. *Dr.* *Cr.*

	Particulars		₹	₹
1.	Fixed Assets A/c	Dr.	15,00,000	
	To Revaluation Reserve			15,00,000
	(Being fixed assets revalued at 120% of book value)			
2.	Business Purchase A/c	Dr.	98,25,000	
	To Liquidator of C Ltd.			98,25,000
	(Being purchase consideration payable for the business taken over from C Ltd.)			
3.	Fixed Assets A/c	Dr.	54,00,000	
	Investment A/c	Dr.	7,50,000	
	Stock A/c	Dr.	16,20,000	
	Debtors A/c	Dr.	18,00,000	
	Bills Receivable A/c	Dr.	15,000	
	Cash at Bank A/c	Dr.	1,35,000	
	Goodwill A/c (Balancing figure)	Dr.	28,65,000	
	To 12% Debentures in C Ltd.			8,10,000
	To Creditors			19,20,000
	To Bills Payable			30,000
	To Business Purchase A/c			98,25,000
	(Being incorporation of different assets and liabilities of C Ltd. taken over at agreed values and balance debited to goodwill account)			
4.	Liquidator of C Ltd.	Dr.	98,25,000	
	To Equity Share Capital A/c			20,25,000
	To Securities Premium A/c			44,55,000
	To Preference Share Capital A/c			33,21,000
	To Bank A/c			24,000
	(Being discharge of consideration for C Ltd's business)			
5.	12% Debentures in C Ltd.	Dr.	8,10,000	
	Discount on issue of Debentures	Dr.	90,000	
	To 15% Debentures			9,00,000
	(Being allotment of 15% Debentures to debenture holders at a discount of 10% to discharge liability of C Ltd. debentures)			

6.	Sundry Creditors A/c Dr. To Sundry Debtors A/c (Being cancellation of Mutual owing)	30,000	30,000
7.	Amalgamation Adjustment A/c Dr. To Statutory Reserve A/c (Being statutory reserve account is maintained under statutory requirements)	1,50,000	1,50,000
8.	Securities Premium A/c Dr. To Discount on issue of Debentures A/c (Being discount on issue of Debentures written off out of securities premium)	90,000	90,000

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

[10]

Answer:

Role of Audit Committee

The role of the audit committee shall include the following:

i. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

ii. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.

iii. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

iv. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
   a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956
   b. Changes, if any, in accounting policies and practices and reasons for the same
   c. Major accounting entries involving estimates based on the exercise of judgment by management
   d. Significant adjustments made in the financial statements arising out of audit findings
   e. Compliance with listing and other legal requirements relating to financial statements
   f. Disclosure of any related party transactions
   g. Qualifications in the draft audit report.

v. Reviewing, with the management, the quarterly financial statements before submission to the board for approval

vi. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.

vii. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

viii. Discussion with internal auditors any significant findings and follow up there on.

ix. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

x. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

xi. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

xii. To review the functioning of the Whistle Blower mechanism, in case the same is existing.

xiii. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Explanation (i): The term "related party transactions" shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.

Explanation (ii): If the company has set up an audit committee pursuant to provision of the Companies Act, the said audit committee shall have such additional functions/features as is contained in this clause.

OR,

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

Answer:

Disclosure of contingent liability:

An enterprise should disclose for each class of contingent liability at the balance sheet date-

- A brief description of the nature of the contingent liability where practicable.
- An estimate of the amount as per measurement principles as prescribed for provision.
- Indications of the uncertainties relating to outflow.
- The possibility of any reimbursement.
- Where any of the information required as above is not disclosed because it is not practicable to do so, that fact should be stated.

An enterprise need not disclose of the disclosure requirement if disclosure of any of this information is expected to prejudice seriously the case of the enterprise in disputes with other party. However, it should be extremely rare case.

Disclosure of contingent assets:

Contingent assets are not required to disclosed in financial statement, generally Board of Directors report discloses such contingent assets.

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

Answer:

We can gather following information from Value Added Statement as given below-

(i) **Wealth Creation:** The Value Added Statement specifies the wealth accumulated by the Company. It states in monetary terms the wealth accumulated by the Company.

(ii) **Beneficiaries/participants of wealth:** The Value Added Statement states the application of Value Added to shareholders, bondholders, employees, etc. This identifies the participants/beneficiaries of the wealth generated by the Company and their interest in the Company in terms of value and percentage.

(iii) **Value Added based ratios:** The following ratios can be computed – Value Added to Sales, Value Added to payroll, Taxes to Value Added, etc. This facilitates comparison of ratios between periods as well as comparison between Companies.

(iv) **Value Added Interpretation:** Value Added facilitates interpretation of operating results or contribution of variou Companies. The real wealth of Companies can be understood only from the Value Added Statement, as the comparison of Sales Turnover may not give a real picture. Many Companies can have the same turnover also.

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]

Solution:

1. In the books of Tom (Buyer)

S. No.	Particulars	Debit ₹	Credit ₹
29.03.13	Equity Index Option Premium A/c Dr. To Bank A/c (Being premium paid on Equity Stock Options)	10,000	 10,000

31.05.13	Profit and Loss A/c Dr. To Equity Index Stock Option A/c (Being premium on option written off on expiry)	10,000	10,000
31.05.13	Bank A/c Dr. To Profit and Loss A/c (Being profit on exercise of option received = 1,000 units * (₹950 - ₹850)) (Exercise Price - Spot Price)	1,00,000	1,00,000

2. In the books of Suman (Seller)

S. No.	Particulars	Debit ₹	Credit ₹
29.03.13	Bank A/c Dr. To Equity Index Option Premium A/c (Being premium on Option collected)	10,000	10,000
31.05.13	Profit and Loss A/c Dr. To Bank A/c (Being loss on Option paid)	1,00,000	1,00,000
31.05.13	Equity Index Option Premium A/c Dr. To Profit and Loss A/c (Being premium on option recognized as income)	10,000	10,000

(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]

Solution:

1. Journal Entries

S. No.	Transaction and Entry	Debit	Credit
1	Fixed Assets A/c Dr. CENVAT Credit Receivable (Capital Goods) A/c Dr. CENVAT Credit Deferred (Capital Goods) A/c Dr. To Asset Vendor / Bank A/c (Being Plant purchased recorded, including immediate CENVAT Credit available of 50%, balance 50% (assumed) credit available in subsequent year)	45,00,000 2,50,000 2,50,000	50,00,000
2	Excise Duty A/c Dr. To CENVAT Credit Receivable A/c (Capital Goods) (Being set off of CENVAT Credit during the year)	2,50,000	2,50,000

3	Excise Duty A/c Dr. To Bank A/c (Being balance Excise Duty payable ₹5,00,000 - ₹2,50,000 set-off, now settled)	2,50,000	 2,50,000
4	**Subsequent Financial Year** CENVAT Credit Receivable (Capital Goods) A/c Dr. To CENVAT Credit Deferred (Capital Goods) A/c (Being transfer of balance CENVAT Credit available on Capital Goods)	 2,50,000	 2,50,000

2 Balance Sheet (abstract)

Liabilities	₹	Assets	₹
		Fixed Assets: Plant at Cost	45,00,000
		Less: Depreciation	??
		Current Assets, Loans and Advances:	
		CENVAT Credit Deferred (Cap. Goods)	2,50,000

OR,

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

Answer:

Need and significance of Environmental Accounting.

(a) Resource Utilisation: Natural Resources (water, air, minerals, forests etc.) are required to carry on the business activities of every firm. Also, the functioning of an enterprise has some favourable and some adverse effects on the environment. Hence, there is a need for maintaining accounts of the effects of the activities of a business entity on the environment and on natural resources.

(b) Resource Availability: Environmental Accounting is useful for disclosing how much natural resources are available in the country, their incomes and the costs incurred to use them and their depreciation, values etc.

(c) Social Responsibility: Environmental Accounting is helpful for measuring industrial development and social welfare and the fulfilment of social responsibilities by Companies. Companies are urged to be accountable to both Shareholders and wider society. Profit Making is not considered as the sole corporate objective.

(d) Qualitative Study: Traditional Accounting System is restricted to quantitative and monetary aspects only. Hence, Environmental Accounting is necessary to analyse the effect of environmental resources in the entire business functions of a firm.

(e) **Environmental Protection:** Environmental Accounting will help in evaluating the problem of environment protection. The business activities of the enterprise should be recognised as society (environment) centred and not only profit-centred.

(f) **Going Concern:** Environmental pollution and the substantial costs associated with clean-up activities, fines, compensation, and bad publicity etc. can even significantly affect the share prices and even the stability of a Company. Hence, environmental accounting awareness is required.

(g) **Social Accounting:** Social Accounting has been the precursor of Environmental Accounting. Social Costs also include the use of natural resources and pollution of environments. Also preservation of the environment is a critical factor for sustainable development. So, Environmental Accounting deserves special attention of manager, investors, society, different branches of Government and other stakeholders.

(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]

Solution:

Fair value of ESPP per share = ₹68 – ₹60 = ₹8

Number of share issued = 1,200 × 100 = 1,20,000

Fair value of ESPP = 1,20,000 × ₹8 = ₹9,60,000

Vesting period = One month

Expense recognized in 2012-13 = ₹9,60,000

Particulars	₹	₹
<u>April 30, 2012</u>		
Bank (1,20,000x60)	72,00,000	
Employees' Compensation A/c (1,20,000x8)	9,60,000	
To Share Capital (1,20,000x10)		12,00,000
To Securities premium (1,20,000x58)		69,60,000

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]**

Solution:

Cash Flow Statement for the year ended 31-03-2014

Cash Flows from Operating Activities			
Net Income		22,40,000	
Add:	Depreciation	1,80,000	
		24,20,000	
Add:	Decrease in Inventories	90,000	
	Increase in Provision for Doubtful Debts*	40,000	
		25,50,000	
Less:	Increase in Current Assets:		

	Debtors*		(4,40,000)
	Prepaid Expenses		(30,000)
	Decrease in Current Liabilities:		
	Creditors		(60,000)
	Expenses Outstanding		(60,000)
Net Cash from Operating Activities			19,60,000
Cash Flows from Investing Activities			
Payment for Purchase of Plant & Machinery (15,40,000–2,00,000)		(13,40,000)	
Cash outflow from Investing Activities			(13,40,000)
Cash Flows from Financing Activities			
Issue of Share Capital (on Cash)		10,00,000	
Bank Loan Raised		1,50,000	
Issue of Debentures		9,00,000	
Payment of Dividend		(10,50,000)	
Cash flows from Financing Activities			10,00,000
Net Increase in cash and Cash equivalents during the year			16,20,000
Add : Opeaning balance of cash and cash equivalents			27,00,000
Cash balance as on 31-3-2014			43,20,000

*Alternatively, provision for doubtful debts created (₹40,000) + ₹ 2,30,000 (Bad Debts) may be added. In that case, increase in debtors (including bad debts written off) ₹ 6,70,000 (₹ 4,40,000 + ₹ 2,30,000) is subtracted. However, net effect will remain same. It is only a matter of presentation. Adjustment for interest on bank loan is ignored as rate of interest is not given.

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	₹
Share Capital:		**Fixed Assets:**	
Equity Capital (₹ 100)	**40,00,000**	**(Net Block) (Tangible)**	**80,00,000**
Reserves:		**Current Assets:**	
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**
Current Liabilities:			
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]**

Solution:

1. Basic Information

Company Status		Dates		Holding Status	
Holding Company	= X	**Acquisition:**	Not Available	Holding Company	= 75%
Subsidiary	= Y	**Consolidation:**	31st December	Minority Interest	= 25%

2. Analysis of Reserves and Surplus of Y Ltd.

(a) Securities Premium

Balance as per Balance Sheet ₹ 6,00,000

Balance on date of acquisition	Acquisition to Consolidation
₹ 6,00,000	(balancing figure) ₹ **NIL**
Capital Profit	**Securities Premium**

(b) General Reserve

Balance as per Balance Sheet ₹ 14,00,000

Balance on date of acquisition	Acquisition to Consolidation
₹ 2,00,000	(balancing figure) ₹ 12,00,000
Capital Profit	Revenue Reserve (General Reserve)

(c) Profit and Loss Account

Balance as per Balance Sheet ₹ 24,00,000

Balance on date of acquisition	Acquisition to Consolidation
₹ 8,00,000	(balancing figure) ₹ 16,00,000
Capital Profit	Revenue Profit (P&L A/c)

3. Analysis of Net Worth of Y Ltd.

Particulars	Total	Share of X Ltd.	Minority Interest
	100%	75%	25%
(a) Equity Share Capital	**40,00,000**	30,00,000	10,00,000
(b) Capital Profits			
Securities Premium	6,00,000		
General Reserve	2,00,000		
Profit & Loss Account	8,00,000		
Total	**16,00,000**	12,00,000	4,00,000
(c) Revenue Reserves General Reserve	**12,00,000**	9,00,000	3,00,000
(d) Revenue Profits Profit & Loss A/c	**16,00,000**	12,00,000	4,00,000
Minority Interest			**21,00,000**

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

Answer:

Standard-setting Procedure for Accounting Standards

1. The following procedures are adopted by the GASAB for formulating Standards:

- The GASAB Secretariat identifies areas for Standard formulation and places them before the GASAB for selection and approval. While doing so, the Secretariat places before the GASAB all important suggestions, references, proposals received from various sections of the Union and State Governments, members of GASAB, members of Civil Society, Professional Bodies and other stakeholders. The priorities, as approved by the GASAB, guide further functioning of the GASAB Secretariat.
- The GASAB Secretariat thereafter prepares the discussion paper on the selected issues for consideration of the GASAB.
- While doing so, the Secretariat studies the existing rules, codes and principles as internal sources, and documents/pronouncements/Standards issued by other national and international Standard setting and regulatory bodies. The Secretariat may also hold consultation with such other persons as are considered necessary for this purpose.
- On consideration of the Discussion paper and the comments received thereon, the GASAB finalizes the Exposure Draft.
- The GASAB may constitute Standing Committee and/or Task based Groups from amongst the Members or their representatives to consider specific areas before finalization.
- The Exposure Draft, as approved for issue by the GASAB, are widely circulated in the public domain and forwarded to all stakeholders. The Exposure Draft is required to be hosted at the website of GASAB.
- Based on the comments received on the Exposure Draft, the Standards are finalized by the GASAB. The Standards, as finalized, are forwarded to the Government for notification in accordance with the provisions of the Constitution of India.

2. The meetings are normally chaired by the Chairperson. In unforeseen circumstances when Chairperson is unable to attend, the senior-most member from the Central Government will chair the meeting. The Comptroller & Auditor General of India will be kept informed of the important developments in the meetings of GASAB.

3. The GASAB may meet as often as is deemed necessary but generally not less than four times in a financial year. The decisions of the GASAB may preferably be by general consensus. In case differences persist, the decision shall be on the basis of voting favoring the recommendation. The dissenting views should also be forwarded to the Government along with the recommendations.

4. GASAB allows an exposure period of 90 days for inviting comments on Exposure Draft.

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

Answer:

The general principles of Government Accounting are as follows:

1. The Government Expenditure are classified under Sectors, major heads, minor heads, sub-heads and detailed heads of account, the accounting is more elaborate that that followed in commercial accounts. The method of budgeting and accounting under the service heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates.
2. In its Budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the later. Similarly, in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts, Government determines (a) whether it will be justified in curtailing or expanding its activities (b) whether it can and should increase or decrease taxation accordingly.
3. In the field of Government accounting, the end products are the monthly accounts and the annual accounts. The monthly accounts serve the needs of the day-to-day administration, while the annual accounts present a fair and correct view of the financial stewardship of the Government during the year.

OR,

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

Answer:

Objectives

(i) The purpose of this Standard is to lay down the principles to be followed in presentation of general purpose financial reports of Governments and to prescribe the minimum requirements relating to structure and contents of financial statements of government prepared under cash basis of accounting.

(ii) The statement of receipts and disbursements during the year and information about cash flows of an Entity enable stakeholders to evaluate the likely sources and uses of cash and the ability of an Entity to generate adequate cash in the future. This information also indicates the expenditure priorities of the Entity in the delivery of goods and services as well as the impact of the taxation policies of the Entity. Stakeholders can then assess the sustainability of the Entity's activities (whether future budgetary resources will be sufficient to sustain public services and to meet obligations as they become due) and appraise financial accountability.

(iii) All Financial Statements need to be standardized to obtain optimal information, to ensure comparability with the Entity's own financial Statements of previous periods and with those of other entities. The basis and policies of accounting need to be uniform to permit meaningful consolidation to develop Whole of Government Accounts. Desirable attributes need to defined to obtain a basic standard for financial reporting.

(iv) To achieve these objectives, this Standard sets out the financial elements for the presentation of financial reports prepared under the cash basis of accounting. It also requires that the selection of accounting policy should ensure certain qualitative characteristics in the information being presented. Desirable attributes of financial reporting are required to heighten their value to the users.

(v) General Purpose Financial Statements (GPFS) essentially consists of Finance Accounts and Appropriation Accounts. The Financial Statements referred to in this standard are the General Purpose Financial Reports (GPFR).

Scope

(i) An Entity, which prepares and presents Financial Statements under the cash basis of accounting as defined in this Standard, should apply the requirements o this Standard in presentation of its financial statements.

(ii) The standard applies to financial reports of a government – Union or State. The standard does not apply to accounts of (i) local bodies and (ii) Government Business Enterprises or Departmental Commercial Undertakings.

(iii) An Entity whose Financial Statements comply with the requirements of this Standard should disclose that fact. Financial Statements should not be described as complying with this Standard unless they comply with all the requirements of this Standard.

(iv) The standard lays down the minimum requirements that governments should folow in presentation of financial reports. The requirements in terms of contents of the financial report are the mandatory minimum requirements that financial reports should present.

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

Answer:

Comparison with commercial accounting

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.