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Paper 18 – Business Valuation Management

Question No.1(a)

What is 'discontinuing operations' as per AS-24?

Answer: As per Para 3 of the standard, a discontinuing operation is a component of an enterprise:-

(i) that the enterprise, pursuant to a single plan is:

- disposing of substantially in its entirety such as selling the component in a single transaction or by demerger or spin off of ownership of the component to the enterprise's shareholders ; or
- disposing of piecemeal, such as by selling off the components assets and setting its liabilities individually; or
- terminating through abandonment and

(ii) that represents separate major line of business or geographical area of operation, and

(iii) that can be distinguished operationally and for financial reporting purposes.

It may be construed that discontinuing operation is relatively large component of an enterprise which is major line of business or geographical segment, this is distinguishable operationally or for financial reporting such component of business is being disposed on the basis of an overall plan in its entirety or in piecemeal. Discontinuance will be carried either through demerger or spin-off, piecemeal disposal of assets and settling of liabilities or by abandonment.

Question No.1(b)

ABC Ltd. shows a net profit of ₹10,80,000 for 3rd quarter after incorporating the following:

(i) Bad debt of ₹60,000 incurred during the year, 65% of the bad debts have been deferred to the next quarter

(ii) Extraordinary loss of ₹56,000 incurred during the quarter has been fully recognized in this quarter

(iii) Additional depreciation of ₹18,000 resulting from the change of method of depreciation.

Do you agree with the treatment adopted by the company? If not, find out correct quarterly income as per AS-25.

Solution:

In the above case, the quarterly income has not been correctly stated. As per AS-25, "Interim Financial Reporting", the quarterly income should be adjusted and restated as follows:

	₹
Net Profit as per P&L A/c	10,80,000
Adjustments for:	
Bad debt of ₹60,000 has been incurred during the current quarter. Out of this, the company has deferred 65% i.e. ₹39,000 to the next quarter. This is not correct. So, ₹39,000, should therefore be deducted from ₹10,80,000, as it is wrongly overstated	(39,000)
Treatment of Extra-ordinary loss of ₹56,000 is correct, hence no adjustment is required to be made against profits for this quarter	---
Treatment of recognizing the additional depreciation of ₹18,000 is in line with the provisions of AS-25, hence, no adjustment is required	---
Net Profit (adjusted)	10,51,000

Question No.2(a)

State the features of an Asset.

Answer:

The features of an asset are:

(i) the future economic benefit embodied in an asset is the potential to contribute directly or indirectly, to the flow of cash and cash equivalents to the entity. Potential to contribute may be either productive (e.g. property, plant and equipment) or it allows the convertibility into cash or cash equivalent (e.g. receivables).

(ii) future economic benefit embodied in an asset flows to the entity in different manner and accordingly to be tested for asset recognition:

- ❖ usage in the production of goods and services;
- ❖ exchange for other assets;
- ❖ use to settle a liability;
- ❖ distribution to owners.

(iii) Assets are not necessarily characterized by physical form (like plant, property, equipment). Copyright, trademark, patents(intangibles) etc. also qualify as assets based on the concept of future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity.

(iv) Assets signified by legal right (asset under lease) may not be with ownership right. Still they are recognized as assets based on the concept of future economic benefit embodied in an asset has the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity.

(v) There is a close association between incurring expenditure and generating assets but the two do not necessarily coincide. Incurring expenditure (development expenditure may not satisfy the test of asset) is not conclusive proof of asset creation. On the other hand, incurrence of expenditure is not an essential condition for asset recognition (asset may arise out of Government grant).

Question No.2 (b)

B Ltd. has an office building whose carrying amount is ₹100 crores. The company decides to enter into a sale and leaseback transaction. The selling price for the asset is ₹140 crores, whereas the fair value of the asset is ₹120 crores. The transaction is an operating lease and the lease payment is ₹25 crores for 5 years. Pass journals to record the same.

Solution:

(i) To record the transaction of sale

	₹	₹
Bank A/cDr.	140.00	
To, Building A/c		100.00
To, Profit on Sale of Building A/c		20.00
To, Deferred Income (Gain on sale of asset)		20.00

[Asset sold and gain (fair value - carrying amount) is recognized, but excess profit (selling price - fair value) is deferred]

(ii) To record amortization of gain over the useful/remaining life of the asset (this is to be recorded for all the 5 years)

	₹	₹
Deferred Income(Gain on sale of asset).....Dr.	4.00	
To Other Income		4.00

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(Gain amortized)

Question No.3 (a)

Samrat Ltd. acquired a patent at a cost of ₹60 lacs for a period of 5 years and the product-life cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹10 lacs per annum. After two years it was found that the product life-cycle may continue for another 4 years from then. The net cash flows from the product during these 4 years were expected to be ₹49,50,000; ₹54,00,000; ₹58,50,000 and ₹63,00,000. Find out the amortization cost of the patent for each of the year.

Solution:

As per AS-26, "Intangible Assets", the amortization method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise, if that pattern cannot be determined reliably, the straight line method should be used.

In the instant case, the pattern of economic benefit in the form of net cash flows is determined reliably after two years. In the initial two years, the pattern of economic benefits could not have been reliably estimated therefore amortization was done at straight-line method, i.e. ₹10 lacs per annum. However, after two years pattern of economic benefits for the next five years in the form of net cash flows is reliably estimated as under and therefore amortization will also be done as per the pattern of cash inflows:

Cash inflows (₹)	Amount of amortization in the next 4 years (₹)
49,50,000	$[40,00,000 \times 49,50,000 / 2,25,00,000] = 8,80,000$
54,00,000	$[40,00,000 \times 54,00,000 / 2,25,00,000] = 9,60,000$
58,50,000	$[40,00,000 \times 58,50,000 / 2,25,00,000] = 10,40,000$
63,00,000	$[40,00,000 \times 63,00,000 / 2,25,00,000] = 11,20,000$
<u>2,25,00,000</u>	Balance of WDV = <u>40,00,000</u>

Question No.3 (b)

Explain the impact of the followings in line with AS-29

(i) A company follows a policy of refunding money to the dissatisfied customers if they claim within thirty days from the date of purchase and return the goods. It appears from the past experience that in a month only 0.30% of the customers claim refunds. The company sold goods amounting to ₹50 lacs during the last month of the financial year. Is there any contingency?

Answer: There is a probable present obligation as a result of past obligating event. The obligating event is the sale of product. Provision should be recognized as per AS-29. The best estimate for provision is ₹ 15,000 (50,00,000 x 0.30%).

(ii) A company needs to retrain staff because of introduction of ERP packages. Is that a contingent liability? Is there any need for provisioning? At the balance sheet date, no retraining of staff has taken place.

Answer: It is a restructuring cost. There is no obligation because no obligating event (retraining) has taken place. No provision is recognized.

(iii) An airline is required by law to overhaul its aircraft once every three years. The expenses to be incurred as classified as 'refurbishment costs'. Is there any provision to be recognized?

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Answer: The airline company has to overhaul its aircraft/s once every three years. There is no present obligation. Hence, no provision is recognized. The costs of overhauling aircraft are not recognized as a provision because at the balance sheet date no obligation of overhauling aircraft exists independently of the company's future actions. Even a legal requirement to overhaul does not make the cost of overhaul/refurbishment cost a liability, because no obligation exists to overhaul the aircraft independently of the enterprise's future actions - the enterprise could avoid the future expenditure by its future actions, for example by selling the aircrafts.

Question No.4 (a)

The following Balance Sheets of Alpha Ltd. and Beta Ltd. as at 31st March, 2012 are given to you :

	Alpha Ltd. ₹	Beta Ltd. ₹
Liabilities:		
Equity Share capital of ₹10 each	30,00,000	10,00,000
General Reserve	4,00,000	2,00,000
Profit and Loss Account	3,20,000	20,000
10% Debentures	—	6,00,000
Current liabilities	4,00,000	1,80,000
	41,20,000	20,00,000
Assets:		
Fixed Assets	20,00,000	1,00,000
Sundry Debtors	5,80,000	3,00,000
Stock	9,60,000	4,20,000
20,000 shares in Beta Ltd.	3,00,000	—
60,000 shares in Alpha Ltd.	—	10,00,000
Cash at bank	2,80,000	1,80,000
	41,20,000	20,00,000

Beta Ltd. traded raw material which were required by Alpha Ltd. for manufacture of its products. Stock of Alpha Ltd. includes ₹ 2,00,000 for purchases made from Beta Ltd. on which the company (Beta Ltd.) made a profit of 12% on selling price. Alpha Ltd. owed ₹ 50,000 to Beta Ltd. in this respect. It was decided that Alpha Ltd. should absorb Beta Ltd. on the basis of the intrinsic value of the shares of the two companies. Before absorption, Alpha Ltd. declared a dividend of 10%. Alpha Ltd. also decided to revalue the shares in Beta Ltd. before recording entries relating to the absorption.

Show the journal entries, which Alpha Ltd. must pass to record the acquisition and prepare its balance sheet immediately thereafter. All workings should form part of your answer.

Solution :

Part I - Purchase consideration - Net Asset Method.

WN #1: Net assets excluding intercompany investment at the time of Amalgamation

		₹
Particulars	Alpha Ltd.	Beta Ltd.
Fixed Assets	20,00,000	1,00,000
Sundry Debtors	5,80,000	3,00,000
Stock	9,60,000	4,20,000
Cash	2,80,000	1,80,000

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Dividend Receivable		60,000
Less :		
10% Debentures	—	(6,00,000)
Current liabilities	(4,00,000)	(1,80,000)
Proposed Dividend	(3,00,000)	
	31,20,000	2,80,000

WN # 2 : Intrinsic value of investment

Let, Net Assets of Alpha Ltd. is A and that of Beta Ltd. is B

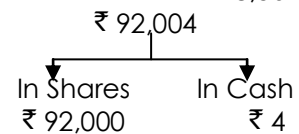
$$\begin{aligned}
 A &= 31,20,000 + 0.2 B \\
 B &= 2,80,000 + 0.2 A \\
 A &= 31,20,000 + 0.2 (2,80,000 + 0.2A) \\
 A &= 31,20,000 + 56,000 + 0.04A \\
 0.96A &= 31,76,000 \\
 A &= 33,08,333.33 \\
 B &= 2,80,000 + 0.2 (33,08,333.33) \\
 &= 9,41,666.67
 \end{aligned}$$

Summary :

Particulars	Alpha Ltd.	Beta Ltd.
(a) Net Assets (₹)	33,08,333	9,41,667
(b) No. of shares outstanding	3,00,000	1,00,000
(c) Intrinsic value per share	₹ 11	₹ 9.4

WN # 3: Purchase consideration

Total no. of Beta Ltd.'s shares outstanding	1,00,000
Less: No. of shares held by Alpha Ltd	<u>20,000</u>
Shares held by outsiders	80,000
Value of the above shares (80,000 × ₹ 9.40)	₹ 7,52,000
Number of shares issuable at intrinsic value (7,52,000 ÷ 11)	68,364
Less: Number of shares already held by Beta Ltd.	60,000
Number of shares to be issued	8,364
Purchase consideration (8,364 × 11)	₹ 92,004



Part II - In the books of Selling Company - Beta Ltd.

Section A: Pre-Amalgamation Event

Particulars	Debit	Credit
i. Dividend Receivable		
Dividend Receivable A/c	Dr. 60,000	
To Profit and Loss A/c		60,000

Note : Revised Profit and Loss A/c balance = ₹ 20,000 + 60,000
= ₹ 80,000

Section B : Entries relating to Amalgamation

Realisation Account

Dr.			Cr.
Particulars	Amount	Particulars	Amount
To Fixed Assets	1,00,000	By Debentures	6,00,000
To Debtors	3,00,000	By Creditors	1,80,000

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To Stock	4,20,000	By Alpha Ltd.'s A/c (Purchasing Co.)	92,004
To Cash	1,80,000	By Share Capital (Head as Investment)	2,00,000
To Dividend Receivable	60,000		
To Profit transferred to share holders	12,004		
	10,72,004		10,72,004

Particulars	Debit ₹	Credit ₹
1. Transfer to Realisation Account		
a. Transfer of Assets		
Realisation A/c	Dr. 10,60,000	
To Fixed Assets A/c		1,00,000
To Debtors A/c		3,00,000
To Stock A/c		4,20,000
To Cash A/c		1,80,000
To Dividend Receivable A/c		60,000
(Being assets taken over by transferred to Realisation A/c)		
b. Transfer of Liabilities		
10% Debentures A/c	Dr. 6,00,000	
Creditors A/c	Dr. 1,80,000	
To Realisation A/c		7,80,000
(Being liabilities taken over by Alpha Ltd. transferred to Realisation A/c)		
2.		
a. Purchase consideration due:		
Alpha Ltd A/c	Dr. 92,004	
To Realisation A/c		92,004
b. Receipt of Purchase Consideration :		
Cash A/c	Dr. 4	
Equity shares of Alpha Ltd A/c	Dr. 92,000	
To Alpha Ltd A/c		92,004
3. Cancellation of paid up capital to the extent of Alpha Ltd's Interest (Purchasing Co.) :		
Share Capital A/c	Dr. 2,00,000	
To Realisation A/c		2,00,000
4. a. Amount due to outside shareholders :		
Transfer of remaining Share capital and all reserves		
Share Capital A/c	Dr. 8,00,000	
General Reserve A/c	Dr. 2,00,000	
Profit & Loss A/c	Dr. 80,000	
To Shareholders A/c		10,80,000
b. Transfer of profit on realisation to shareholders :		
Realisation A/c	Dr. 12,004	
To Shareholders A/c		12,004
5. Settlement of amount to outsiders		
Shareholders A/c(10,80,000 + 12,004)	Dr. 10,92,004	
To Equity shares of Alpha Ltd. (10,00,000 + 92,000)		10,92,000
To Cash A/c		4

PART III - In the books of Alpha Ltd (Purchasing co.) Section A - Pre Amalgamation Events.

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Particulars	Debit	Credit
1. Proposed dividend :		
Profit & Loss A/c	Dr. 3,00,000	
To Proposed Dividend A/c		3,00,000
2. Revaluation of Investments		
Profit and Loss A/c	Dr. 1,12,000	
To Investments A/c [3,00,000 - (20,000 × 9.4)]		1,12,000

Section B - Amalgamation events

- Nature of Amalgamation : Merger
- Method of Accounting : Pooling of Interest

(₹)

Particulars	Debit	Credit
3. For Purchase Consideration Due :		
Business Purchase A/c	Dr. 92,004	
To Liquidator of Beta Ltd.'s A/c		92,004
4. For assets and liabilities taken over :		
a. Aggregate investment		
Consideration Paid		
i. Investment of Alpha Ltd. in Beta Ltd.	1,88,000	
ii. Paid to outsiders.		
I. Now issued	92,004	
II. Already held		
by Beta Ltd.	<u>10,00,000</u>	<u>10,92,004</u>
		12,80,004
III. Less: Paid up capital		<u>(10,00,000)</u>
IV. Excess		<u>2,80,004</u>
b. Above excess to be adjusted against		
i. General reserve of Beta Ltd.	2,00,000	
ii. P & L A/c of Beta Ltd.	<u>80,000</u>	
c. Balance of Beta Ltd. reserve to be incorporated	2,80,000	
i. General reserve (2,00,000 – 2,00,000)		Nil
ii. Profit and Loss A/c (80,000 – 80,000)		Nil
Fixed Assets A/c	Dr. 1,00,000	
Sundry Debtors A/c	Dr. 3,00,000	
Stock A/c	Dr. 4,20,000	
Cash at Bank A/c (90,000 + 2)	Dr. 1,80,004	
Dividend Receivable A/c	Dr. 60,000	
To Debentures A/c		6,00,000
To Creditors A/c		1,80,000
To Business Purchase A/c		92,004
To Investments in Beta Ltd. Ltd A/c		1,88,000
5. Discharge of Purchase Consideration:		
Liquidator of Beta Ltd. A/c	Dr. 92,004	
To Equity Share Capital A/c		83,636
To Securities Premium A/c		8,364
To cash A/c		4
6. Others		
a. Cancellation of inter-company dividends		

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Proposed Dividend A/c	Dr.	60,000	
To Dividend Receivable A/c			60,000
b. Cancellation of inter-company owings			
Creditors A/c	Dr.	50,000	
To Debtors A/c			50,000
c. Creation of Stock Reserve			
Profit & Loss A/c	Dr.	24,000	
To Stock Reserve A/c			24,000

Name of the Company: Alpha Ltd.				
Balance Sheet as at 31.03.2012				
Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
			₹	₹
	I. Equity and Liabilities			
1	Shareholders' funds			
	(a) Share capital	1	30,83,640	
	(b) Reserves and surplus	2	2,92,364	
	(c) Money received against share warrants			
2	Share application money pending allotment			
3	Non-current liabilities			
	(a) Long-term borrowings	3	6,00,000	
	(b)Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
4	Current Liabilities			
	(a) Short-term borrowings			
	(b) Trade payables			
	(c)Other current liabilities	4	5,30,000	
	(d) Short-term provisions	5	2,40,000	
	Total		47,46,004	
	II. Assets			
1	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	6	21,00,000	
	(ii) Intangible assets			
	(iii) Capital work-in-progress			

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		(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	7	13,56,000	
		(c) Trade receivables	8	8,30,000	
		(d) Cash and cash equivalents	9	4,60,004	
		(e) Short-term loans and advances			
		(f) Other current assets			
		Total		47,46,004	

	(₹)	
Note 1. Share Capital	As at 31st March, 2012	As at 31st March, 2011
Authorised, Issued, and paid up Capital of ₹ 100 each (out of which 8,364 shares were issued for consideration other than cash)	30,83,640	
Total	30,83,640	

RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	As at 31st March, 2012		As at 31st March, 2011	
	Nos	Amount (₹)	Nos	Amount (₹)
Opening Balance as on 01.04.11	3,00,000	30,00,000	NIL	NIL
Add: Fresh Issue (Includ Bonus shares , Right shares, split shares, shares issued other than cash)	8,364	83,640	NIL	NIL
	3,08,364	30,83,640	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	3,08,364	30,83,640	NIL	NIL

Note 2. Reserves and Surplus	As at 31st March, 2012	As at 31st March, 2011
Securities Premium	8,364	
General Reserve	4,00,000	
Profit and Loss A/c	(1,16,000)	

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Total	2,92,364	
Note 3. Long Term borrowing	As at 31st March, 2012	As at 31st March, 2011
10% Debentures	6,00,000	
Total	6,00,000	
Note 4. Other Current Liabilities	As at 31st March, 2012	As at 31st March, 2011
Current Liabilities	5,30,000	
Total	5,30,000	

Note 5. Short-term provision	As at 31st March, 2012	As at 31st March, 2011
Proposed Dividend	2,40,000	
Total	2,40,000	

Note 6. Tangible	As at 31st March, 2012	As at 31st March, 2011
Fixed Assets (20,00,000 + 1,00,000)	21,00,000	
Total	21,00,000	

Note 7. Inventories	As at 31st March, 2012	As at 31st March, 2011
Stock (960 + 420) 13,80,000		
Less : Reserves 24,000	13,56,000	
Total	13,56,000	

Note 8. Trade	As at 31st March, 2012	As at 31st March, 2011
Debtors (580+300)	8,30,000	
Total	8,30,000	

Note 9. Cash and Cash Equivalent	As at 31st March, 2012	As at 31st March, 2011
Cash at Bank	4,60,004	
Total	4,60,004	

Question No. 4 (b)

A Ltd. acquired 5,000 Shares of S Ltd. at ₹ 48 per Share Cum-Dividend constituting 62.50% holding in the latter. Immediately after purchase, S Ltd. declared and distributed a dividend at ₹ 4 per Share, which S Ltd. credited to its Profit and Loss Account.

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One year later, S Ltd. declared a Bonus of 1 fully paid Equity Share of ₹ 10 each for every 5 Shares held. Later on, S Ltd. proposed to raise funds and made a Rights Issue of 1 Share for 5 held at ₹ 36 per Share. A Ltd. exercised its right.

After some time, at its AGM, S Ltd. had decided to split its Equity Share of ₹ 10 into Two Equity Shares of ₹ 5 each. The necessary resolutions were passed and share certificates issued to all its existing shareholders.

To increase its stake in S Ltd. to 80%, A Ltd. acquired sufficient number of shares at ₹ 30 each.

Ascertain the Cost of Control as on 31st December if S's share in Capital Profits (duly adjusted for purchase in lots) as on that date was ₹ 3,15,000.

Solution:

A. Cost of Investment

	Particulars	Shares	₹
	Cost of First Acquisition (5,000 x ₹ 48)	5,000	2,40,000
Less:	Pre-Acquisition Dividend (5,000 x ₹ 4 per Share)	N.A.	(20,000)
	Corrected Cost of Investment	5,000	2,20,000
Add:	Bonus Shares (1/5 x 5,000 Shares)	1,000	-
	Cost after Bonus Shares	6,000	2,20,000
Add:	Rights Shares (1/5 x 6,000 Shares x ₹ 36)	1,200	43,200
	Cost after Rights Issue before Share Split	7,200	2,63,200
	Cost after share split (WN 1) (2 Sh. for 1 for 7,200 Sh = 7,200 x 2)	14,400	2,63,200
Add:	Acquisition to increase holding to 80% (WN 2) (4,032 x ₹ 30)	4,032	1,20,960
	Balance on date of Consolidation	18,432	3,84,160

Notes:

- **Share Split:** In case of Share Split, the Cost of Acquisition will not undergo any change. Only the number of Equity Shares and the face value will change. This is similar to adjustment for Bonus Issue. However, for Bonus Issue, the face value and paid up value of the share will be the same as the original share. In share split, the face value and paid up value will be lesser than that of the original shares.
- **Calculation of Number of Shares to be acquired to increase stake to 80%**

	Particulars		Shares
a.	Shares held before acquisition		14,400
b.	% of holding		62.5%
c.	Hence, Total Number of Shares of S Ltd. (a ÷ b)	= (14,400 ÷ 62.50%)	23,040
d.	80% of above (c x 80%)	= (23,040 x 80%)	18,432
e.	Number of Shares to be acquired (d - a)	= (18,432 - 14,400)	4,032

2. Cost of Control

Particulars		₹
Cost of Investment	(A) (from 1 above)	3,84,160
Nominal Value of Equity Capital	(18,432 x ₹ 5 per Share)	92,160
Share in Capital Profit		3,15,000
Total of Above	(B)	4,07,160
Capital Reserve (if B < A)	(B - A)	23,000

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Question No.5 (a)

(a) The following are the Balance Sheets of Sky Ltd. and Star Ltd. as on 31.03.2012 -

Liabilities	Sky (₹)	Star (₹)	Assets	Sky (₹)	Star (₹)
Share Capital:			Fixed Assets:		
Equity Shares of ₹ 10 each	5,00,000	2,00,000	Goodwill (Purchased)	60,000	40,000
12% Pref. Shares of ₹ 100 each	1,00,000	50,000	Machinery	1,00,000	60,000
Reserves:			Vehicles	1,80,000	70,000
General Reserve	1,00,000	60,000	Furniture	50,000	30,000
Profit & Loss A/c	1,50,000	90,000	Investment:		
Current Liabilities & Provisions:			Shares of Star (Cost)	3,80,000	-
Creditors	60,000	70,000	Current Assets:		
Income Tax	70,000	60,000	Stock	70,000	1,40,000
Total	9,80,000	5,30,000	Debtors	1,00,000	1,65,000
			Bank Balance	40,000	25,000
			Total	9,80,000	5,30,000

The following further information is furnished:

- i. Sky Ltd. acquired 12,000 Equity Shares and 400 Preference Shares on 01.04.2011 at a cost of ₹2,80,000 and ₹ 1,00,000 respectively.
- ii. The Profit & Loss Account of Star Ltd. had a credit balance of ₹ 30,000 as on 01.04.2011 and that of General Reserve on that date was ₹ 50,000.
- iii. On 01.07.2011, Star Ltd. declared dividend out of its pre-acquisition profit, 12% on its Share Capital; Sky Ltd. credited the receipt of dividend to its Profit & Loss Account.
- iv. On 01.10.2011 Star Ltd. issued one Equity Share for every three shares held, as Bonus Shares, at a face value of ₹ 100 per share out of its General Reserve. No entry has been made on the books of Sky Ltd. for the receipt of these bonus shares.
- v. Star Ltd. owed Sky Ltd. ₹ 20,000 for purchase of goods from Sky Ltd. The entire stock of goods is held by Star Ltd. on 31.03.2012. Sky Ltd. made a profit of 25% on cost.

Prepare a Consolidated Balance Sheet as at 31.03.2012.

Solution:

A. Basic Information

Company Status	Dates	Holding Status
Holding Company = Sky Ltd. Subsidiary = Star Ltd	Acquisition: 01.04.2011 Consolidation: 31.03.2012	Holding Company = 80% Minority Interest = 20%

Shareholding Status: Shares held on 31.03.2012 = 12,000 + $\frac{1}{3} \times 12,000$ (Bonus) = 16,000 out of 20,000 = 80%.

Note: Share distribution pattern can be determined as under –

Date	Particulars	Held by Sky Ltd.	% of Holding	Total Shares
01.04.2011	Opening Balance	12,000	NIL	15,000
01.10.2011	Bonus Shares ($\frac{1}{3} \times 12,000$)	4,000	80%	5,000

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31.03.2012	Closing Balance	16,000	80% (16,000/20,000)	20,000 (From Balance Sheet Given)
------------	-----------------	--------	------------------------	--------------------------------------

B. Analysis of Reserves & Surplus of Star Ltd.

(a) General Reserve

Balance on 31.03.2012 ₹ 60,000

Balance on 01.04.2011 (acquisition)	50,000	Transfer during 2011-12 (bal. fig)	60,000 Revenue Reserve
Less: Bonus Issue (1/3 x 15,000 Shares x ₹ 10)	50,000		
Capital Profit	Nil		

(b) Profit & Loss Account

Balance on 31.03.2012 ₹ 90,000

Balance on 01.04.2011 (acquisition)	30,000	Profit for 2011-12	₹ 84,000
Less: Dividend on pre-acquisition profit (12% x 15,000 shares x ₹ 10 each)	(18,000)	Less: Preference Dividend	₹ 6,000
			₹ 78,000
Less: Preference dividend (50,000 x 12%)	(6,000)		Revenue Profit
Balance Capital Profits	₹ 6,000		

C. Analysis of Net Worth of Star Ltd.

Particulars		Total	Sky Ltd	Minority
		100%	80%	20%
(a) Share Capital:	Equity	2,00,000	1,60,000	40,000
	Preference	50,000	40,000	10,000
(b) Capital Profits:	General Reserve	Nil		
	Profit & Loss Account	6,000		
		6,000	4,800	1,200
(c) Revenue Reserve:		60,000	48,000	12,000
(d) Revenue Profit:	Profit & Loss Account of Star Ltd. for the year	78,000	62,400	15,600
(e) Preference Dividend		6,000	4,800	1,200
Minority Interest				80,000

D. Cost of Control

Particulars	₹
Cost of Investment: Equity Shares of Star Ltd.	2,80,000
Preference Shares of Star Ltd.	1,00,000

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Total Cost of Investment		3,80,000
Less: Dividend out of Pre-acquisition profits		
Preference Shares (400 Shares x ₹ 100 each x 12%)	4,800	
In Equity Shares (12,000 Shares x ₹ 10 each x 12%)	14,400	(19,200)
Adjusted Cost of Investment		3,60,800
Less: (1) Nominal Value of Equity Share Capital	1,60,000	
(2) Nominal Value of Preference Share Capital	40,000	
(3) Share in Capital Profit of Star Ltd.	4,800	(2,04,800)
Goodwill on Consolidation		1,56,000

E. Consolidation of Reserves & Surplus

Particulars	Gen. Res	P&L A/c
Balance as per Balance Sheet of Sky Ltd.	1,00,000	1,50,000
Add: Share of Revenue Profits/ Reserves of Star Ltd.	48,000	62,400
Add: Share of Preference Dividend from Star Ltd.	-	4,800
Less: Dividend out of Pre-acquisition Profits (₹ 4,800 + ₹ 14,400)	-	(19,200)
Less: Preference Dividend payable for the current year by Sky Ltd.	-	(12,000)
Less: Stock Reserve on Closing Stock (20,000 x 25 / 125)	-	(4,000)
Adjusted Consolidated Balance	1,48,000	1,82,000

Name of the Company: Sky Ltd. And its subsidiary Star Ltd.

Consolidated Balance Sheet as at 31st March 2012

Ref No.	Particulars	Note No.	As at 31st	As at 31st
			March, 2012	March, 2011
			₹	₹
A	EQUITY AND LIABILITIES			
1	Shareholders' funds			
	(a) Share capital @ ₹ 10 each	1	600,000	-
	(b) Reserves and surplus	2	330,000	-
	(c) Money received against share warrants		-	-
			930,000	-
2	Minority Interest		80,000	-
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	3	110,000	-

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		(c) Other current liabilities		-	-
		(d) Short-term provisions	4	142,000	-
				252,000	-
		TOTAL (1+2+3+4)		1,262,000	-
	B	ASSETS			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	490,000	-
		(ii) Intangible assets (goodwill)	6	256,000	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments		-	-
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				746,000	-
	2	Current assets			
		(a) Current investments		-	-
		(b) Inventories	7	206,000	-
		(c) Trade receivables	8	245,000	-
		(d) Cash and cash equivalents	9	65,000	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets		-	-
				516,000	-
		TOTAL (1+2)		1,262,000	-

Note 1. Share Capital			Note 2. Reserve and Surplus :-		
	Current Year	Previous Year		Current Year	Previous Year
Authorised Capital	-	-	General Reserve	1,48,000	-
Issued and Paid Up	-	-	Profit and loss	1,82,000	-
Equity Share capital @ ₹ 10	5,00,000	-		-	-
12% Preference Share	1,00,000	-		3,30,000	-
	6,00,000	-		5,10,000	-

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Note 3. Trade Payable			Note 4. Short Term Provisions		
	Current Year	Previous Year		Current Year	Previous Year
Sundry Debtors			Prov. For taxations (70000+60000)	1,30,000	-
Sky	60,000		Proposed Pref. Dividend payable Sky Ltd.	12,000	-
Star	70,000			1,42,000	-
	1,30,000				
Less: set off	20,000				
	1,10,000				
Note 5. Tangible Assets :-			Note 6. Intangible Assets:-		
	Current Year	Previous Year		Current Year	Previous Year
Fixed Assets			Goodwill		
Machinery (100000+60000)	1,60,000		Sky	60,000	-
Vehicles			Star	40,000	-
(180000+70000)	2,50,000			1,00,000	-
Furniture (50000+30000)	80,000		Goodwill on consolidation	1,56,000	-
	-			2,56,000	-
	4,90,000				
Note 7. Inventories :-			Note 8. Trade Receivable :-		
	Current Year	Previous Year		Current Year	Previous Year
Stock			Sky	1,00,000	-
Sky	70,000		Star	1,65,000	-
Star	1,40,000			2,65,000	-
	2,10,000		Less: Set off	20,000	-
Less: Stock Reserve	4,000			2,45,000	-
	2,06,000				

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Note 9. Cash and cash equivalent :-					
	Current Year	Previous Year			
sky	40,000	-			
star	25,000	-			
	65,000	-			

Notes:

- Stock Reserve i.e. unrealized profits on Closing Stock have been eliminated in full against Holding Company's Profits, as it arose from downstream transaction (i.e. Holding to Subsidiary).
- Inter Company Owings have been eliminated in full.

Question No. 5(b)

Globetrotters Ltd. has two divisions – 'Inland' and 'International'. The Balance Sheet as at 31st December, 2010 was as under:

	Inland	International	Total
	(₹ crores)	(₹ crores)	(₹ crores)
Fixed Assets:			
Cost	300	300	600
Depreciation	<u>250</u>	<u>100</u>	<u>350</u>
W.D.V. (written down value)	<u>50</u>	<u>200</u>	<u>250</u>
Net Current Assets:			
Current assets	200	150	350
Less: Current liabilities	<u>100</u>	<u>100</u>	<u>200</u>
	<u>100</u>	<u>50</u>	<u>150</u>
Total	150	250	400
Financed by:			
Loan funds:			
(Secured by a charge on fixed assets)	-	50	50
Own Funds:			
Equity capital (fully paid up ₹ 10 shares)			25
Reserves and surplus			<u>325</u>
	<u>?</u>	<u>?</u>	<u>350</u>
Total	150	250	400

It is decided to form a new company 'Beautiful World Ltd.' for international tourism to take over the assets and liabilities of international division.

Accordingly 'Beautiful World Ltd.' was formed to takeover at Balance Sheet figures the assets and liabilities of international division. 'Beautiful World Ltd.' is to allot 2.5 crore equity shares of ₹ 10 each in the company to the members of 'Globetrotters Ltd.' in full settlement of the consideration. The members of 'Globetrotters Ltd.' are

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therefore to become members of 'Beautiful World' as well without having to make any further investment.

- i. You are asked to pass journal entries in relation to the above in the books of 'Globetrotters Ltd.' and also in 'Beautiful World Ltd'. Also show the Balance Sheets of both the companies as on 1st January, 2011 showing corresponding figures, before the reconstruction also.
- ii. The directors of both the companies ask you to find out the net asset value of equity shares pre and post-demerger.
- iii. Comment on the impact of demerger on "shareholders wealth".

Answer:

Journal of Globetrotters Ltd.

(₹ in Crores)

Particulars		Dr. (₹)	Cr.(₹)
Current liabilities A/c	Dr.	100	
Loan fund (Secured) A/c	Dr.	50	
Provision for depreciation A/c	Dr.	100	
Loss on reconstruction A/c (Balancing figure)	Dr.	200	
To Fixed assets A/c			300
To Current assets A/c			150
(being the assets and liabilities of International division taken out of the books on transfer of the division to Beautiful World Ltd.; the consideration being allotment to the members of the company of one equity share of ₹10 each of that company at par every share held in the company vide scheme of reorganization)*			

Journal of Beautiful World Ltd.

(₹ in cores)

Particulars		Dr. (₹)	Cr.(₹)
Fixed assets A/c (300 – 100)	Dr.	200	
Current assets A/c	Dr.	150	
To current liabilities A/c			100
To Loan funds (secured) A/c			50
To Equity share capital A/c			25
To capital reserve A/c			175
(being the assets and liabilities of international division of Globetrotters Ltd. taken over by Beautiful World Ltd. and allotment of 2.5 crore equity shares of ₹10 each at par as fully paid up to the members of Globetrotters Ltd.)			

Name of the Company: Globetrotters Ltd.

Balance Sheet as at: 1st January, 2011

(₹ in cores)

Ref No.	Particulars	Note No.	After Reconstruction		Before Reconstruction	
			As at 1 st Jan, 2011	As at 1 st Jan, 2010	As at 1 st Jan, 2011	As at 1 st Jan, 2010

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I	EQUITY AND LIABILITIES							
1	Shareholder's Fund							
	(a) Share capital	1	25			25		
	(b) Reserves and surplus	2	125			325		
	(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	3				50		
	(b) Trade payables							
	(c) Other current liabilities	4	100			200		
	(d) Short-term provisions							
	Total (1+2+3+4)				250		600	
II	ASSETS							
1	Non-current assets							
	(a) Fixed assets							
	(i) Tangible assets	5	50			250		
	(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	6	200			350		
	Total (1+2)				250		600	

(₹ in Crores)

	After Reconstruction	Before Reconstruction
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Note 1. Share Capital	As at 1 st Jan, 2011	As at 1 st Jan, 2010	As at 1 st Jan, 2011	As at 1 st Jan, 2010
Authorized, Issued, Subscribed and paid-up Share capital:				
Equity share of ₹ 10 each	25		25	
Total	25		25	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	After Reconstruction				Before Reconstruction			
	As at 1 st Jan, 2011		As at 1 st Jan, 2010		As at 1 st Jan, 2011		As at 1 st Jan, 2010	
	Nos.	Amount (₹)	Nos.	Amount (₹)	Nos.	Amount (₹)	Nos.	Amount (₹)
Opening Balance as on 1 st January ,2010	2.5	25			2.5	25		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)								
	2.5	25			2.5	25		
Less: Buy Back of share								
Total	2.5	25			2.5	25		

Note 2. Reserve & Surplus	After Reconstruction		Before Reconstruction	
	As at 1 st Jan, 2011	As at 1 st Jan, 2010	As at 1 st Jan, 2011	As at 1 st Jan, 2010
Reserve & Surplus	125		325	
Total	125		325	

Note 3. Short term Borrowings	After Reconstruction		Before Reconstruction	
	As at 1 st Jan, 2011	As at 1 st Jan, 2010	As at 1 st Jan, 2011	As at 1 st Jan, 2010
Secured Loans (Assumed to be payable within 1 year)			50	
Total			50	

Note 4. Other Current Liabilities	After Reconstruction		Before Reconstruction	
	As at 1 st Jan, 2011	As at 1 st Jan, 2010	As at 1 st Jan, 2011	As at 1 st Jan, 2010

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Other Current Liabilities	100		200	
Total	100		200	

	After Reconstruction		Before Reconstruction	
Note 5. Tangible Assets	As at 1st Jan, 2011	As at 1st Jan, 2010	As at 1st Jan, 2011	As at 1st Jan, 2010
Fixed Assets Less Depreciation (₹300-₹250) (₹600-₹350)	50		250	
Total	50		250	

	After Reconstruction		Before Reconstruction	
Note 6. Other Current Assets	As at 1st Jan, 2011	As at 1st Jan, 2010	As at 1st Jan, 2011	As at 1st Jan, 2010
Other Current Assets	200		350	
Total	200		350	

Computation of Reserves and Surplus

	(₹ in Crores)	
	After Reconstruction	Before Reconstruction
Particulars	₹	₹
A. Reserves and surplus	325	325
Less: Loss on reconstruction	200	-
	125	325

Note to Accounts: Consequent to reconstruction of the company and transfer of international divisions of Globetrotters Ltd. to newly incorporated Company Beautiful World Ltd.; the members of the company have been allotted 2.5 crore equity shares of ₹10 each at par of 'Beautiful World Ltd.;

Name of the Company: Beautiful World Ltd.
Balance Sheet as on January 01, 2011

(₹ in Crores)				
Ref No.	Particulars	Note No.	As at 1st Jan, 2011	As at 1st Jan, 2010
			₹	₹
I.	Equity and Liabilities			
1	Shareholders' funds			
	Share capital	1	25	
	Reserves and surplus	2	175	
	Money received against share warrants			

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	2	Share application money pending allotment			
	3	Non-current liabilities			
		Long-term borrowings			
		Deferred tax liabilities (Net)			
		Other Long term liabilities			
		Long-term provisions			
	4	Current Liabilities			
		Short-term borrowings	3	50	
		Trade payables			
		Other current liabilities	4	100	
		Short-term provisions			
		Total		350	
	II.	Assets			
	1	Non-current assets			
		Fixed assets	5	200	
		Tangible assets			
		Intangible assets			
		Capital work-in-progress			
		Intangible assets under development			
		Non-current investments			
		Deferred tax assets (Net)			
		Long-term loans and advances			
		Other non-current assets			
	2	Current assets			
		Current investments			
		Inventories			
		Trade receivables			
		Cash and cash equivalents			
		Short-term loans and advances			
		Other current assets	6	150	
		Total		350	

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Annexure

	₹	₹
Note 1. Share Capital	As at 1st Jan, 2011	As at 1st Jan, 2010
Share Capital 2.5 Equity shares of ₹ 10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	25	
Total	25	

Reconciliation for Equity Share Capital	As at 1st Jan, 2011		As at 1st Jan, 2010	
	No.	Amount (₹)	No.	Amount (₹)
Opening Balance as on 1.01.2010	-	-	-	-
Add: Fresh Issue	2.5	25		
Less: Buy Back	-	-		
Total	2.5	25		

Note 2. Reserves and Surplus	As at 1st Jan, 2011	As at 1st Jan, 2010
Reserves and Surplus	175	
Total	175	

Note 3. Short term Borrowings	As at 1st Jan, 2011	As at 1st Jan, 2010
Secured Loans (to be payable within 1 year)	50	
Total	50	

Note 4. Other Current Liabilities	As at 1st Jan, 2011	As at 1st Jan, 2010
Current Liabilities	100	
Total	100	

Note 5. Tangible Assets	As at 1st Jan, 2011	As at 1st Jan, 2010
Fixed Assets	200	
Total	200	

Note 6. Other Current Assets	As at 1st Jan, 2011	As at 1st Jan, 2010
Current Assets	150	
Total	150	

A. Net Asset Value of an equity share

Particulars		
Globetrotters Ltd.	Pre – Demerger ₹350 Crores 2.5 Crore Share = ₹140	Post – Demerger ₹150 Crores 2.5 Crore Shares = ₹60
Beautiful World Ltd.		₹200 Crores 2.5 Crore Shares = ₹80

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- B. Demerger into two companies has no impact on 'net asset value' of shareholding. Pre- Demerger, it was ₹140 per share. After Demerger, it is ₹60 + ₹80 = ₹140 per original share.

It is only the yield valuation that is expected to changes because of separate focusing on two distinct business whereby profitability is likely to improve in account of de – merger.

Question No.6 (a)

The Balance Sheet of X Ltd. before reconstruction is:

Liabilities	₹	Assets	₹
12,000 7% Preference shares of ₹ 50 each	6,00,000	Building at cost	
7,500 Equity shares of ₹ 100 each	7,50,000	Less: Depreciation	4,00,000
(Note : Preference dividend is in arrear for five years)		Plant at cost	
Loan	5,73,000	Less: Depreciation	2,68,000
Sundry creditors	2,07,000	Trade Marks and Goodwill at Cost	3,18,000
Other liabilities	35,000	Stock	4,00,000
		Debtors	3,28,000
		Preliminary expenses	11,000
		Profit and Loss A/c	4,40,000
Total	21,65,000	Total	21,65,000

Note: Loan is assumed to be of less than 12 months, hence treated as short term borrowings (ignoring interest)

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both classes of shareholders. A summary of the scheme is as follows:

- a. The Equity Shareholders have agreed that their ₹ 100 shares should be reduced to ₹ 5 by cancellation of ₹ 95 per share. They have also agreed to subscribe in each for the six new Equity Shares of ₹ 5 each for two Equity Share held.
- b. The Preference Shareholders have agreed to cancel the arrears of dividends and to accept for each ₹50 share, 4 new 5 per cent Preference Shares of ₹10 each, plus 3 new Equity Shares of ₹ 5 each, all credited as fully paid.
- c. Lenders to the Company of ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹10 each and 6,000 new equity share of ₹ 5 each.
- d. The Directors have agreed to subscribe in cash for 20,000, new Equity Shares of ₹ 5 each in addition to any shares to be subscribed by them under (a) above.
- e. Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the Company.
- f. The equity Share capital cancelled is to be applied:

i. to write off the preliminary expenses;

ii. to write off the debit balance in the Profit and Loss A/c; and

iii. to write off ₹ 35,000 from the value of Plant.

Any balance remaining is to be used to write down the value of Trade Marks and Goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of company after reconstruction. The nominal capital as reduced is to be increased to the old figures of ₹ 6,00,000 for Preference capital and ₹ 7,50,000 for Equity capital.

Solution :

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Particulars	Debit	Credit
1. Reduction of Equity capital Equity Share capital A/c (Face Value ₹ 100)	Dr. 7,50,000	
To Equity Share capital (Face value ₹ 5) A/c		37,500
To Reconstruction A/c		7,12,500
2. Right issue : (7,500 × 3 = 22,500 Shares)		
(a) Bank A/c	Dr. 1,12,500	
To Equity Share Application A/c		1,12,500
(b) Equity Share Application A/c	Dr. 1,12,500	
To Equity Share Capital A/c		1,12,500
3. Cancellation of arrears of preference dividend NO ENTRY (as it was not provided in the Books of Accounts) Note :		
(a) On cancellation, it ceases to be a contingent liability and hence no further disclosure		
(b) Preference shareholders have to forego voting rights presently enjoyed at par with equity share holders		
4. Conversion of preference shares 7% Preference Share Capital A/c	Dr. 6,00,000	
Reconstruction A/c (balancing figure)	Dr. 60,000	
To 5% Preference Share Capital (12,000×4×10)		4,80,000
To Equity Share Capital (12,000 × 3 × 5)		1,80,000
5. Conversion of Loan Loan A/c	Dr. 1,50,000	
To 5% Preference Share Capital A/c		1,20,000
To Equity Share Capital A/c		30,000
6. Subscription by directors:		
(a) Bank A/c	Dr. 1,00,000	
To Equity Share Application A/c		1,00,000
(b) Equity Share Application A/c	Dr. 1,00,000	
To Equity Share Capital A/c		1,00,000

Particulars	Debit	Credit
7. Repayment of loan Loan A/c	Dr. 2,00,000	
To Bank		2,00,000
8. Utilisation of reconstruction surplus Reconstruction A/c	Dr. 6,52,500	
To Preliminary Expenses A/c		11,000
To Profit and Loss A/c		4,40,000
To Plant A/c		35,000
To Trademark and Goodwill A/c		1,66,500

Reconstruction Account			
Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To Preference shareholders	60,000	By Equity Share capital (FV ₹ 50)	7,12,500
To Preliminary expenses	11,000		
To Profit and Loss A/c	4,40,000		
To Plant A/c	35,000		
To Trademark and Goodwill	1,66,500		

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7,12,500

7,12,500

Bank Account

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To Equity share application A/c	1,12,500	By Loan A/c	2,00,000
To Equity share application A/c	1,00,000	By Balance c/d	12,500
	2,12,500		2,12,500

Name of the Company: X Ltd.				
Balance Sheet as at 31st March, 2012 (and Reduced)				
Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
			(₹)	(₹)
	I. Equity and Liabilities			
	1 Shareholders' funds			
	(a) Share capital	1	10,60,000	
	(b) Reserves and surplus	2	-	
	(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	3	2,23,000	
	(b) Trade payables	4	2,07,000	
	(c) Other current liabilities	5	35,000	
	(d) Short-term provisions			
	Total		15,25,000	
	II. Assets			
	1 Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	6	6,33,000	
	(ii) Intangible assets	7	1,51,500	
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investments			

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	(c) Deferred tax assets (Net)			
	(d) Long-term loans and advances			
	(e) Other non-current assets			
2	Current assets			
	(a) Current investments			
	(b) inventories	8	4,00,000	
	(c) trade receivables	9	3,28,000	
	(d) Cash and cash equivalents	10	12,500	
	(e) Short-term loans and advances	11	-	
	(f) Other current assets			
	Total		15,25,000	

	As at 31st March, 2012	As at 31st March, 2011
Note 1. Share Capital		(₹)
Authorised Share Capital		
60,000 5% Preference Shares of ₹ 10 each	6,00,000	
1,50,000 Equity shares of ₹ 5 each	7,50,000	
	13,50,000	
Issued, subscribed and paid-up		
92,000 Equity shares of ₹ 5 each	4,60,000	
60,000 5% Preference Shares of ₹ 10 each	6,00,000	
Total	10,60,000	

FOR EQUITY SHARE :-	31.3.2012		31.3.2011	
	Nos	Amount (₹)	Nos	Amount (₹)
Opening Balance as on 01.04.11	7500	37,500.00	NIL	NIL
Add: Fresh Issue (Incl'd Bonus shares , Right shares, split shares, shares issued other than cash)	84,500.00	422,500.00	NIL	NIL
	92000	460,000.00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	92000	460,000.00	NIL	NIL
FOR 5% PREFERENCE SHARE :-	31.3.2012		31.3.2011	
	Nos	Amount (₹)	Nos	Amount (₹)
Opening Balance as on 01.04.11	60000	600,000.00	NIL	NIL
Add: Fresh Issue (Incl'd Bonus shares , Right shares, split shares, shares issued	-	-	NIL	NIL

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other than cash)				
	60000	600,000.00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	60000	600,000.00	NIL	NIL

Note 2. Reserves and Surplus	As at 31st March, 2012	As at 31st March, 2011
Profit and Loss A/c	(4,40,000)	
Less: Written off	4,40,000	
Total	0.00	

Note 3. Short term borrowings	As at 31st March, 2012	As at 31st March, 2011
Loan	5,73,000	
Less: Reduced	3,50,000	
Total	2,23,000	

Note 4. Trade Payables	As at 31st March, 2012	As at 31st March, 2011
Sundry Creditors	2,07,000	
Total	2,07,000	

Note 5. Other Current Liabilities	As at 31st March, 2012	As at 31st March, 2011
Other Liabilities	35,000	
Total	35,000	

Note 6. Tangible Assets	As at 31st March, 2012	As at 31st March, 2011
Building at cost Less Depreciation	4,00,000	
Plant at Cost Less Depreciation		
(2,68,000-35,000)	2,33,000	
Net Block	6,33,000	

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Note 7. Intangible assets	As at 31st March, 2012	As at 31st March, 2011
Trade Mark at Goodwill at cost	3,18,000	
Less: Reduction	1,66,500	
Total	1,51,500	
8. Inventories	As at 31st March, 2012	As at 31st March, 2011
Inventories	4,00,000	
Total	4,00,000	
9. Trade receivables	As at 31st March, 2012	As at 31st March, 2011
Debtors	3,28,000	
Total	3,28,000	
10. Cash & Cash Equivalents	As at 31st March, 2012	As at 31st March, 2011
Bank	12,500	
Total	12500	
Note: Loan is assumed to be of less than 12 months. Hence, treated as short term borrowings (ignoring		
11. Other Current Assets	As at 31st March, 2012	As at 31st March, 2011
Preliminary Expenses	11,000	
Less: Reduced	11,000	
Total	NIL	

Question No.6 (b)

K Ltd. furnishes you with the following Balance Sheet as at 31st March, 2012:

(₹ in Crores)

Sources of Funds

Share capital :

Authorised

200

Issued:

12% redeemable preference shares of ₹ 100 each fully paid

150

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Equity shares of ₹ 10 each fully paid	<u>50</u>	200
Reserves and surplus		
Capital Reserve	30	
Securities Premium	50	
Revenue Reserves	<u>520</u>	<u>600</u>
		<u>800</u>
Funds employed in:		
Fixed assets (Tangible) : cost	200	
Less: Provision for depreciation	<u>200</u>	nil
Investments at cost (Market value ₹ 800 Cr.)		200
Current assets	680	
Less: Current liabilities	<u>80</u>	<u>600</u>
		800

The company redeemed preference shares on 1st April 2012. It also bought back 100 lakh equity shares of ₹ 10 each at ₹ 50 share. The payments for the above were made out of the huge bank balances, which appeared as a part of Current assets.

You are asked to :

- i. Pass journal entries to record the above.
- ii. Value equity share on net asset basis.

Answer:

Part I - Journal entries in the books of K Ltd.

(₹ in Crore)

<i>Particulars</i>	<i>Debit</i>	<i>Credit</i>
a. Redemption of Preference Shares on 1st April 2012		
i. Due Entry		
12% Preference Share Capital A/c	Dr. 150	
To Preference Share Hodlers A/c		150
ii. Payment Entry		
Preference Shareholders A/c	Dr. 150	
To Bank A/c		150
b. Shares bought back		
i. On buy back		
Shares bought back A/c	Dr. 50	
To Bank A/c		50
(100 lakhs shares × ₹ 50 per share)		
ii. On Cancellation		
Equity Share capital A/c (100 Lakhs × ₹ 10)	Dr. 10	
Securities premium A/c (100 Lakhs × ₹ 40)	Dr. 40	
To Shares bought back A/c		50
iii. Transfer to Capital Redemption Reserve		
Revenue reserve A/c	Dr. 160	
To Capital Redemption Reserve A/c		160

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(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)

Part - III - Net Asset Value of Equity Shares

(₹ in Crores)

Particulars	Amount	Amount
a. i. Fixed assets	Nil	
ii. Investments (at market value)	800	
iii. Current assets	<u>480</u>	1,280
b. Less : Current liabilities		<u>(80)</u>
Net assets available for equity share holders		1,200
c. No. of equity shares outstanding (in lakhs)		4
d. Value per equity share of ₹ 10 each = (1,200÷4)		₹ 300

Question No.7(a)

A Ltd. is a holding Company and B Ltd. and C Ltd. are subsidiaries of A Ltd. Their Balance Sheets as on 31.12.2012 are given below-

Liabilities	A Ltd.	B Ltd.	C Ltd.	Assets	A Ltd.	B Ltd.	C Ltd.
Share Capital	1,00,000	1,00,000	60,000	Fixed Assets	20,000	60,000	43,000
Reserves	28,000	10,000	9,000	Investments in:			
Profit & Loss A/c	16,000	12,000	9,000	- Shares of B Ltd.	75,000	—	—
C Ltd. Balance	3,000	—	—	- Shares of C Ltd.	13,000	53,000	—
Sundry Creditors	7,000	5,000	—	Stock in Trade	12,000	—	—
A Ltd. Balance	—	7,000	—	B Ltd. Balance	8,000	—	—
				Sundry Debtors	26,000	21,000	32,000
				A Ltd. Balance	—	—	3,000
Total	1,54,000	1,34,000	78,000	Total	1,54,000	1,34,000	78,000

The following particulars are given:

1. The Share Capital of all Companies is divided into shares of ₹ 10 each.
2. A Ltd. held 8,000 shares in B Ltd. and 1,000 shares of C Ltd.
3. B Ltd. held 4,000 shares of C Ltd.
4. All these investments were made on 30.6.2012.
5. On 31.12.2011, the position was as shown below: (Amount in ₹)

Particulars	Reserve	P&LA/c	Creditors	Fixed Assets	Stock	Debtors
B Ltd.	8,000	4,000	5,000	60,000	4,000	48,000

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C Ltd.	7,500	3,000	1,000	43,000	35,500	33,000
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6. 10% Dividend is proposed by each Company.
7. The whole of stock in trade of B Ltd. as on 30.06.2012 (₹ 4,000) was later sold to A Ltd. for ₹ 4,400 and remained unsold by A Ltd. as on 31.12.2012.
8. Cash in transit from B Ltd. to A Ltd. was ₹ 1,000 as at the close of business. You are required to prepare the Consolidated Balance Sheet of the group as at 31.12.2012.

Solution:

A. Basic Information

Company Status	Dates	Holding Status		
Holding Company = A Ltd.	Acquisition: 30.06.2012	a. Holding Co.	B Ltd.	C Ltd.
Subsidiary = B Ltd.	Consolidation: 31.12.2012		(A) 80%	(A) 16.67%
Sub-Subsidiary = C Ltd.			–	(B) 66.66%
		b. Minority Int.	20%	16.67%

Note: The Shareholding Pattern is as under

Company	Held by A	Held by B	Total Holdings	Minority Interest	Total No. of Shares
B Ltd.	8,000 (80%)	N. A.	8,000 (80%)	2,000 (20%)	10,000 (100%)
C Ltd.	1,000 (16.67%)	4,000 (66.67%)	5,000 (83.33%)	1,000 (16.67%)	6,000 (100%)

B. Analysis of Reserves and Surplus of Subsidiary Companies

(a) General Reserve

B Ltd.			C Ltd.		
Balance on 31.12.2012 ₹ 10,000			31.12.2012 ₹ 9,000		
1.1.12 Prev. B/s 8,000	Tfr in 2012	₹ 2,000	1.1.12 Prev. B/s 7,500	Tfr in 2012	₹ 1,500
Capital	1.1.12 to DOA ₹ 1,000 Capital	DOA to DOC ₹ 1,000 Revenue	Capital	1.1.12 to DOA ₹ 750 Capital	DOA to DOC ₹ 750 Revenue
Capital Profit - ₹ 9,000; Revenue Profit - ₹ 1,000			Capital Profit - ₹ 8,250; Revenue Profit - ₹ 750		

(b) Profit & Loss Account

B Ltd.			C Ltd.		
Balance on 31.12.2012 12,000			Balance on 31.12.2012 9,000		
Less: Proposed Dividend (10% x 100,000) (10,000)			Less: Proposed Dividend (10% x 60,000) 6,000		
Add: Dividend from C Ltd. 2,000 (6/12 x 6,000 x 66.67%)			Adjusted Balance 3,000		
Adjusted Balance 4,000					
1.1.12 Prev. B/s 4,000 Capital	Profit in 2012	NIL	1.1.12 Prev. B/s 3,000 Capital	Profit in 2012	NIL Revenue

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

Particulars	A Ltd.	Minority Interest
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	80%	16.67%	B Ltd.	C Ltd.
	B 66.67% C		20%	16.67%
(a) Share Capital	1,00,000	60,000		
Less: Minority Interest	(20,000)	(10,000)	20,000	10,000
Holding Co's Share	80,000	50,000		
(b) Capital Profits				
General Reserve	9,000	8,250		
Profit & Loss Account	4,000	3,000		
Trfr. B's share in C (66.67% x ₹ 1,250)	13,000	11,250		
	7,500	(7,500)		
Less: Minority Interest	20,500	3,750		
Holding Co's Share	(4,100)	(1,875)	4,100	1,875
	16,400	1,875		
(c) Revenue Reserve:				
Trfr. B's share in C (66.67% x ₹ 750)	1,000	750		
	500	(500)		
Less: Minority Interest	1,500	250		
Holding Co.'s Share	(300)	(125)	300	125
	1,200	125		
(d) Revenue Profits	NIL	NIL	-	-
(e) Proposed Dividend	10,000	6,000		
Less: Minority Interest	(2,000)	(1,000)	2,000	1,000
Holding Co's Share	8,000	5,000		
Minority Interest Before Stock Reserve Adjustment			26,400	13,000
Less: Share of Minority Interest of B in Unrealized Profits (4,400 - 4,000) x 20%			(80)	-
Minority Interest			26,320	13,000

D. Cost of Control

Particulars		₹	
Cost of Investment:	A Ltd. in B Ltd.	75,000	
	A Ltd. in C Ltd.	13,000	
	B Ltd. in C Ltd.	53,000	1,41,000
Less:	Dividend out of Pre-acqn. Pfts (For 01.01.2012 to 30.06.2012)		
	From B Ltd. (8000 Shares x ₹ 10 x 10% x 6/12)	4,000	
	From C Ltd. (5000 Shares x ₹ 10 x 10% x 6/12)	2,500	6,500
	Adjusted Cost of Investment		1,34,500
Less:	(a) Nominal Value in Share Capital of:		
	B Ltd.	80,000	
	C Ltd.	50,000	(1,30,000)
	(b) Share in Capital Profits		
	B Ltd.	16,400	
	C Ltd.	1,875	(18,275)
	Capital Reserve on Consolidation		13,775

E. Consolidation of Reserves and Surplus

Particulars	Gen.	P & L A/c
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		Res.	
	Balance as per Balance Sheet of A Ltd.	28,000	16,000
Less:	Proposed Dividend (₹ 1,00,000 x 10%)	-	(10,000)
Add:	Share of Proposed Dividend (01.07.2012 to 31.12.2012) from B (8000 Shares x ₹ 10 x 10% x 6/12) C (1000 Shares x ₹ 10 x 10% x 6/12)	- -	4,000 500
	Adjusted Balance	28,000	10,500
Add:	Share of Revenue from B Ltd. C Ltd.	1,200 125	NIL NIL
	Consolidated Balance	29,325	10,500
Less:	Stock Reserve [₹ 4,400 - ₹ 4,000] x 80%	-	(320)
	Corrected Consolidated Balance	29,325	10,180

Name of the Company: A Ltd. And its subsidiary B & C 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	100,000	-
	(b) Reserves and surplus	2	53,280	-
	(c) Money received against share warrants		-	-
			153,280	-
2	Minority Interest		39,320	-
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	3	12,000	-
	(c) Other current liabilities		-	-
	(d) Short-term provisions	4	10,000	-
			22,000	-
	TOTAL (1+2+3+4)		2,14,600	-
B	ASSETS			
1	Non-current assets			
	(a) Fixed assets			

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Ref No.	Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
			₹	₹
	(i) Tangible assets	5	123,000	-
	(ii) Intangible assets (goodwill)		-	-
	(iii) Capital work-in-progress		-	-
	(iv) Intangible assets under development		-	-
	(v) Fixed assets held for sale		-	-
	(b) Non-current investments		-	-
	(c) Deferred tax assets (net)		-	-
	(d) Long-term loans and advances		-	-
	(e) Other non-current assets		-	-
			12,300	-
2	Current assets			
	(a) Current investments		-	-
	(b) Inventories	6	11,600	-
	(c) Trade receivables	7	79,000	-
	(d) Cash and cash equivalents	8	1,000	-
	(e) Short-term loans and advances		-	-
	(f) Other current assets		-	-
			91,600	-
	TOTAL (1+2)		214,600	-

Note 1. Share Capital		
	Current Year	Previous Year
Authorised Capital	-	-
Issued and Paid Up	-	-
Equity Share capital	1,00,000	-
	-	-
	-	-
	1,00,000	-
Note 3. Trade Payable		
	Current Year	Previous Year
Sundry Creditors		
A	7,000	-
B	5,000	-

Note 2. Reserve and Surplus		
	Current Year	Previous Year
General Reserve	29,325	-
Profit & Loss A/c	10,180	-
Capital Reserve	13,775	-
on Consolidation		-
	53,280	-
Note 4. Short Term Provisions		
	Current Year	Previous Year
Proposed Dividend	10,000	-
	-	-
	-	-

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		-
	12,000	
Note 5. Tangible Assets		
	Current Year	Previous Year
Fixed Assets		
A	20,000	-
B	60,000	-
C	43,000	-
	123,000	
Note 8. Cash and Cash Equivalents		
Cash	1,000	
	1,000	

		-
	10,000	
Note 6. Inventories		
	Current Year	Previous Year
Stock	12,000	
Less: Unrealised Profit	400	
	11,600	
Note 7. Trade Receivables		
Sundry Debtors	79,000	
	79,000	

Question No.7 (b)

A Limited is a holding company and B Limited and C Limited are subsidiaries of A Limited. Their Balance Sheets as on 31.12.2012 are given below:

	A Ltd.	B Ltd.	C Ltd.		A Ltd.	B Ltd.	C Ltd.
	₹	₹	₹		₹	₹	₹
Share Capital	3,00,000	3,00,000	1,80,000	Fixed Assets	60,000	1,80,000	1,29,000
Reserves	1,44,000	30,000	27,000	Investments			
Profit & Loss Account	48,000	36,000	27,000	- Shares in B Ltd.	2,85,000		
C Ltd. Balance	9,000			- Shares in C Ltd.	39,000	1,59,000	
Sundry Creditors	21,000	15,000		Stock in Trade	36,000		
A Ltd. Balance		21,000		B Ltd. Balance	24,000		
				Sundry Debtors	78,000	63,000	96,000
				A Ltd. Balance			<u>9,000</u>
	<u>5,22,000</u>	<u>4,02,000</u>	<u>2,34,000</u>		<u>5,22,000</u>	<u>4,02,000</u>	<u>2,34,000</u>

The following particulars are given:

- (i) The Share Capital of all companies is divided into shares of ₹ 10 each.
- (ii) A Ltd. held 24,000 shares of B Ltd. and 3,000 shares of C Ltd.
- (iii) B Ltd. held 12,000 shares of C Ltd.
- (iv) All these investments were made on 30.6.2012.
- (v) On 31.12.2011, the position was as shown below:

	B Ltd.	C Ltd.
	₹	₹
Reserve	24,000	22,500

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Profit & Loss Account	12,000	9,000
Sundry Creditors	15,000	3,000
Fixed Assets	1,80,000	1,29,000
Stock in Trade	12,000	1,06,500
Sundry Debtors	1,44,000	99,000

(vi) 10% dividend is proposed by each company.

(vii) The whole of stock in trade of B Ltd. as on 30.6.2012 (₹ 12,000) was later sold to A Ltd. for ₹13,200 and remained unsold by A Ltd. as on 31.12.2012.

(viii) Cash-in-transit from B Ltd. to A Ltd. was ₹ 3,000 as at the close of business.

You are required to prepare the Consolidated Balance Sheet of the group as on 31.12.2012.

Solution:

Consolidated Balance Sheet of A Ltd. and its subsidiaries B Ltd. and C Ltd. as on 31st December, 2012

₹ in crores

Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
1	EQUITY AND LIABILITIES			
	(a) Share capital	1	3,00,000	
	(b) Reserves and surplus	2	1,80,915	
	(c) Money received against share warrants			
2	Minority Interest (W.N.5)		1,13,460	
3	Share application money pending allotment			
4	Non-current liabilities			
	(a) Long-term borrowings			
	(b) Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
5	Current Liabilities			
	(a) Short-term borrowings			
	(b) Trade payables	3	36,000	
	(c) Other current liabilities			
	(d) Short-term provisions	4	30,000	
	Total(1+2+3+4+5)		6,60,375	
II	ASSETS			

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1	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	5	3,69,000	
	(ii) Intangible assets	6	16,575	
	(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	7	34,800	
	(c) trade receivables	8	2,37,000	
	(d) Cash and cash equivalents	9	3,000	
	(e) Short-term loans and advances			
	(f) Other current assets			
	Total(1+2)		6,60,375	

Notes to the Accounts

₹ in crores

Note 1. Share Capital	As at 31st March,2012	As at 31st March,2011
Authorized, Issued, Subscribed and paid-up Share capital:-		
30,000 Equity share of ₹ 10 each	3,00,000	
Total	3,00,000	

Reconciliation of Share Capital

For Equity Share	As at 31st March,2012		As at 31st March,2011	
	Nos.	Amount (₹)	Nos.	Amount (₹)
Opening Balance as on 01.04.11 (crores)	30,000	3,00,000		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)				
	30,000	3,00,000		
Less: Buy Back of share				

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Total	30,000	3,00,000		
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Note 2. Reserve & Surplus	As at 31 st March,2012	As at 31 st March,2011
Reserve	1,47,975	
Profit & Loss A/c	32,940	
Total	180,915	

Note 3. Trade payables	As at 31 st March,2012	As at 31 st March,2011
Sundry creditors- (21,000+15,000)	36,000	
Total	36,000	

Note 4. Short-term provision	As at 31 st March,2012	As at 31 st March,2011
Proposed dividend	30,000	
Total	30,000	

Note 5. Tangible Assets	As at 31 st March,2012	As at 31 st March,2011
Fixed assets	3,69,000	
Total	3,69,000	

Note 6. Intangible Assets	As at 31 st March,2012	As at 31 st March,2011
Goodwill	16,575	
Total	16,575	

Note 7. Inventories	As at 31 st March,2012	As at 31 st March,2011
Stock in trade	36,000	
Less: Provision for Unrealized profit	1,200	
Total	34,800	

Note 8. Sundry debtors	As at 31 st March,2012	As at 31 st March,2011
Sundry debtors (more than six months considered good) (78,000+63,000+96,000)	2,37,000	
Total	2,37,000	

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Note 9. Cash and cash equivalents	As at 31 st March,2012	As at 31 st March,2011
Cash in transit (24,000-21,000)	3,000	
Total	3,000	

Working Notes:

(1) Position on 30.06.2012

	Reserves	Profit and Loss Account
B Ltd.	₹	₹
Balance on 31.12.2012	30,000	36,000
Less: Balance on 31.12.2011	<u>24,000</u>	<u>12,000</u>
Increase during the year	6,000	24,000
Estimated increase for half year	3,000	12,000
Balance on 30.06.2012	27,000 (24,000+3,000)	24,000 (12,000 + 12,000)
C Ltd.		
Balance on 31.12.2012	27,000	27,000
Balance on 31.12.2011	22,500	9,000
Increase during the year	4,500	18,000
Estimated increase for half year	2,250	9,000
Balance on 30.06.2012	24,750 (22,500+2,250)	18,000 (9,000 + 9,000)

(2) Analysis of Profits of C Ltd.

	Capital Profit	Revenue Reserve	Revenue profit
	₹	₹	₹
Reserves on 30.6.2012	24,750		
Profit and Loss A/c on 30.6.2012	18,000		
Increase in reserves		2,250	
Increase in profit			9,000
	42,750	2,250	9,000
Less: Minority interest (1/6)	7,125	375	1,500
	35,625	1,875	7,500
Share of A Ltd. (1/6)	7,125	375	1,500
Share of B Ltd. (4/6)	28,500	1,500	6,000

(3) Analysis of Profits of B Ltd.

	Capital Profit	Revenue Reserve	Revenue profit

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	₹	₹	₹
Reserves on 30.6.2012	27,000		
Profit and Loss A/c on 30.6.2012	24,000		
Increase in reserves		3,000	
Increase in profit			12,000
Share in C Ltd.		1,500	6,000
	51,000	4,500	18,000
Less: Minority interest (2/10)	10,200	900	3,600
Share of A Ltd. (8/10)	40,800	3,600	14,400

(4) Cost of control

	₹	₹
Investments in		
B Ltd.	2,85,000	
C Ltd.	1,98,000	
		4,83,000
Paid up value of investments in		
B Ltd.	2,40,000	
C Ltd.	1,50,000	
		(3,90,000)
Capital profits in		
B Ltd.	40,800	
C Ltd.	35,625	
		(76,425)
Goodwill		16,575
(5) Minority Interest	₹	₹
Share Capital:		
B Ltd.	60,000	
C Ltd.	30,000	90,000
Share in profits and reserves (Pre and Post-Acquisitions)		
B Ltd.	14,700	
C Ltd.	9,000	23,700
		1,13,700
Less: Provision for unrealized profit (20% of ₹ 1,200)		240
		1,13,460
(6) Reserves – A Ltd.		₹
Balance as on 31.12.2012 (given)		1,44,000
Share in		

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B Ltd.		3,600
C Ltd.		375
		1,47,975
(7) Profit and Loss Account – A Ltd.		₹
Balance as on 31.12.2012 (given)		48,000
Share in		
B Ltd.		14,400
C Ltd.		<u>1,500</u>
		63,900
Less: Proposed dividend (10% of ₹ 3,00,000)		30,000
Provision for unrealised profit on stock		960
80% of (₹ 13,200 – ₹ 12,000)		
		32,940

Note: The above solution has been done by direct method. Alternatively, students may follow indirect method. In indirect method, the share in pre-acquisition profits of B Ltd. in C Ltd. amounting ₹ 28,500 will be included as capital profit while analysing the profits of B Ltd. and will not be considered for the purpose of cost of control. Thus, in this case, the amounts of goodwill and minority interest will increase by ₹ 5,700 (2/10 of ₹ 28,500). Goodwill and minority interest will be shown at ₹ 22,275 and ₹ 1,19,160 respectively in the consolidated balance sheet. Therefore, the total of the assets and liabilities side of the consolidated balance sheet will be ₹ 6,66,075.

Question No.8(a)

Given below Balance Sheets of Madhu Ltd and Rahim Ltd. as on 31.3.2012. Rahim Ltd. was merged with Madhu Ltd. with effect from 31.03.2012.

Balance Sheets as on 31.3.2012 (Before merger)

(₹)

Liabilities	Madhu Ltd.	Rahim Ltd.	Assets	Madhu Ltd.	Rahim Ltd.
Share Capital : Equity Shares of ₹ 10 each	7,00,000	2,50,000	Sundry Fixed Assets (Tangible)	9,50,000	4,00,000
General Reserve	3,50,000	1,20,000	Investments (Non-trade)	2,00,000	50,000
Profit and Loss A/c	2,10,000	65,000	Stock	1,20,000	50,000
Export Profit Reserve	70,000	40,000	Debtors	75,000	80,000
12% Debentures	1,00,000	1,00,000	Advance Tax	80,000	20,000
Sundry Creditors	40,000	45,000	Cash and Bank balances	2,75,000	1,30,000
Provision for Taxation	1,00,000	60,000	Preliminary Expenses	10,000	—
Proposed Dividend	1,40,000	50,000			
	17,10,000	7,30,000		17,10,000	7,30,000

Madhu Ltd. would issue 12% Debentures to discharge the claims of the debenture holders of Rahim Ltd. at par. Non-trade investments of Madhu Ltd. fetched @ 25% while those of Rahim Ltd. fetched @ 18%. Profit (pre-tax) by Madhu Ltd and Rahim Ltd. during 2009-10, 2010-11 and 2011-12 and were as follows :

Year	Madhu Ltd.	Rahim Ltd.
	₹	₹

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2009-10	5,00,000	1,50,000
2010-11	6,50,000	2,10,000
2011-12	5,75,000	1,80,000

Goodwill may be calculated on the basis of capitalisation method taking 20% as the pre-tax normal rate of return. Purchase consideration is discharged by Madhu Ltd. on the basis of intrinsic value per share. Both companies decided to cancel the proposed dividend.

Required Balance Sheet of Madhu Ltd. after merger.

Solution:

WN # 1: Purchase Consideration:

(i) Shares outstanding in Rahim Ltd.	25,000
(ii) Intrinsic Value per Share of Rahim Ltd. [WN # 2]	₹ 36.20
(iii) Value of Shares (a×b)	₹ 9,05,000
(iv) Intrinsic value per share of Madhu Ltd. [WN # 2]	₹ 40.40

(v) No. of shares to be issued by Madhu Ltd.
 $\text{₹ } 9,05,000 / \text{₹ } 40.40 = 22,400.99$

↓	↓
Shares 22400	Cash for fractions $0.99 \times 40.40 = 40$

(vi) Purchase consideration		
(a) 22400 shares @ 40.40		
Capital [₹ 10 / Share]	2,24,000	
Premium [₹ 30.40 / Share]	<u>6,80,960</u>	= 9,04,960
(b) Cash for fractional shares		= <u>40</u>
(c) Total purchase consideration payable		= <u>9,05,000</u>

WH # 2 : Intrinsic Value per share :

(₹)

	Madhu Ltd.		Rahim Ltd.	
(i) Assets				
(a) Goodwill	13,65,000		3,80,000	
(b) Sundry Fixed assets	9,50,000		4,00,000	
(c) Investments	2,00,000		50,000	
(d) Stock	1,20,000		50,000	
(e) Debtors	75,000		80,000	
(f) Advance Tax	80,000		20,000	
(g) Cash and Bank Balance	<u>2,75,000</u>	30,65,000	<u>1,30,000</u>	11,10,000
(ii) Liabilities				
(a) 12% Debentures	1,00,000		1,00,000	
(b) Sundry creditors	40,000		45,000	
(c) Provision for tax	<u>1,00,000</u>	<u>(2,40,000)</u>	<u>60,000</u>	<u>(2,05,000)</u>
(iii) Net Assets (i-ii)		<u>28,25,000</u>		<u>9,05,000</u>
(iv) No. of Outstanding Shares		70,000		25,000
(v) Intrinsic Value per share (iii)/(iv)		40.40		36.20

W # 3 : Valuation of Goodwill

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A. Capital Employed

		<i>Madhu Ltd.</i>	<i>Rahim Ltd.</i>
(i) Assets :			
(a) Sundry Fixed assets	9,50,000		4,00,000
(b) Investment (Non-trade)	-		-
(c) Stock	1,20,000		50,000
(d) Debtors	75,000		80,000
(e) Advance tax	80,000		20,000
(f) Cash and Bank balance	<u>2,75,000</u>	15,00,000	<u>1,30,000</u>
(ii) Liabilities:			
(a) 12% Debentures	1,00,000		1,00,000
(b) Sundry creditors	40,000		45,000
(c) Provision for tax	<u>1,00,000</u>	2,40,000	<u>60,000</u>
(iii) Capital Employed : (i) - (ii)		12,60,000	4,75,000

B. Average Pre-tax Profit :

<i>Particulars</i>		<i>Madhu Ltd.</i>	<i>Rahim Ltd.</i>
(i) 2009-10		5,00,000	1,50,000
(ii) 2010-11		6,50,000	2,10,000
(iii) 2011-12		<u>5,75,000</u>	<u>1,80,000</u>
(iv) Total (a+b+c)		<u>17,25,000</u>	<u>5,40,000</u>
(v) Simple Average [(iv)/3]		5,75,000	1,80,000
(vi) Less: Non-trading income		(50,000)	(9,000)
(vii) Average pre-tax profit		5,25,000	1,71,000

C. Computation of Goodwill :

	<i>Madhu Ltd.</i>	<i>Rahim Ltd.</i>
a. Capital value of average profits $\frac{5,25,000}{0.20}$ and $\frac{1,71,000}{0.20}$	26,25,000	8,55,000
b. Capital Employed	12,60,000	4,75,000
c. Goodwill (a-b)	13,65,000	3,80,000

Journal Entries - Books of Madhu Ltd.

- Nature of Amalgamation – PURCHASE
- Method of Accounting – PURCHASE METHOD

<i>Particulars</i>		<i>Debit</i>	<i>Credit</i>
a. For Business Purchase :			
Business Purchase A/c	Dr.	9,05,000	
To Liquidator of Rahim Ltd. A/c			9,05,000
b. For Assets and Liabilities taken over			
Goodwill A/c	Dr.	3,80,000	
Fixed Assets A/c	Dr.	4,00,000	
Investments A/c	Dr.	50,000	
Stock A/c	Dr.	50,000	
Debtors A/c	Dr.	80,000	
Advance tax A/c	Dr.	20,000	
Cash and Bank A/c	Dr.	1,30,000	
To 12% Debenture holders A/c			1,00,000

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	To Creditors A/c		45,000
	To Provision for Taxation A/c		60,000
	To Business Purchase A/c		9,05,000
c.	For Discharge of Purchase Consideration:		
	Liquidator of Rahim Ltd.	Dr.	9,05,000
	To Equity Share capital A/c		2,24,000
	To Securities premium A/c		6,80,960
	To Cash A/c		40
d.	Contra Entry		
	Amalgamation Adjustment A/c	Dr.	40,000
	To Export Profit Reserve A/c		40,000

Name of the Company: Madhu Ltd.				
Balance Sheet as at 31.03.2012 (After merger)				
Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
			₹	₹
	I. Equity and Liabilities			
1	Shareholders' funds			
	(a) Share capital	1	9,24,000	
	(b) Reserves and surplus	2	14,90,960	
	(c) Money received against share warrants			
2	Share application money pending allotment			
3	Non-current liabilities			
	(a) Long-term borrowings	3	2,00,000	
	(b) Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
4	Current Liabilities			
	(a) Short-term borrowings			
	(b) Trade payables	4	85,000	
	(c) Other current liabilities			
	(d) Short-term provisions	5	1,60,000	
	Total		28,59,960	
	II. Assets			
1	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	6	13,50,000	
	(ii) Intangible assets	7	3,80,000	
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investments	8	2,50,000	

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	(c) Deferred tax assets (Net)			
	(d) Long-term loans and advances	9	1,00,000	
	(e) Other non-current assets	10	40,000	
2	Current assets			
	(a) Current investments			
	(b) Inventories	11	1,70,000	
	(c) Trade receivables	12	1,55,000	
	(d) Cash and cash equivalents	13	4,04,960	
	(e) Short-term loans and advances			
	(f) Other current assets	14	10,000	
	Total		28,59,960	

	As at 31st March, 2012	As at 31st March, 2011
Note 1. Share Capital		₹
Authorised, Issued, Subscribed and Paid up Share Capital 92,400 Equity Shares of ₹10 each (of which 22,400 shares were issued for consideration other than cash)	9,24,000	
Total	9,24,000	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	As at 31st March, 2012		As at 31st March, 2011	
	Nos.	Amount (₹)	Nos.	Amount (₹)
Opening Balance as on 01.04.11	70,000	7,00,000	-	-
Add: Fresh issue (Incl'd Bonus shares, Right shares, Split shares issued other than cash)	22,400	2,24,000	-	-
Less: Buy Back of shares	-	-	-	-
	92,400	9,24,000		

	As at 31st March, 2012	As at 31st March, 2011
Note 2. Reserves and Surplus		
Securities Premium	6,80,960	
General Reserve	3,50,000	
Profit and Loss A/c	₹ 2,10,000	
Add: Proposed Dividend Cancelled	₹ 1,40,000	3,50,000
Export Profit reserve (70,000+40,000)	1,10,000	
Total	14,90,960	
Note 3. Long-term borrowings	As at 31st	As at 31st

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	March, 2012	March, 2011
12% Debentures of ₹ 100 each (1,00,000+1,00,000)	2,00,000	
Total	2,00,000	
Note 4. Trade Payables	As at 31st March, 2012	As at 31st March, 2011
Sundry Creditors	85,000	
Total	85,000	
Note 5. Short term Provisions	As at 31st March, 2012	As at 31st March, 2011
Provision for Tax (1,00,000 + 60,000)	1,60,000	
Total	1,60,000	
Note 6. Tangible Assets	As at 31st March, 2012	As at 31st March, 2011
Sundry Fixed assets(9,50,000+4,00,000)	13,50,000	
Total	13,50,000	
Note 7. Intangible assets	As at 31st March, 2012	As at 31st March, 2011
Goodwill	3,80,000	
Total	3,80,000	
Note 8. Noncurrent Investments	As at 31st March, 2012	As at 31st March, 2011
Investment	2,50,000	
Total	2,50,000	
Note 9. Long-term Loans and advances	As at 31st March, 2012	As at 31st March, 2011
Advance Tax	1,00,000	
Total	1,00,000	
Note 10. Other Noncurrent assets	As at 31st March, 2012	As at 31st March, 2011
Amalgamation Adjustment A/c	40,000	
Total	40,000	
Note 11. Inventories	As at 31st March, 2012	As at 31st March, 2011
Stock (1,20,000+50,000)	1,70,000	
Total	1,70,000	

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Note 12. Trade receivables	As at 31st March, 2012	As at 31st March, 2011
Debtors (75,000+80,000)	1,55,000	
Total	1,55,000	
Note 13. Cash and Cash Equivalents	As at 31st March, 2012	As at 31st March, 2011
Cash and Bank balance (2,75,000 + 1,30,000-40)	4,04,960	
Total	4,04,960	
Note 14. Other Current Assets	As at 31st March,2012	As at 31st March,2011
Preliminary Expenses	10,000	
Total	10,000	

Question No.8(b)

The Balance Sheets of Big Ltd. and Small Ltd. as on 31.03.2012 were as follows:
Balance Sheet as on 31.03.2012

	Big Ltd. (₹)	Small Ltd. (₹)		Big Ltd. (₹)	Small Ltd. (₹)
Equity Share Capital (₹10)	8,00,000	3,00,000	Building	2,00,000	1,00,000
10% Preference Share Capital (₹ 100)	—	2,00,000	Machinery Furniture	5,00,000 1,00,000	3,00,000 60,000
General reserve	3,00,000	1,00,000	Investment:		
Profit and Loss Account	2,00,000	1,00,000	6,000 shares of Small Ltd.	60,000	—
Creditors	2,00,000	3,00,000	Stock	1,50,000	1,90,000
			Debtors	3,50,000	2,50,000
			Cash and Bank	90,000	70,000
			Preliminary Expenses	<u>50,000</u>	<u>30,000</u>
	<u>15,00,000</u>	<u>10,00,000</u>		<u>15,00,000</u>	<u>10,00,000</u>

Big Ltd. has taken over the entire undertaking of Small Ltd. on 30.09.2012, on which date the position of current assets except Cash and Bank balances and Current Liabilities were as under:

	Big Ltd. (₹)	Small Ltd. (₹)
Stock	1,20,000	1,50,000
Debtors	3,80,000	2,50,000
Creditors	1,80,000	2,10,000

Profits earned for the half year ended on 30.09.2012 after charging depreciation at 5% on building, 15% on machinery and 10% on furniture, are:

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Big Ltd.	₹ 1,02,500
Small Ltd.	₹ 54,000

On 30.08.2012 both Companies have declared 15% dividend for 2011-12.

Goodwill of Small Ltd. has been valued at ₹ 50,000 and other Fixed assets at 10% above their book values on 31.03.2012. Preference shareholders of Small Ltd. are to be allotted 10% Preference Shares of Big Ltd. and equity shareholders of Small Ltd. are to receive requisite number of equity shares of Big Ltd. valued at ₹ 15 per share in satisfaction of their claims.

Show the Balance Sheet of Big Ltd. as of 30.09.2012 assuming absorption is through by that date.

Answer :

Name of the Company: Big Ltd.

Consolidated Balance Sheet as at 30th September,2012

Ref No.	Particulars	Note No.	As at 30 th Sept, 2012	As at 30 th Sept, 2011
			₹	₹
A	EQUITY AND LIABILITIES			
1	Shareholders' funds			
	(a) Share capital	1	12,96,000	-
	(b) Reserves and surplus	2	6,40,500	-
	(c) Money received against share warrants		-	-
2	Share Application money pending allotment		19,36,500	-
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	3	3,90,000	-
	(c) Other current liabilities		-	-
	(d) Short-term provisions		-	-
			3,90,000	-
	TOTAL (1+2+3)		23,26,500	-
B	ASSETS			
1	Non-current assets			
	(a) Fixed assets			

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Ref No.	Particulars	Note No.	As at 30 th Sept, 2012	As at 30 th Sept, 2011
			₹	₹
	(i) Tangible assets	4	12,30,500	-
	(ii) Intangible assets		-	-
	(iii) Capital work-in-progress		-	-
	(iv) Intangible assets under development		-	-
	(v) Fixed assets held for sale		-	-
	(b) Non-current investments		-	-
	(c) Deferred tax assets (net)		-	-
	(d) Long-term loans and advances		-	-
	(e) Other non-current assets		-	-
			12,30,500	-
2	Current assets			
	(a) Current investments		-	-
	(b) Inventories	5	2,70,000	-
	(c) Trade receivables	6	6,30,000	-
	(d) Cash and cash equivalents	7	1,46,000	-
	(e) Short-term loans and advances		-	-
	(f) Other current assets	8	50,000	-
				-
	TOTAL (1+2)		23,26,500	-

Annexure

Note 1. Share Capital	As at 30th Sept, 2012	As at 30th Sept, 2011
Share Capital in Equity Shares	10,96,000	
10% Preference Share Capital	2,00,000	
Total	12,96,000	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	As at 30 th Sept, 2012		As at 30 th Sept, 2011	
	Nos.	Amount (₹)	Nos.	Amount (₹)
Opening Balance as on 01.04.11	80,000	8,00,000	-	-
Add: Fresh issue (Incl'd Bonus shares, Right shares, Split shares issued other than cash)	29,600	2,96,000	-	-
Less: Buy Back of shares	-	-	-	-
	1,09,600	10,96,000		

FOR 10% PREFERENCE SHARE	As at 30 th Sept, 2012		As at 30 th Sept, 2011	
	Nos.	Amount (₹)	Nos.	Amount (₹)
Opening Balance as on 01.04.11	-	-	-	-

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Add: Fresh issue (Incl'd Bonus shares, Right shares, Split shares issued other than cash)	20,000	2,00,000	-	-
Less: Buy Back of shares	-	-	-	-
	20,000	2,00,000		

Note 2. Reserves and Surplus	As at 30th Sept, 2012	As at 30th Sept, 2011
Capital Reserves	1,000	
Securities Premium	1,48,000	
General Reserve	3,00,000	
Profit & Loss A/c	1,91,500	
Total	6,40,500	

Note 3. Trade Payables	As at 30th Sept, 2012	As at 30th Sept, 2011
Sundry Creditors	3,90,000	
Total	3,90,000	

Note 4. Tangible assets	As at 30th Sept, 2012	As at 30th Sept, 2011
Building	3,02,500	
Machinery	7,70,000	
Furniture	1,58,000	
Total	12,30,500	

Note 5. Inventories	As at 30th Sept, 2012	As at 30th Sept, 2011
Stock (1,20,000+1,50,000)	2,70,000	
Total	2,70,000	

Note 6. Trade receivables	As at 30th Sept, 2012	As at 30th Sept, 2011
Sundry Debtors (3,80,000+2,50,000)	6,30,000	
Total	6,30,000	

Note 7. Cash and Cash Equivalents	As at 30th Sept, 2012	As at 30th Sept, 2011
Cash and Bank	1,46,000	
Total	1,46,000	

Note 8. Other Current Assets	As at 30th	As at 30th

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	Sept, 2012	Sept, 2011
Preliminary Expenses	50,000	
Total	50,000	

Working Notes:

1. Ascertainment of Cash and Bank Balances as on 30th September, 2012 Balance Sheets as at 30th September, 2012

Liabilities	Big Ltd.	Small Ltd.	Assets	Big Ltd.	Small Ltd.
	(₹)	(₹)		(₹)	(₹)
Equity Share Capital	8,00,000	3,00,000	Building**	1,95,000	97,500
10% Preference Share Capital	–	2,00,000	Machinery**	4,62,500	2,77,500
General reserve	3,00,000	1,00,000	Furniture**	95,000	57,000
Profit and Loss Account*	1,91,500	89,000	Investment	60,000	–
Creditors	1,80,000	2,10,000	Stock	1,20,000	1,50,000
			Debtors	3,80,000	2,50,000
			Cash and Bank	1,09,000	37,000
			(Balancing figure)		
			Preliminary Expenses	50,000	30,000
	<u>14,71,500</u>	<u>8,99,000</u>		<u>14,71,500</u>	<u>8,99,000</u>

*Balance of Profit and Loss Account on 30th September, 2012.

	Big Ltd.	Small Ltd.
	(₹)	(₹)
Net profit (for the first half)	1,02,500	54,000
Balance brought forward	<u>2,00,000</u>	<u>1,00,000</u>
	3,02,500	1,54,000
Less: Dividend on Equity Share Capital Paid	<u>1,20,000</u>	<u>45,000</u>
	1,82,500	1,09,000
Less: Dividend on Preference Share Capital Paid	–	<u>20,000</u>
	1,82,500	89,000
Add: Dividend received $\left[\frac{1}{5} \times 45,000 \right]$	<u>9,000</u>	–
	<u>1,91,500</u>	<u>89,000</u>

**Fixed Assets on 30th September, 2012 (Before absorption)

	Big Ltd.	Small Ltd.
	(₹)	(₹)
(1) Building		
As on 1.4.1995	2,00,000	1,00,000
Less: Depreciation (5% p.a.)	<u>5,000</u>	<u>2,500</u>
	<u>1,95,000</u>	<u>97,500</u>

(2) Machinery		
As on 1.4.1995	5,00,000	3,00,000
Less: Depreciation (15% p.a.)	<u>37,500</u>	<u>22,500</u>
	<u>4,62,500</u>	<u>2,77,500</u>

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(3)	Furniture		
	As on 1.4.1995	1,00,000	60,000
	Less: Depreciation (10% p.a.)	<u>5,000</u>	<u>3,000</u>
		<u>95,000</u>	<u>57,000</u>

2. Calculation of Shares Allotted

	Assets taken over:		₹
	Goodwill		50,000
	Building	1,00,000	
	Add: 10%	<u>10,000</u>	
		1,10,000	
	Less: Depreciation	<u>2,500</u>	
			1,07,500
	Machinery	3,00,000	
	Add: 10%	<u>30,000</u>	
		3,30,000	
	Less: Depreciation	<u>22,500</u>	
			3,07,500
	Furniture	60,000	
	Add: 10%	<u>6,000</u>	
		66,000	
	Less: Depreciation	<u>3,000</u>	
			63,000
	Stock		1,50,000
	Debtors		2,50,000
	Cash and Bank		<u>37,000</u>
			9,65,000
	Less: Liabilities taken over:		
	Creditors		<u>2,10,000</u>
	Net assets taken over		7,55,000
	Less: Allotment of 10% Preference Shares to preference shareholders of Small Ltd.		<u>2,00,000</u>
			5,55,000
	Less: Belonging to Big Ltd.***		1,11,000
	$\left[\frac{1}{5} \times 5,55,000 \right]$		_____
	Payable to other Equity Shareholders		<u>4,44,000</u>
	Number of equity shares of ₹ 10 each to be issued (valued at ₹ 15 each)	<u>4,44,000</u>	
		15	
		<u>= 29,600</u>	

[*** 6,000 shares out of 30,000 shares of Small Ltd. are already with Big Ltd.]

3. Ascertainment of Goodwill / Capital Reserve

			₹
(A)	Net Assets taken over		7,55,000
(B)	Preference shares allotted	2,00,000	
	Payable to other equity shareholders	4,44,000	
	Cost of investments	<u>60,000</u>	
			<u>7,04,000</u>

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(C) Capital Reserve [(A) – (B)]	51,000
(D) Goodwill taken over	50,000
(E) Final figure of Capital Reserve [(C) – (D)]	1,000

Question No.9 (a)

The Balance Sheets of Spring Ltd. and its subsidiary Winter Ltd. as on 31st March, 2012 are as under:

Liabilities	Spring Ltd.	Winter Ltd.	Assets	Spring Ltd.	Winter Ltd.
	₹	₹		₹	₹
Equity shares of ₹ 10 each	4,80,000	2,00,000	Goodwill	45,000	30,000
10% Preference shares of ₹ 10 each	70,000	38,000	Plant and machinery	1,20,000	50,000
General reserve	55,000	42,000	Motor vehicles	95,000	75,000
Profit and loss account	1,00,000	60,000	Furniture and fittings	65,000	40,000
Bank overdraft	12,000	7,000	Investments	2,60,000	45,000
Sundry creditors	43,000	48,000	Stock	45,000	72,000
Bills payable	-	16,000	Cash at bank	22,500	21,000
			Debtors	93,000	78,000
			Bills receivable	<u>14,500</u>	-
	<u>7,60,000</u>	<u>4,11,000</u>		<u>7,60,000</u>	<u>4,11,000</u>

Details of acquisition of shares by Spring Ltd. are as under:

Nature of shares	No. of shares acquired	Date of acquisition	Cost of acquisition
			₹
Preference shares	1,425	1.4.2008	31,000
Equity shares	8,000	1.4.2009	95,000
Equity shares	7,000	1.4.2010	80,000

Other information:

- (i) On 1.4.2011 profit and loss account and general reserve of Winter Ltd. had credit balances of ₹ 30,000 and ₹ 20,000 respectively.
- (ii) Dividend @ 10% was paid by Winter Ltd. for the year 2010-2011 out of its profit and loss account balance as on 1.4.2011. Spring Ltd. credited its share of dividend to its profit and loss account.
- (iii) Winter Ltd. allotted bonus shares out of general reserve at the rate of 1 share for every 10 shares held. Accounting thereof has not yet been made.
- (iv) Bills receivable of Spring Ltd. were drawn upon Winter Ltd.
- (v) During the year 2011-2012 Spring Ltd. purchased goods from Winter Ltd. for ₹ 10,000 at a sale price of ₹ 12,000. 40% of these goods remained unsold at close of the year.
- (vi) On 1.4.2010 motor vehicles of Winter Ltd. were overvalued by ₹ 10,000. Applicable depreciation rate is 20%.

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(vii) Dividends recommended for the year 2012-2013 in the holding and the subsidiary companies are 15% and 10% respectively.

Prepare consolidated Balance Sheet as on 31st March, 2013.

Solution:

Consolidated Balance Sheet of Spring Ltd. and its subsidiary Winter Ltd. as on 31st March, 2013

Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
1	EQUITY AND LIABILITIES			
	(a) Share capital	1	5,50,000	
	(b) Reserves and surplus	2	1,22,275	
	(c) Money received against share warrants			
2	Minority Interest (W.N.3)		98,675	
3	Share application money pending allotment			
4	Non-current liabilities			
	(a) Long-term borrowings			
	(b) Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
5	Current Liabilities			
	(a) Short-term borrowings	3	20,500	
	(b) Trade payables	4	91,000	
	(c) Other current liabilities	5	1,500	
	(d) Short-term provisions	6	79,000	
	Total (1+2+3+4+5)		9,61,450	
II	ASSETS			
1	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	7	4,37,000	
	(ii) Intangible assets	8	94,750	
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investments	9	99,000	

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	(c) Deferred tax assets (Net)			
	(d) Long-term loans and advances			
	(e) Other non-current assets			
2	Current assets			
	(a) Current investments			
	(b) inventories	10	1,16,200	
	(c) trade receivables	11	1,71,000	
	(d) Cash and cash equivalents	12	43,500	
	(e) Short-term loans and advances		Nil	
	(f) Other current assets			
	Total (1+2)		9,61,450	

Notes on the Accounts

Note 1. Share Capital	As at 31st March, 2012	As at 31st March, 2011
Authorized Share capital:-		
Equity share of ₹10 each	4,80,000	
10% Preference Share Capital of ₹10 each	70,000	
	5,50,000	
Issued, Subscribed and paid-up		
48,000 Equity share of ₹10 each	4,80,000	
7,000, 10% Preference Share Capital of ₹ 10 each	70,000	
	5,50,000	

Note 2. Reserve & Surplus	As at 31st March, 2012	As at 31st March, 2011
General Reserve (W.N. 5)	71,500	
Profit and Loss account (W.N. 4)	50,775	
Total	1,22,275	

Note 3. Short-Term Borrowings	As at 31st March, 2012	As at 31st March, 2011
Bank Overdraft- Spring Ltd.	12,000	
Winter Ltd.	7,000	
Total	19,000	

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Note 4. Trade Payables	As at 31st March,2012	As at 31st March,2011
Sundry Creditors- Spring Ltd.	43,000	
Winter Ltd.	48,000	
Total	91,000	

Note 5. Other Current liabilities	As at 31st March,2012	As at 31st March,2011
Bills Payable- Winter Ltd.	16,000	
Less: Mutual debts	(14,500)	
Total	1,500	

Note 6. Short Term Provisions	As at 31st March,2012	As at 31st March,2011
Proposed dividend		
Equity	72,000	
Preference	7,000	
Total	79,000	

Note No. 7 Tangible Assets		As at 31st March,2012	As at 31st March,2011
(i) Plant and Machinery- Spring Ltd.	1,20,000		
Winter Ltd.	50,000	1,70,000	
(ii) Motor Vehicles - Spring Ltd.	95,000		
Winter Ltd. (75,000-10,000+2,000)	67,000	1,62,000	
(iii) Furniture & Fittings- Spring Ltd.	65,000		
Winter Ltd.	40,000	1,05,000	
Total (i+ii+iii)		4,37,000	

Note 8. Intangible Assets	As at 31st March,2012	As at 31st March,2011
Goodwill - Spring Ltd.	45,000	
Winter Ltd.	30,000	
	75,000	
Add: Goodwill on Consolidation (W.N.2)	19,750	
Total	94,750	
Note 9.Non-current Investments	As at 31st	As at 31st

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	March,2012	March,2011
Investment in other companies - Spring Ltd. (2,60,000-2,06,000)	54,000	
Winter Ltd.	45,000	
Total	99,000	

Note 10. Inventories		As at 31st March,2012	As at 31st March,2011
Stock - Spring Ltd.	45,000		
Winter Ltd.	72,000	1,17,000	
Less: Unrealized Profits		800	
Total		1,16,200	

Note 11. Trade Receivables		As at 31st March,2012	As at 31st March,2011
Debtors (more than six months considered good) - Spring Ltd.		93,000	
Winter Ltd.		78,000	
Total		1,71,000	

Note 12. Cash and cash equivalents		As at 31st March,2012	As at 31st March,2011
Cash at bank - Spring Ltd.		22,500	
- Winter Ltd.		21,000	
Total		43,500	

Working Notes:

(1) Analysis of Profits of Winter Ltd.			Capital Profits	Revenue Reserve	Revenue Profit
		₹	₹	₹	₹
(a)	General Reserve as on 1.4.2012	20,000			
	Less: Bonus issue (1/10 of ₹ 2,00,000)	<u>20,000</u>	-	-	
(b)	Addition to General Reserve during 2012-2013 (₹ 42,000 - ₹ 20,000)			22,000	
(c)	Profit and Loss Account balance as on 1.4.2010	30,000			
	Less: Dividend paid for the year 2011-2012	<u>20,000</u>	10,000		
(d)	Profit for the year 2012-2013 (₹ 60,000 - ₹ 10,000)				50,000
(e)	Adjustment for over valuation of motor vehicles		(10,000)		
(f)	Adjustment of revenue profit due to				

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		overcharged depreciation (20% on ₹ 10,000)				2,000
	(g)	Preference dividend for the year 2012-2013 @ 10%				<u>(3,800)</u>
				-	<u>22,000</u>	<u>48,200</u>
		Spring Ltd.'s share (3/4)			16,500	36,150
		Minority Interest (1/4)			5,500	12,050
					22,000	48,200
(2)	Cost of Control					₹
	Cost of investments in Winter Ltd.					2,06,000
		Less: Paid up value of equity shares (including bonus shares) [8,000 + 7,000 + (10% of 15,000)] ₹ 10	1,65,000			
		Paid-up value of preference shares	14,250			
		Pre-acquisition dividend ^{1*}	7,000			1,86,250
		Cost of control/Goodwill				19,750
(3)	Minority Interest					
		Equity share capital [₹ 50,000 + ₹ 5,000 (Bonus)]				55,000
		Preference share capital (₹ 38,000 - ₹ 14,250)				23,750
		Share of revenue reserve				5,500
		Share of revenue profit				12,050
		Proposed preference dividend				<u>2,375</u>
						<u>98,675</u>
(4)	Profit and Loss Account – Spring Ltd.					
		Balance				1,00,000
		Share in profit of Winter Ltd.				36,150
		Share in proposed preference dividend of Winter Ltd.				<u>1,425</u>
						1,37,575
		Less: Pre-acquisition dividend credited to profit and loss account			7,000	
		Unrealised profit on stock (40% of ₹ 2,000)			800	
		Proposed equity dividend			72,000	
		Proposed preference dividend			<u>7,000</u>	<u>86,800</u>
						<u>50,775</u>

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(5)	General reserve – Spring Ltd.				
	Balance				55,000
	Add: Share in Winter Ltd.				<u>16,500</u>
					<u>71,500</u>

Note:

No information has been given in the question regarding date of bonus issue by Winter. It is also not mentioned whether the bonus shares are issued from pre-acquisition general reserve or post-acquisition general reserve. The above solution is given on the basis that Winter Ltd. allotted bonus shares out of pre-acquisition general reserve.

Question No.9 (b)

Mitra Ltd acquired 25% of shares in Friend Ltd as on 31.03.2012 for ₹9 Lakhs. The Balance Sheet of Friend Ltd as on 31.03.2012 is given below-

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital	15,00,000	Fixed Assets	15,00,000
Reserves and Surplus	15,00,000	Investments	6,00,000
		Current Assets	9,00,000
Total	30,00,000	Total	30,00,000

Following additional information are available for the year ended 31.03.2013 –

- i. Mitra Ltd received dividend from Friend Ltd for the year ended 31.03.2012 at 40% from the Reserves.
 - ii. Friend Ltd made a profit After Tax of ₹ 21 Lakhs for the year ended 31.03.2013.
 - iii. Friend Ltd declared a dividend @ 50% for the year ended 31.03.2010 on 30.04.2013.
- Mitra Ltd is preparing consolidated Financial Statements in accordance with AS – 21 for its various subsidiaries.
- Calculate Goodwill if any on acquisition of Friend Ltd.'s shares.
 - How Mitra Ltd will reflect the value of investment in Friend Ltd in the consolidated Financial Statements?
 - How the dividend received from Friend Ltd will be shown in the consolidated Financial Statements?

Answer:

A. Basic Information

Mitra's stake in Friend Ltd	Nature of Investment in Friend Ltd.	Date of Consolidation
25% Shares	Associate in terms of AS 23	31.03.2013

B. Calculation of Goodwill

(₹ in lakhs)

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Particulars	₹ lakhs
Mitra's share in the Equity of Friend Ltd (as at the date of investment) [25% of ₹30 lakhs (Equity Capital ₹15 Lakhs + Reserves ₹15 Lakhs)]	7.50
Less: Cost of Investment	(9.00)
Goodwill	(1.50)

A. Extract of Consolidate Profit and Loss Account of Mitra Ltd for the year ended 31.03.2013 (₹in lakhs)

Ref No.	Particulars	Note No.	As at 1st March, 2013	As at 1st January, 2012
	Other Income		5.25	

(₹in lakhs)

Note to the Profit and Loss Account Other Income		As at 1st January, 2011	As at 1st January, 2010
Share of Profit from Friend Ltd.(25% × ₹21 lakhs) i.e.	5.25 lakhs	5.25	
Dividend from Friend Ltd. (15 Lakhs × 25% × 40%) i.e.	1.50 lakhs	NIL	
Less: Transfer to Investment in Friend Ltd. A/c i.e.	1.50 lakhs		
Total		5.25	

B. Extract of Consolidated Balance Sheet of Mitra Ltd as at 31.03.2013 (₹in lakhs)

Ref No.	Particulars	Note No.	As at 1st March, 2013	As at 1st January, 2012
	Assets		₹	₹
	Non-current investments		12.75	

(₹in lakhs)

Note to the Balance Sheet Non-current Investments		As at 1st January, 2011	As at 1st January, 2010
Investment in Friend Ltd. ₹(9.00+5.25-1.5)	₹11.25	12.75	
Goodwill	<u>₹1.50</u>		
Total		12.75	

Note: Dividend declared on 30.04.2013 will not be recognized in consolidated Financial Statements.

Question No.10(a)

Discuss the concept of Triple Bottom Line Reporting.

Answer:

The concept of TBL reporting refers to the publication of economic, environmental and social information in an integrated manner that reflects activities and outcomes across these three dimensions of a company's performance.

Economic information goes beyond the traditional measures contained within statutory financial reporting that is directed primarily towards shareholders and management. In a TBL context, economic information is provided to illustrate the economic relationships and impacts, both direct and indirect, that the company has with its stakeholders and the communities in which it operates.

The concept of TBL does not mean that companies are required to maximise returns across three dimensions of performance - in terms of corporate performance, it is recognized that financial performance is the primary consideration in assessing its business success.

- An expanded spectrum of values and criteria for measuring organizational and societal success - economic, environmental, social.
- In the private sector, a commitment to CSR implies a commitment to some form of TBL reporting.

The Triple Bottom Line is made up of "Social, Economic and Environmental"

"People, Planet, Profit "

The trend towards greater transparency and accountability in public reporting and communication is reflected in a progression towards more comprehensive disclosure of corporate performance to include the environmental, social and economic dimensions of an entity's activities.

Reporting information on any one or more of these three elements is referred to as TBL (Triple Bottom Line) Reporting. This trend is being largely driven by stakeholders, who are increasingly demanding information on the approach and performance of companies in managing the environmental and social/community impact of their activities and obtaining a broader perspective of their economic impact.

Question No.10(b)

(i) Define a Financial Instrument. Give examples

Answer: A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Examples of financial instruments:

- ❖ financial investments - like, listed and unlisted debt securities; listed equity securities; private equity and other unlisted equity investments
- ❖ originated and purchased loans
- ❖ repurchase agreements and securities lending/borrowing transactions
- ❖ derivative instruments (whether held for trading or hedging purposes)
- ❖ trade and other receivables
- ❖ cash and cash equivalents
- ❖ trading liabilities (short provisions and derivatives with negative fair values)
- ❖ trade and other payables and accruals
- ❖ current and long-term bank borrowings
- ❖ Bonds, debentures and notes issued.

(ii) Define derivatives instrument

Answer: A derivative is a financial instrument or other contract with all three of the following characteristics:

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- ❖ its value changes in responses to a change in specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (known as the underlying items)
- ❖ it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- ❖ it is settled at a future date.

Example:

X Ltd. enters into a contract to purchase 20tons of aluminum with pre-agreed price of ₹1,50,000 at a future date which is after 4 months.

It is a derivative as it is forward contract to purchase 20 tons of aluminum with pre-agreed price of ₹1,50,000 at a future date which is after 4 months.

(iii) Define Embedded derivative

Answer:

An embedded derivative is a financial instrument (derivative instrument) which is combined with a non-derivative host contract.

Example: Y Ltd. holds convertible debentures of Z Ltd., which is convertible in equity shares. Host Contract - Debenture. Embedded derivative - conversion option.

Question No.11(a)

From the following information of Beta Ltd. calculate Earnings Per Share (EPS) in accordance with AS-20:

	Year 31.3.13	Year 31.3.12
		(₹)
Net profit before tax	3,00,000	1,00,000
Current tax	40,000	30,000
Tax relating to earlier years	24,000	(13,000)
Deferred tax	30,000	10,000
Profit after tax	2,06,000	73,000
Other information:		
(i) Profit includes compensation from Central Government towards loss on account of earthquake in 2010(non-taxable)	1,00,000	NIL

(ii) Outstanding convertible 6% Preference shares 1,000 issued and paid on 30.9.2011. Face value ₹100, Conversion ratio 15 equity shares for every preference share.

(iii) 15% convertible debentures of ₹1,000 each total face value ₹1,00,000 to be converted into 10 Equity shares per debenture issued and paid on 30.6.2011.

(iv) Total no. of Equity shares outstanding as on 31.3.2013, 20,000 including 10,000 bonus shares issued on 01.01.2013, face value ₹100.

Answer:

Calculation of Earnings Per Share (EPS) of Beta Ltd.

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	₹	₹
	Year ended 31.3.13	Year ended 31.3.12
A. Earning after extra ordinary items (2,06,000 – 6,000) (73,000 – 3,000)	2,00,000	70,000
B. No. of Equity Shares	20,000	20,000
C. Basic Earnings Per share [A/B]	10.00	3.50
A. Earning before extra ordinary items	1,00,000	70,000
B. No. of Equity Shares	20,000	20,000
C. Basic Earnings Per share [A/B]	5.00	3.50
Tax Rate applicable		
40,000 + 30,000/2,00,000	35%	--
30,000 + 10,000/1,00,000	--	40%
A. Dividend on Weighted Average Preference Shares	6,000	3,000
B. Incremental shares	15,000	7,500
C. EPS on Incremental Shares [A/B]	0.40	0.40
	(dilutive)	(dilutive)
Convertible Debentures		
A. Increase in earnings $(1,00,000 \times \frac{15}{100} \times 0.65)$	9,750	
$(1,00,000 \times \frac{15}{100} \times 0.60 \times \frac{9}{12})$		6,750
B. Increase in shares	1,000	750
C. Increase in EPS [A/B]	9.75	9.00
	(Anti dilutive)	(Anti dilutive)

**It is anti-dilutive as it increases the EPS from continuing ordinary operations
(Para 39, AS 20)**

Calculation of Diluted EPS	Year ended 31.3.13 ₹	Year ended 31.3.12 ₹
A. Profit from continuing ordinary activities before Preference Dividend	1,06,000	73,000
No. of ordinary equity shares	20,000	20,000
Adjustment for dilutive potential of 6% convertible pref. shares	15,000	7,500
B. Total no. of shares	35,000	27,500
C. Diluted EPS from continuing ordinary operations [A/B]	3.02	2.65
D. Profit including extra ordinary items	2,06,000	73,000
E. Adjusted No. of shares	35,000	27,500
F. Diluted EPS including extra ordinary items [D/E]	5.88	2.65

Disclosure of EPS in accordance with AS 20 in the Profit and Loss Account

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Earnings per share (Face value ₹100)	31.3.13 (₹)	31.3.12 (₹)
Basic EPS from continuing ordinary operations	5.00	3.50
Diluted EPS from continuing ordinary operations	3.02	2.65

Question No.11(b)

(i) What is the objective of AS-32?

Answer:

The objective of "AS-32 - Financial Instruments - Disclosures" is to require entities to provide disclosures in their financial statements, that enable users to evaluate:

- ❖ the significance of financial instruments for the entity's financial position and performance; and
- ❖ the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

(ii) Briefly explain the nature of risks as classified under AS-32

Answer:

Under AS -32, the risks are classified as - credit risk, liquidity risk and market risk

- ❖ Credit risk - the risk that one party to a financial instrument will cause a financial loss for the other party, by failing to discharge an obligation
- ❖ Liquidity risk - the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities
- ❖ Market risk - the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. This risk can again be sub-classified as currency risk (changes in foreign exchange rates), interest rate risk (changes in market interest rates) and other price risk (changes in market prices other than those arising from interest rate risk or currency risk).

Question No.12 (a)

The following particulars in respect of stock option granted by a Company are available:

Grant date	01.04.2009
Number of employees covered	300
Vesting condition: Continuous employment upto 31.03.2012	
Nominal Value per share (₹)	10
Exercise Price per share (₹)	40
Exercise date	31.07.2012
Fair value of Option per share on grant date(₹)	20

The number of options to vest per employees shall depend on Company's average annual earning after tax during vesting period as per the table below:

Average Annual earning after tax	Number of Option per employee
Less than ₹100 crores	NIL
₹100 crores to less than ₹120 crores	30
₹ 120 crores to less than ₹150 crores	45
Above ₹150 crores	60

Position on 31.03.2010	Position on 31.03.2011
• The Company expects to earn ₹115	• The Company expects to earn ₹130

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<p>crores after tax on average per year during vesting period.</p> <ul style="list-style-type: none"> No. of employees expected to be entitled to option = 280 	<p>crores after tax on average per year during vesting period.</p> <ul style="list-style-type: none"> No. of employees expected to be entitled to option = 270
Position on 31.03.2012	Position on 31.07.2012
<ul style="list-style-type: none"> The Company earned ₹128 crores after tax on average per year during vesting period. No. of employees entitled to option = 275 	<ul style="list-style-type: none"> No. of employees exercising option = 265

Compute expenses to recognize in each year

Solution:

A. Expense for 2009-10

Fair value of option per share	₹20
Expected Average Profits	₹110Cr.
No. of shares under option per Employee	30
No. of employees expected to be eligible	280
Number of Shares expected to vest under the scheme (280 Employee×30shares)	8,400
Total Fair Value of the Option vesting under the Scheme =8,400shares ×₹20	1,68,000
Vesting period (01.04.2009 to 31.03.2012)	3 years
Value of Option recognised as expense in 2009-10 ₹1,68,000/3	56,000

B. Expense for 2010-11

Fair value of option per share	₹20
Expected Average Profits	₹130Cr.
No. of shares under option per Employee	45
No. of employees expected to be eligible	270
Number of Shares expected to vest under the scheme (270 Employee×45shares)	12,150
Total Fair Value of the Option vesting under the Scheme =12,150 shares ×₹20	2,43,000
Vesting period (01.04.2009 to 31.03.2012)	3 years
Value of Option recognised as expense in 2010-11	1,06,000

C. Expense for 2010-11

Fair value of option per share	₹20
Expected Average Profits	₹128Cr.
No. of shares under option per Employee	45
No. of employees expected to be eligible	275
Number of Shares expected to vest under the scheme (275 Employee×45shares)	12,375
Total Fair Value of the Option vesting under the Scheme =12,375shares ×₹20	2,47,500
Less: Value of the Option recognised as expenses in 2009-10 and 2010-11	(1,62,000)
Value of option to be recognised in Fy 2011-12	85,500

D. Forfeiture in 2012-13 and Transfer General Reserves

Total Eligible Employee	275
Less: Employees Exercising the option	265

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Employees forfeiting their rights	10
No. of shares under option per employee	45
Number of shares forfeited	450
Fair value of the Option Forfeited 450 shares × ₹20	9,000

Question No.12 (b)

What is Sustainability Reporting?

A sustainability report is an organizational report that gives information about economic, environmental, social and governance performance.

For companies and organizations, sustainability – the capacity to endure, or be maintained – is based on performance in these four key areas.

An increasing number of companies and organizations want to make their operations sustainable. Establishing a sustainability reporting process helps them to set goals, measure performance, and manage change. A sustainability report is the key platform for communicating positive and negative sustainability impacts.

To produce a regular sustainability report, organizations set up a reporting cycle – a progMadhu of data collection, communication, and responses. This means that their sustainability performance is monitored on an ongoing basis. Data can be provided regularly to senior decision makers to shape company strategy and policy, and improve performance. Sustainability reporting is therefore a vital step for managing change towards a sustainable global economy – one that combines long term profitability with social justice and environmental care Sustainability reporting can be considered as synonymous with other terms for non-financial reporting; triple bottom line reporting, corporate social responsibility (CSR) reporting, and more. It is also an intrinsic element of integrated reporting ; a recent development that combines the analysis of financial and non-financial performance.

A sustainability report enables companies and organizations to report sustainability information in a way that is similar to financial reporting. Systematic sustainability reporting gives comparable data, with agreed disclosures and metrics.

Major providers of sustainability reporting guidance include:

- ❖ The Global Reporting Initiative (The GRI Sustainability Reporting FMadhuework and Guidelines)
- ❖ Organization for Economic Cooperation and Development (OECD Guidelines for Multinational Enterprises)
- ❖ The United Nations Global Compact (the Communication on Progress) International Organization for Standardization (ISO 26000, International Standard for social responsibility)
- ❖ Uptake of sustainability reporting is increasing among organizations of all sizes: here are some statistics .

Benefits:

An effective sustainability reporting cycle should benefit all reporting organizations.

Internal benefits for companies and organizations can include:

- ❖ Increased understanding of risks and opportunities
 - ❖ Emphasizing the link between financial and non-financial performance
 - ❖ Influencing long term management strategy and policy, and business plans
 - ❖ Streamlining processes, reducing costs and improving efficiency
 - ❖ Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives
 - ❖ Avoiding being implicated in publicized environmental, social and governance failures
- Comparing performance internally, and between organizations and sectors

External benefits of sustainability reporting can include:

- ❖ Mitigating - or reversing - negative environmental, social and governance impacts

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- ❖ Improving reputation and brand loyalty
- ❖ Enabling external stakeholders to understand company's true value, and tangible and intangible assets
- ❖ Demonstrating how the organization influences, and is influenced by, expectations about sustainable development.

Question No.13 (a)

What is a "Grant Date" as per IFRS-2. Mention the vesting conditions.

Answer:

"Grant Date" is the date at which the entity and the employee (or other party providing similar services) agree to share based payment arrangement signifying by shared understanding of the terms and conditions of stock option. The term 'agree' is used in usual sense - there must be 'offer' and 'acceptance'. Therefore, the date on which the entity makes the offer becomes the grant date as 'acceptance' is either by explicit arrangement to which the employees have already agreed to implicit evidenced by commencement of their work.

Vesting Conditions:

These are conditions which are to be satisfied by the counterparty to be entitled to receive cash, other assets or equity instruments of the entity under share based payment arrangement. Examples of vesting conditions:

- (i) service condition- an employee should complete a minimum period of service from the grant date;
- (ii) performance condition - an employee should achieve a specified sales target or profit target.

However, no vesting condition other than market condition should be taken into account for the purpose of determining fair value of stock option.

Question No.13 (b)

Equity Share Capital	₹ 10,00,000
Reserves & Surplus	₹ 3,00,000
12% Preference Share Capital	₹ 2,00,000
10% Debenture	₹ 4,00,000
Immovable property (held as investment)	₹ 1,00,000
Profit after tax	₹ 2,00,000
Rate of tax	40%

Companies with Beta factor of 1 in similar business have market rate of return 15% . Beta factor of Anant Ltd. is 1.1 calculate EVA assuming Risk Free Return-7%.

Solution:

EVA = (Return on operating capital – weighted average cost of capital) X Operating Capital
 =(12.44%-13.33%) X 18,00,000 = (16,020)

Working Note – 1

Operating Capital	₹
Equity Share Capital	10,00,000
Reserves & Surplus	3,00,000
12% Preference Share Capital	2,00,000
10% Debenture	4,00,000
Total	19,00,000
Less: Non operating Investment	1,00,000
Operating Capital	18,00,000

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Working Note – 2

Calculation of Return on operating Capital

	₹
NOPAT = Profit after Tax	2,00,000
+ Taxes $\frac{4,00,000 \times 40}{60}$	1,33,333
	3,33,333
+Interest Expense	40,000
Operating EBIT	3,73,333
(-) Economic taxes @ 40%	1,49,333
NOPAT	2,24,000

Working Note – 3

Calculation of WACC

$$K_d = 10\% (1-0.40) \times 4,00,000/19,00,000 = 1.26$$

$$K_p = 12\% \times 2,00,000/19,00,000 = 1.26\%$$

$$K_e = 7\% + 1.1(15\%-7\%) = 15.8\% \times 13/19 = 10.81 = 13.33\%$$

Working Note – 4

$$\text{Return on operating capital (\%)} = (\text{₹}2,24,000/\text{₹}18,00,000) \times 100 = 12.44\%$$

Question No.14 (a)

From the following information in respect of Upkar Ltd., prepare a value added statement for the year 2012

	₹ '000
Turnover	2,300
Plant and Machinery (net)	1,080
Depreciation on Plant and Machinery	275
Dividends to ordinary shareholders	146
Debtors	195
Creditors	127
Total stock of all materials, WIP and finished goods	
Opening Stock	160
Closing Stock	200
Raw materials purchased	625
Cash at Bank	98
Printing and Stationary	22
Auditor's remuneration	28
Retained Profits (Opening balance)	994
Retained Profits for the year	288
Rent, Rates and Taxes	165
Other expenses	85
Ordinary share capital issued	1,500
Interest on borrowing	40
Income tax for the year	276
Wage and Salaries	327
Employees State Insurance	35
PF- Contribution	28

Calculate the Value added per employee, average earning per employee and sales per employee on the basis that 95 employees work in Upkar Ltd.

Answer :

Gross Value Added Statement

Sales			2,300
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Add: Increase in Stock (200-160)			<u>40</u>
		Total (A)	2,340
Cost of Bought in goods & services			
Raw materials	625		
Printing & Stationary	22		
Rent	165		
Other Expenses	85		
Auditor's remuneration	<u>28</u>		
		Total (B)	<u>925</u>
		GVA	<u>1,415</u>
Application Towards			
Employee (28+35+327)	390		
P/ Finance	40		
Government-tax	276		
Share Holder	146		
Entity(275+288)	563		
	<u>1,415</u>		

(i) Value Added = $\frac{1,415}{95} = 14.89$

(ii) $\frac{288}{95} = 3.03$

(iii) $\frac{2,300}{95} = 24.21$

Question No.14 (b)

The following is the Profit and Loss Account of Morning Glory Ltd. for the year ended 31.03.2012. Prepare a Gross Value Added Statement of Morning Glory Ltd. and show also the reconciliation between Gross Value Added and Profit before taxation.

Profit and Loss Account for the year ended 31.03.2012

(₹ in lakhs)

	Notes		Amount
Income:			
Sales		-	890
Other Income		-	<u>55</u>
			945
Expenditure:			
Production and operational expenses	(a)	641	-
Administration expenses (Factory)	(b)	33	-
Interest	(c)	29	-
Depreciation		<u>17</u>	<u>720</u>
Profit before taxes		-	225
Provision for taxes	(d)	-	<u>30</u>
Profit after tax		-	195
Balance as per last Balance Sheet		-	<u>10</u>
			<u>205</u>
Transferred to General Reserve		45	-
Dividend paid		<u>95</u>	-
		140	-
Surplus carried to Balance Sheet		<u>65</u>	-
		205	-

Notes :

(i) Production and Operational expenses	₹ in lakhs
Consumption of raw materials	293
Consumption of stores	<u>59</u>

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Salaries, Wages, Gratuities etc. (Admn.)	82
Cess and Local taxes	98
Other manufacturing expenses	109
	641

(ii) Administration expenses include salaries, commission to Directors ₹ 9.00 lakhs .Provision for doubtful debts ₹ 6.30 lakhs.

(iii)

	₹ in lakhs
Interest on loan from ICICI Bank for working capital	9
Interest on loan from ICICI Bank for fixed loan	10
Interest on loan from IFCI for fixed loan	8
Interest on Debentures	2
	29

(iv) The charges for taxation include a transfer of ₹ 3.00 lakhs to the credit of Deferred Tax Account.

(v) Cess and Local taxes include Excise Duty, which is equal to 10% of cost of bought-in material.

Answer :

Morning Glory Ltd.

Gross Value Added Statement for the year ended 31st March, 2012

	₹ in lakhs	₹ in lakhs
Sales		890
Less: Cost of bought in materials and services:		
Production and operational expenses (293 + 59 + 109)	461	
Administration expenses (33 – 9)	24	
Interest on working capital loan	9	
Excise duty (Refer working note)	55	549
Value added by manufacturing and trading activities		341
Add: Other income		55
Total value added		396

Application of Value Added

			%
To Employees			
Salaries, wages, gratuities etc.		82	20.71%
To Directors		9	2.27%
Salaries and commission			
To Government			
Cess and local taxes (98 – 55)	43		
Income tax	27	70	17.68%
To Providers of capital			
Interest on debentures	2		
Interest on fixed loan	18		
Dividends	95	115	29.04%
To Provide for maintenance and expansion of the company	17		
Depreciation	45		
General reserve	3		
Deferred tax	55	120	30.30%
Retained profits (65 – 10)			
		396	100%

Statement showing reconciliation of Gross Value Added with Profits before taxation

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₹ in lakhs

Profits before taxes		225
Add:		
Depreciation	17	
Directors' remuneration	9	
Salaries, wages & gratuities etc.	82	
Cess and local taxes	43	
Interest on debentures	2	
Interest on fixed loan	18	
		171
Total value added		396

Working Note:

Calculation of Excise Duty

Say cost of bought in materials and services is 'x'

Excise Duty is 10% of x = x/10

$$x = 461 + 24 + 9 + x/10$$

$$x = 494 + x/10 = 549 \text{ (approx.)}^*$$

$$\text{Excise Duty} = 549 - 494 = ₹ 55$$

* The above calculated excise duty is not exactly 10% of cost of bought in material amounting ₹ 549. The difference is due to approximation.

Question No.15 (a)

Sagar Limited belongs to the engineering industry. The Chief Accountant has prepared the draft accounts for the year ended 31.03.96. You are required to advise the company on the following items from the viewpoint of finalisation of accounts, taking note of the mandatory accounting standards.

- (i) **An audit stock verification during the year revealed that the opening stock of the year was understated by ₹ 3 lakhs due to wrong counting.**
- (ii) **The company purchased on 01.04.95 a special purpose machinery for ₹ 25 lakhs. It received a Central Government Grant for 20% of the price. The machine has an effective life of 10 years.**
- (iii) **The company undertook a contract for building a crane for ₹ 10 lakhs. As on 31.03.96 it incurred a cost of ₹ 1.5 lakhs and expects that there will be ₹ 9 lakhs more for completing the crane. It has received so far ₹ 1 lakh as progress payment.**
- (iv) **The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹ 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs. The average remaining life of the employees is estimated to be 6 years.**

Answer :

- (i) The wrong counting of opening stock of the current year/closing stock of the previous year must have also resulted in lowering of profits of previous year, brought forward to the current year. The adjustments are required to be made in the current year in respect of these errors in the preparation of the financial statements of the prior period and should therefore be treated as prior period adjustments as per AS 5 (Revised). Accordingly, the rectifications relating to both opening stock of the current year and profit brought forward from the previous year should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived.

- (ii) AS 12 'Accounting for Government Grants' regards two methods of presentation, of grants related to specific fixed assets, in financial statements as acceptable alternatives. Under the first method, the grant can be shown as a deduction from the gross book value of the machinery in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge.

Under the second method, it can be treated as deferred income which should be recognised in the profit and loss statement over the useful life of 10 years in the proportions in which depreciation on machinery will be charged. The deferred income pending its apportionment to profit and loss account should be disclosed in the balance sheet with a suitable description e.g., 'Deferred government grants' to be shown after 'Reserves and Surplus' but before 'Secured Loans'.

The following should also be disclosed:

- (i) the accounting policy adopted for government grants, including the methods of presentation in the financial statements;
 - (ii) the nature and extent of government grants recognised in the financial statement.
- (iii) Para 21 of AS 7 (Revised) 'Construction Contracts' provides that when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively with reference to the stage of completion of the contract activity at the reporting date.

As per para 32 of the standard, during the early stages of a contract it is often the case that the outcome of the contract cannot be estimated reliably. Nevertheless, it may be probable that the enterprise will recover the contract costs incurred. Therefore, contract revenue is recognized only to the extent of costs incurred that are expected to be recovered. As the outcome of the contract cannot be estimated reliably, no profit is recognised. Para 35 of the standard states that when it is probable that the total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. Thus the foreseeable loss of ₹ 50,000 (expected cost ₹ 10.5 lakhs less contract revenue ₹ 10 lakhs) should be recognized as an expense in the year ended 31st March, 1996.

Also, the following disclosures should be given in the financial statements:

- (a) the amount of contract revenue recognized as revenue in the period;
- (b) the aggregate amount of costs incurred and loss recognized upto the reporting date;
- (c) amount of advances received;
- (d) amount of retentions; and
- (e) gross amount due from/due to customers Amount*

- (iv) As per AS 15 'Accounting for Retirement Benefits in the Financial Statements of Employers', the surplus amount of ₹ 6 lakhs can be either credited to the profit and loss account of the current year or, alternatively, spread over a period not more than the expected remaining life of the participating employees i.e. 6 years.

This change relating to actuarial valuation for its pension scheme should be treated as a change in an accounting policy and disclosed in accordance with AS 5 (Revised).

The financial statements should disclose: (a) the method for determination of these retirement benefit costs; (b) whether the actuarial valuation was made at the end of the period or at an earlier date (also specify date); and (iii) the method by which the accrual for the period has been determined (if the same is not based on the report of the actuary).

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Note: AS 15 was revised in March, 2005. According to para 92 of AS 15 (Revised 2005) 'Employee Benefits', actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, surplus amount of ₹ 6 lakhs is required to be credited to the profit and loss statement of the current year.

Question No.15 (b)

Discuss "Non-Performing Assets" as per NBFC Prudential Norms (RBI) directions.

Answer:

"Non-Performing Asset" as per NBFC Prudential Norms (RBI) directions means:

- (i) An asset, in respect of which, interest has remained past due for six months;
- (ii) A term loan inclusive of unpaid interest, when the instalment is overdue for more than six months of which interest amount remained past due for six months;
- (iii) A bill which remained overdue for six months;
- (iv) The interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances that remained overdue for a period of six months;
- (v) Any dues on account of sales of assets or services rendered or reimbursement expenses made, which remained overdue for a period of six months;
- (vi) The lease rental and hire purchase instalment, which has become overdue for a period of more than twelve months;
- (vii) In respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities made available to borrower /beneficiary when anyone of the credit facilities becomes NPA.

However, an NBFC may classify each such account on the basis of record of recovery as regards hire purchase and lease transactions.

Question No.16 (a)

Stock & Commodity market intermediaries (theory)

- (i) What are derivatives and what are its characteristics?
- (ii) Explain currency options related to foreign exchange.
- (iii) Write short note on Interest Rate Swaps.

Answer:

- (i) Derivative is a product whose value is derived from the value of one or more basic variables, called bases (underlying asset, index or reference rate), in a contracted manner. The underlying asset can be equity, forex, commodity or any other asset. For example, farmers may wish to sell their harvest of wheat at a future date to eliminate the risk of a change in prices by that date. Such a transaction is an example of a derivative. The price of the derivative is driven by the spot price of wheat which is the "underlying asset".

Derivative financial instruments can either be on the balance-sheet or off the balance sheet and include options contract, interest rate swaps, interest rate flows, interest rate collars, forward contracts, futures etc. A derivative instrument is therefore a financial instrument or other contract with the following three characteristics:

- (a) It has one or more underlying and one or more notional amounts or payments provisions or both. These terms determine the amount of settlement or settlements and in some cases, whether or not settlement is required;
- (b) It requires no initial net investment or an initial net investment that is smaller than what is required for similar responses to changes in market factors.
- (c) Its terms require or permit net settlement; it can readily be settled net by means outside the contract or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

Accounting for foreign exchange derivatives is guided by AS 11 (Revised 2003). The ICAI has also issued a Guidance Note dealing with the accounting procedures to be adopted while accounting for Equity Index Options and Equity Stock Options.

- (ii) Currency Options give the client the right, but not the obligation, to buy/sell a specific amount of currency at a specific price on a specific date. Currency options provide a tool for hedging foreign exchange risk arising out of the firm's operations. Currency options enable the business house to remove downside risk without limiting the upside potential. Options can be put option or call option. A put option is a contract that specifies the currency that the holder has the right to sell. A call option is a contract that specifies the currency that the holder has the right to buy.
- (iii) Interest rate swap can be defined as a financial contract between two parties (called counter parties) to exchange on a particular date in the future, one series of cash flows (fixed interest) for another series of cash flows (variable or floating interest) in the same currency on the same principal (an agreed amount called notional principal) for an agreed period of time. The contract will specify the interest rates, the benchmark rate to be followed, the notional principal amount for the transaction, etc. Interest rates are of two types, fixed interest rates and floating rates which vary according to changes in a standard benchmark interest rate. An investor holding a security which pays a floating interest rate is exposed to interest rate risk. The investor can manage this risk by entering into an interest rate swap.

Question No.16 (b)

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Mr. Investor buys a stock option of ABC Co. Ltd. in July, 2012 with a strike price on 30.07.2012 of ₹ 250 to be expired on 30.08.2012. The premium is ₹ 20 per unit and the market lot is 100. The margin to be paid is ₹ 120 per unit.

Show the accounting treatment in the books of Buyer when:

- (i) the option is settled by delivery of the asset, and
- (ii) the option is settled in cash and the index price is ₹260 per unit.

Answer:

Accounting entries in the books of buyer

2012		At the time of inception	₹	₹
July		Stock option premium A/c Dr.	2,000	
		To Bank A/c		2,000
		(Being premium paid to buy a stock option)		
		Deposit for margin money A/c Dr.	12,000	
		To Bank A/c		12,000
		(Being margin money paid on stock option)		
		At the time of settlement		
August	(i)	Option is settled by delivery of the asset		
		Shares of ABC Ltd. A/c Dr.	25,000	
		To Deposit for margin money A/c		12,000
		To Bank A/c		13,000
		(Being option exercised and shares acquired, ₹ 12,000 margin money adjusted and the balance amount was paid)		
		Profit and loss A/c Dr.	2,000	
		To Stock option premium A/c		2,000
		(Being the premium transferred to Profit And Loss Account on exercise of option)		
	(ii)	Option is settled in cash		
		Profit and loss A/c Dr.	2,000	
		To Stock option premium A/c		2,000
		(Being the premium transferred to Profit And Loss Account)		
		Bank A/c (₹ 100 × 10) Dr.	1,000	
		To Profit and loss A/c		1,000
		(Being profit on exercise of option)		
		Bank A/c Dr.	12,000	
		To Deposit for margin money A/c		12,000
		(Being margin on equity stock option received back on exercise of option)		

Question No.17 (a)

Discuss

- (i) **Market value added and**
- (ii) **Shareholders value added**

Answer:

(i) **Market Value Added (MVA)**

Market value Added (MVA) is the difference between the current market value of a firm and the capital contributed by investors. If MVA is positive, the firm has added value. If it is negative the firm has destroyed value.

To find out whether management has created or destroyed value since its inception, the firm's MVA can be used:

$MVA = \text{Market value of capital} - \text{capital employed}$

This calculation shows the difference between the market value of a company and the capital contributed by investors (both bondholders and shareholders). In other words, it is the sum of all capital claims held against the company plus the market value of debt and equity. Calculated as:

The higher the MVA, the better. A high MVA indicates the company has created substantial wealth for the shareholders. A negative MVA means that the value of the actions and investments of management is less than the value of the capital contributed to the company by the capital markets, meaning wealth or value has been destroyed.

The aim of the company should be to maximize MVA. The aim should not be to maximize the value of the firm, since this can be easily accomplished by investing ever-increasing amounts of capital.

(ii) Shareholder Value Added (SVA)

Shareholder Value Added (SVA) represents the economic profits generated by a business above and beyond the minimum return required by all providers of capital. "Value" is added when the overall net economic cash flow of the business exceeds the economic cost of all the capital employed to produce the operating profit. Therefore, SVA integrates financial statements of the business (profit and loss, balance sheet and cash flow) into one meaningful measure.

The SVA approach is a methodology which recognizes that equity holders as well as debt financiers need to be compensated for the bearing of investment risk in Government businesses. Historically, it has been apparent that debt financiers have been explicitly compensated, however, this has not been the norm for providers of equity capital. Such inequalities can lead to inefficiencies in the allocation and use of capital.

The SVA methodology is a highly flexible approach to assist management in the decision making process. Its applications include performance monitoring, capital budgeting, output pricing and market valuation of the entity.

Calculation of SVA

$SVA = \text{Net Operating Profit After Taxes (NOPAT)} - (\text{Capital WACC})$

The first step in calculating SVA is to calculate NOPAT; the second step is to estimate capital employed; the third is to estimate the appropriate WACC; the fourth step is to calculate the capital charges; and the fifth step is to calculate SVA.

NOPAT is operating performance measure after taking account of taxation, but before any financing costs. Interest is totally excluded from NOPAT as it appears implicitly in capital charge. NOPAT also requires further equity-equivalent adjustments.

Capital costs include both the cost of debt finance and the cost of equity finance. The cost of these sources of finance is reflected by the return required by the funds provider, be they a lender or a shareholder. These capital cost is referred to as Weighted Average Cost of Capital (WACC) and is determined having regard to the related capital structure of the business. The WACC is used in SVA as the minimum hurdle rate of return the GBE needs to exceed for value to be added.

SVA is a useful concept as it enables both actual results and forecasts to be used to assess whether value has been added in the past and/or whether the financial forecasts and investment decisions will lead to value being added in future. If forecasted balance sheet and income statements indicate that value will be diminished, the strategic decisions which underpin the forecasts will of course need to be reviewed. As such, SVA provides a further basis for evaluating the potential 'investor value impact' of forecasts and capital projects contained in corporate plans.

Question No.17 (b)

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Why Human Resources Asset is not recognised in the Balance sheet?

Answer:

Although human beings are considered as the prime mover for achieving productivity, and are placed above technology, equipment and money, the conventional accounting practice does not assign significance to the human resources. Human resources are not recognized in balance sheet as there are no measurement criteria for recognition of human resources. Human resource accounting is at developing stage and no accounting principles have been established for valuation of human assets. Costs incurred on human resources are recognised as expenses in profit and loss account. Leading public sector units like OIL, BHEL, NTPC and SAIL etc. have started reporting human resources in their annual reports as additional information.

Question No.18 (a)

Life of Debenture	= 5 years
Face Value	= ₹ 100 lacs
Interest rate	= 12%
Maturity value	= ₹ 100 lacs.
Yield	= 10%

Conversion option to holder at the end of 3 years. Consideration - ₹122 lacs.

Give required accounting treatments taking the debenture as an embedded derivative instrument.

Answer:

$$\begin{aligned} \text{Fair value of debt} &= ₹12 \times 3.791 + ₹100 \times 0.621 \\ &= ₹45.49 + ₹62.10 \\ &= ₹107.59 \end{aligned}$$

Now, the total consideration will be divided in two parts

$$\begin{aligned} \text{Liability} &= ₹107.59 \quad \text{issuer prospective} \\ \text{Equity} &= ₹14.41 \end{aligned}$$

Date	Particular	Debit ₹	Credit ₹
31.03.2012	Bank A/c Dr. To, To Liability To, Equity (security premium)	122	107.59 14.41
	In the Books of Investors		
	Investment in debt A/c Dr. Investment in Derivative A/c Dr. To Bank A/c	107.59 14.41	122

Question No.18 (b)

XYZ Ltd. has the following capital structure on of 31st March 2012.

<i>Particulars</i>	<i>₹ in Crores</i>
a. Equity Share capital (Shares of ₹ 10 each)	300
b. Reserves :	
General Reserve	270
Security Premium	100
Profit and Loss A/c	50
Export Reserve (Statutory reserve)	80

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c. Loan Funds

800

The shareholders have on recommendation of Board of Directors approved vide special resolution at their meeting on 10th April 2012 a proposal to buy back maximum permissible equity shares considering the huge cash surplus following A/c of one of its divisions.

The market price was hovering in the range of ₹ 25/- and in order to induce existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% above market.

Advice the company on maximum number of shares that can be bought back and record journal entries for the same assuming the buy back has been completed in full within the next 3 months.

If borrowed funds were ₹ 1200 Lakhs, and 1500 Lakhs respectively would your answer change?

Solution:

Maximum shares that can be bought back

	<i>Situation I</i>	<i>Situation II</i>	<i>Situation III</i>
a. Shares outstanding test (WN # 1)	7.5	7.5	7.5
b. Resources test (WN # 2)	6	6	6
c. Debt Equity ratio test (WN # 3)	10.67	4	—
d. Maximum number of shares for buy back - LEAST of the above	6	4	—

Particulars	Situation I		Situation II	
	Debit	Credit	Debit	Credit
a. Shares bought back A/c	Dr.	180		
To Bank A/c			120	
[Being purchase of shares from public]		180		120
b. Share capital A/c	Dr.	60	40	
Securities premium A/c	Dr.	100	80	
General reserve A/c (<i>balancing figure</i>)	Dr.	20	—	
To Shares bought back A/c			180	120
[Being cancellation of shares bought on buy back]				
c. General Reserves A/c		60	40	
To Capital Redemption Reserve A/c			60	40
[Being transfer of reserves to capital redemption reserve to the extent capital is redeemed]				

Note: Under situation III, the company does not qualify the debt equity ratio test. Therefore the company cannot perform the buyback of shares (Under section 77A of the Companies Act, 1956)

WORKING NOTES:

WN # 1 : Shares outstanding test

Particulars	Amount
a. No. of shares outstanding	30 crores
b. 25% of shares outstanding	7.5 crores

WN # 2 : Resources test

(₹ in Crores)

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Particulars	Amount
a. Paid up capital	300
b. Free reserves	<u>420</u>
c. Shareholders fund (a+b)	<u>720</u>
d. 25% of shareholders fund	<u>180</u>
e. Buyback price per share	₹ 30
f. Number of shares that can be bought back	6 Crores

WN # 3 : Debt Equity ratio test :

(₹ in Crores)

Particulars	Situation I	Situation II	Situation III
a. Borrowed Funds	<u>800</u>	<u>1,200</u>	<u>1,500</u>
b. Minimum equity to be maintained after buy back in the ratio 2:1	400	600	750
c. Present equity	720	720	720
d. Maximum possible dilution in equity	320	120	—
e. Maximum shares that can be bought back @ ₹ 30/- per share	10.67	4	—

Question No.19 (a)

The business of P Ltd. was being carried on continuously at losses. The following are the extracts from the Balance Sheet of the Company as on 31st March, 2012.

Balance Sheet as on 31st March, 2012

Liabilities	Amount ₹	Assets	Amount ₹
Authorised, Issued and Subscribed Capital :		Goodwill	50,000
30,000 Equity Shares of ₹ 10 each fully paid	3,00,000	Plant	3,00,000
2,000 8% Cumulative Pref. Shares of ₹ 100 each fully paid	2,00,000	Loose Tools	10,000
Securities Premium	90,000	Debtors	2,50,000
Unsecured Loan (From Director)	50,000	Stock	1,50,000
Sundry creditors	3,00,000	Cash	10,000
Outstanding Expenses (including Directors' remuneration ₹ 20,000)	70,000	Bank	35,000
		Preliminary Expenses	5,000
		Profit & Loss Account	2,00,000
	10,10,000		10,10,000

Note : 1) Dividends on Cumulative Preference Shares are in arrears for 3 years.

2) Unsecured loans (from director) is assumed to be of less than 12 months hence, treated as short term borrowings. (ignoring interest)

The following scheme of reconstruction has been agreed upon and duly approved by the Court.

1. Equity shares to be converted into 1,50,000 shares of ₹ 2 each.
2. Equity shareholders to surrender to the Company 90 per cent of their holding.
3. Preference shareholders agree to forego their right to arrears to dividends in consideration of which 8 percent Preference Shares are to be converted into 9 per cent Preference Shares.
4. Sundry creditors agree to reduce their claim by one fifth in consideration of their getting shares of ₹ 35,000 out of the surrendered equity shares.
5. Directors agree to forego the amounts due on account of unsecured loan and Director's remuneration.

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6. Surrendered shares not otherwise utilised to be cancelled.
7. Assets to be reduced as under :
- | | |
|-------------------|----------|
| Goodwill by | ₹ 50,000 |
| Plant by | ₹ 40,000 |
| Tools by | ₹ 8,000 |
| Sundry Debtors by | ₹ 15,000 |
| Stock by | ₹ 20,000 |
8. Any surplus after meeting the losses should be utilised in writing down the value of the plant further.
9. Expenses of reconstruction amounted to ₹ 10,000.
10. Further 50,000 Equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid-up.
- A member holding 100 equity shares opposed the scheme and his shares were taken over by the Director on payment of ₹ 1,000 as fixed by the Court.
- You are required to pass the journal entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the Company.

Solution:

Particulars	Debit ₹	Credit ₹
a. Sub Division of Shares		
Equity Share Capital (₹ 10 each) A/c	Dr. 3,00,000	
To Equity Share Capital (₹ 2 each) A/c		3,00,000
b. Surrender of Shares		
Equity Share Capital (₹ 2) A/c	Dr. 2,70,000	
To Shares Surrendered A/c		2,70,000
c. Conversion of Preference Share Capital		
8% Cumulative Preference Share Capital A/c	Dr. 2,00,000	
To 9% Cumulative Preference Share Capital A/c		2,00,000
d. Surrendered shares issued to creditors under reconstruction scheme		
Shares Surrendered A/c	Dr. 35,000	
To Equity Share Capital A/c		35,000
e. Expenses Paid		
Expenses A/c	Dr. 10,000	
To Bank A/c		10,000
f. Cancellation of unissued surrendered shares		
Shares Surrendered A/c	Dr. 2,35,000	
To Capital Reduction A/c		2,35,000
g. Amount sacrificed by Directors		
Unsecured Loan A/c	Dr. 50,000	
Sundry Creditors A/c	Dr. 60,000	
Outstanding Expenses A/c	Dr. 20,000	
To Capital Reduction A/c		1,30,000
h. Assets Written off		
Capital Reduction A/c	Dr. 3,65,000	
To Goodwill A/c		50,000
To Loose tools A/c		8,000
To Sundry debtors A/c		15,000
Particulars	Debit ₹	Credit ₹
To Stock - in - trade A/c		20,000
To Profit and Loss A/c		2,00,000

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	To Preliminary expenses A/c		5,000
	To Expenses A/c		10,000
	To Plant A/c		57,000
i.	Issue of Shares		
	Applications received		
	Bank A/c	Dr.	1,00,000
	To Share Application A/c		1,00,000
	Allotment of Shares		
	Share Application A/c	Dr.	1,00,000
	To Share Capital A/c		1,00,000
	(Being 50000 equity shares of ₹ 2 each issued as fully paid as per Board's Resolution dated...)		

- Note 1 : a. Cancellation of Preference dividend need not be journalised; on cancellation it cease to be contingent liability and hence no further disclosure.
b. Preference shareholders have to forego policy rights presently enjoyed at par with Equity Shareholders.
- Note 2 : The transfer of 100 shares by the dissentient shareholders to the director concerned need not be journalised.
- Note 3 : It has been assumed that the share premium account is to be kept intact since the scheme is silent about it.

Name of the Company: P Ltd.				
Balance Sheet as at 31.03.2012				
Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
			₹	₹
	i. Equity and Liabilities			
	1 Shareholders' funds			
	(a) Share capital	1	3,65,000	
	(b) Reserves and surplus	2	90,000	
	(c) Money received against share warrants			
Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
			₹	₹
	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			

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	(b) Trade payables	3	2,40,000	
	(c)Other current liabilities	4	50,000	
	(d) Short-term provisions			
	Total		7,45,000	
II.	Assets			
1	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	5	2,43,000	
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investments			
	(c)Deferred tax assets (Net)			
	(d) Long-term loans and advances			
	(e) Other non-current assets			
2	Current assets			
	(a)Current investments			
	(b) Inventories	6	1,32,000	
	(c) Trade receivables	7	2,35,000	
	(d) Cash and cash equivalents	8	1,35,000	
	(e) Short-term loans and advances			
	(f) Other current assets			
	Total		7,45,000	

RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	As at 31st March, 2012		As at 31st March, 2011	
	Nos	Amount (₹)	Nos	Amount (₹)
Opening Balance as on 01.04.11	82,500	165,000,000	NIL	NIL
Add: Fresh Issue (Includ Bonus shares, Right shares, split shares, shares issued other than cash)			NIL	NIL
	82,500	165,000,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	82,500	165,000,000	NIL	NIL

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Note 2. Reserves and Surplus	As at 31st March, 2012	As at 31st March, 2011
Securities Premium	90,000	
Total	90,000	
Note 3. Trade Payables	As at 31st March, 2012	As at 31st March, 2011
Sundry creditors	2,40,000	
Total	2,40,000	
Note 4. Other Current Liabilities	As at 31st March, 2012	As at 31st March, 2011
Outstanding Expenses	50,000	
Total	50,000	

Note 5. Tangible assets		As at 31st March, 2012	As at 31st March, 2011
Plant	₹ 3,00,000		
less: Amount written off under the scheme of reconstruction	₹ 57,000	2,43,000	
Total		2,43,000	

Note 6. Inventories	As at 31st March, 2012	As at 31st March, 2011
Stock-in trade	1,30,000	
Loose tools	2,000	
Total	1,32,000	
Note 7. Trade receivables	As at 31st March, 2012	As at 31st March, 2011
Debtors	2,35,000	
Total	2,35,000	
8. Cash and Cash Equivalents	As at 31st March, 2012	As at 31st March, 2011
Cash at Bank	1,25,000	

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Cash in Hand	10,000	
Total	1,35,000	

Question No.19 (b)

A factory started its activities on 1st April, 2012. From the following data, compute the value of closing stock on 30th April, 2012.

- Raw Materials purchased during April - 40,000 kg at ₹24 (out of which Excise Duty = ₹ 4 per kg). Stock on hand as on 30th April – 2,500 kg.
- Production during April – 7,000 units (of which 5,000 units were sold). In addition to the production, 500 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).
- Wages and Production Overheads - ₹60
- Selling Price - ₹ 220 per unit (of which Excise Duty is ₹20 per unit).

Solution:

Particulars	Computation	₹
1. Raw Material Valuation (net of Input Excise Duty)	2,500kg x ₹ 20 per kg	50,000
2. WIP Valuation (net of RM input duty)	(₹100 + 60% of ₹60) x 500 units	68,000
3. Finished Goods Valuation (including ED on SP)	(RM 100 + Lab & OH 60 + ED 20) = ₹180 x (7,000 units – 5,000 units)	3,60,000
Total		4,78,000

Computation of Cost per unit of production:

- Raw Materials: (40,000 – 2,500) = 37,500 kg for 7,500 units total = 5 kg x ₹ 20 (net of ED) = ₹100
- Wages and Production Overhead = ₹60 per completed unit (given)

Question No.20 (a)

Write a note on Methods of Government Accounting.

Answer:

The mass of the Government accounts being on cash basis is kept on Single Entry. There is, however, a portion of the accounts which is kept on the Double Entry System, the main purpose of which is to bring out by a more scientific method the balance of accounts in regard to which Government acts as banker or remitter, or borrower or lender. Such balances are, of course, worked out in the subsidiary accounts of single entry compilations as well but their accuracy can be guaranteed only by a periodical verification with the balance brought out in the double entry accounts.

Business and merchant accounting methods are different than government accounting system because government accounting system is ruling over the nation and keeps various departments i.e. production, service utility or entertainment industry etc. The operations of department of government sometimes include under taking of a commercial or quasi-

commercial character and industrial factory or a store. It is still necessary that the financial results of the undertaking should be expressed in the normal commercial form so that the cost of the services or undertaking may be accurately known.

Question No.20 (b)

Write a note on IFRS.

Answer:

The term IFRS refers to the International Financial Reporting Standards issued by International Accounting Standard Board (IASB). It also encompasses the International Accounting Standards (IAS) issued by the International Accounting Standard Committee (IASC). Interpretations of IASs and IFRSs are developed by the International Financial Reporting Interpretations Committee (IFRIC). IFRIC is the new name for the Standing Interpretations Committee (SIC) approved by the IASC Foundation Trustees. IFRS includes these interpretations also.

Question No.21 (a)

Discuss the process of Triple Bottom Line Reporting.

Answer:

The major steps involved in undertaking the reporting process are:

1. Planning for Reporting

- Understand the national, international and industry sector trends in Triple Bottom Line Reporting (TBL) reporting
- Identify key stakeholders
- Establish the 'business case' and set high-level objectives for TBL reporting
- Secure support from the Board and senior executives
- Identify resource requirements and determine budget

2. Setting the Direction for TBL Reporting

- Engage with stakeholders to understand their requirements
- Prioritise stakeholder requirements and concerns
- Set overall objectives for TBL reporting
- Review current approach and assess capability to deliver on reporting objectives
- Identify gaps and barriers associated with current approach, and prioritise risks associated with overall reporting objective
- Review of associated legal implications
- Develop TBL reporting strategy
- Determine performance indicators for inclusion in report
- Establish appropriate structure and content of the report

3. Implementation of TBL Reporting Strategy

- Implementation of TBL reporting strategy (including required data collection and review processes)
- Clarify relationship to statutory financial reporting

4. Publication of TBL Report

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- Prepare draft report
- Review content and structure of report internally, and modify accordingly
- Obtain independent assurance - external verification
- Publish TBL report
- Seek feedback from stakeholders and incorporate into planning for the next period's reporting.

Question No.21 (b)

Balance Sheet of P Ltd. and Q Ltd. as at 31.12.2012 is given below (₹ in 000's)-

Liabilities	P	Q	Liabilities	P	Q
Equity Share Capital (₹ 10)	5,000	2,400	Goodwill	300	200
Securities Premium	200	140	Buildings	1,000	1,000
General Reserve	1,000	1,600	Machinery	4,000	2,440
Profit & Loss Account	900	600	Investment in Shares:		
8% Debentures	2,000	1,000	-1,92,000 Shares of Q Ltd.	1,500	
Trade Creditors	800	400	Investments in Debentures:		
Outstanding Expenses	270	180	- In Q Ltd. (Face Value ₹ 4,00,000)	450	
			- In P Ltd. (Face Value ₹ 2,00,000)		220
			Sundry Debtors	1,500	1,000
			Stock	1,000	1,000
			Cash and Bank	200	100
			Preliminary Expenses	100	50
			Outstanding Income	120	310
Total	10,170	6,320	Total	10,170	6,320

1. When the Shares were acquired, Q Ltd. had ₹ 2.2 Lakhs in General Reserve and ₹ 1,00,000 in Securities Premium, ₹ 3,00,000 (Dr.) in Profit and Loss Account.
2. Two years after the date of acquisition Bonus Shares at 1 to 1 were issued out of General Reserve.
3. One year after the Bonus issue, Rights Shares were issued at 10% Premium at 1 for 5 held and P Ltd. purchased all the shares offered to it.
4. P Ltd. received ₹ 1,92,000 dividend for the last year and ₹ 96,000 interim dividend in the current year, i.e. 3 years after the Rights Issue.
5. For the current year 15% dividend (including Interim Dividend) has been proposed by Q Ltd., 10% by P Ltd., but no effect has yet been given in the accounts.
6. On the same day referred to in (5) above, Bonus Dividend has been declared at 1 to 2, but no effect has yet been given.
7. 50% of the shares originally purchased in Q Ltd. were paid for to the shareholders of Q Ltd. by 50,000 shares of P Ltd. issued at 10% premium.
8. Debenture Interest of both the Companies falls due on 31st December, but payments are made a week later.

Estimate the Cost of Control

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Solution:

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = P Ltd. Subsidiary = Q Ltd.	Consolidation: 31.12.2012	Holding Company = 80% Minority Interest = 20%

	Shares held as on 31.12.2012	1,92,000				
Add:	Second Bonus Issue (1,92,000 x 1/2)	<u>96,000</u>				
	Actual Shareholding	<u>2,88,000</u>				
<table style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <tr> <td style="width: 25%; text-align: center;">DOA - 1 (Original Acquisition) 80,000 (balancing figure)</td> <td style="width: 25%; text-align: center;">First Bonus Issue (1 : 1 as at DOA-1) 80,000 [(1,92,000 - 32,000) ÷ 2]</td> <td style="width: 25%; text-align: center;">DOA - 2 Rights Issue 32,000 [1,92,000 x 1 ÷ (5 + 1)]</td> <td style="width: 25%; text-align: center;">Second Bonus Issue (1 : 2 as at DOA-2) 96,000</td> </tr> </table>			DOA - 1 (Original Acquisition) 80,000 (balancing figure)	First Bonus Issue (1 : 1 as at DOA-1) 80,000 [(1,92,000 - 32,000) ÷ 2]	DOA - 2 Rights Issue 32,000 [1,92,000 x 1 ÷ (5 + 1)]	Second Bonus Issue (1 : 2 as at DOA-2) 96,000
DOA - 1 (Original Acquisition) 80,000 (balancing figure)	First Bonus Issue (1 : 1 as at DOA-1) 80,000 [(1,92,000 - 32,000) ÷ 2]	DOA - 2 Rights Issue 32,000 [1,92,000 x 1 ÷ (5 + 1)]	Second Bonus Issue (1 : 2 as at DOA-2) 96,000			
40,000 For Cash	40,000 For Shares of P Ltd.					

2. Analysis of Reserves & Surplus of Q Ltd.

(a) Securities Premium

Balance on 31.12.2012 ₹ 1,40,000

DOA-1	₹ 1,00,000 Capital	Proceeds from Rights Issue Capital Profit ₹ 40,000
-------	------------------------------	--

(b) General Reserve

	Shares held as on 31.12.2012	16,00,000
Add:	Second Bonus Issue (24,00,000 x 1/2)	<u>12,00,000</u>
	Adjusted Balance	<u>4,00,000</u>

	DOA-1 ₹ 22,00,000	Additions upto Consolidation (balancing figure) ₹ 4,00,000
Less:	First Bonus (₹ 10,00,000) (80,000 Shares/80% x ₹ 10)	Revenue Reserve
Less:	Second Bonus (₹ 12,00,000)	
	Capital Profit ₹ NIL	

Note: In the absence of information in this regard, it is presumed that the second bonus issue has been made out of reserves as on the date of controlling acquisition.

(c) Profit & Loss Account

	Balance as on 31.12.2012	6,00,000
Less:	Debenture Interest (10,00,000 x 8%)	(80,000)
Add:	Debenture Interest from P (2,00,000 x 8%)	16,000
Less:	Proposed Dividend (24,00,000 x 15% – Interim 1,20,000)	<u>(2,40,000)</u>
	Adjusted Balance	<u>2,96,000</u>

DOA - 1 (₹ 3,00,000) Debit balance given Capital Profit	Additions to P&L A/c ₹ 5,96,000 Revenue Profit
--	--

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Note: Interim Dividend received by Holding Company = ₹ 96,000 for 80% holding. Hence,
 Total Interim
 Dividend paid by Subsidiary = ₹ 96,000 ÷ 80% = ₹ 1,20,000

3. Analysis of Net Worth of Q Ltd.

Particulars		Total	P	Minority
		100%	80%	20%
(a)	Equity Share Capital: (including Bonus ₹ 12,00,000)	36,00,000	28,80,000	7,20,000
(b)	Capital Profits: Securities	1,00,000		
	Premium Account	NIL		
	General Reserve	(3,00,000)		
	Profit & Loss Account	(50,000)	(2,00,000)	(50,000)
	Preliminary Expenses	(2,50,000)	32,000	8,000
		40,000	3,20,000	80,000
(c)	Securities Premium (after acquisition date)	4,00,000	4,76,800	1,19,200
(d)	Revenue Reserves: General Reserve	5,96,000	1,92,000	48,000
(e)	Revenue Profits: Profit & Loss A/c	2,40,000		
(f)	Proposed Equity Dividend			
Minority Interest				9,25,200

4. Cost of Control

Particulars	₹	
Cost of Investment		15,00,000
Less: (1) Nominal Value of Equity Capital	28,80,000	
(2) Share in Capital Profit of Q Ltd.	(2,00,000)	(26,80,000)
Capital Reserve on Consolidation		(11,80,000)

Question No.22 (a)

R Ltd. owns 80% of S and 40% of T and 40% of Q. T is jointly controlled entity and Q is an associate. Balance Sheet of four companies as on 31.03.2012 are:

Assets	R Ltd. ₹	S ₹	T ₹	Q ₹
Investment in S	1,200	-	-	-
Investment in T	1,800	-	-	-
Investment in Q	1,800	-	-	-
Fixed Assets	1,500	1,200	2,100	1,500
Current Assets	3,300	4,950	4,875	5,475
Total	7,800	6,150	6,975	6,975
Liabilities				
Share capital ₹1 Equity Share	1,500	600	1,200	1,200
Retained Earnings	6,000	5,100	5,400	5,400
Creditors	300	450	375	375
Total	7,800	6,150	6,975	6,975

R Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were ₹780 lakhs. R Ltd. acquired its shares in 'T' at the beginning of the year when 'T' retained earnings were ₹600 lakhs. R Ltd. acquired its shares in 'Q' on 01.04.2011 when 'A' retained earnings were ₹600 Lakhs.

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The balance of goodwill relating to 'S' had been written off three years ago. The value of goodwill in 'T' remains unchanged.

Prepare the Consolidated Balance Sheet of R Ltd. as on 31.03.2012 as per AS 21, 23 and 27.

Answer:

Name of the Company: R 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	1,500	-
	(b) Reserves and surplus	2	13,200	-
	(c) Money received against share warrants		-	-
			14,700	-
2	Minority Interest		1,140	-
3	Non-current liabilities			
	(a) Long-term borrowings (10% debentures)		-	-
	(b) Deferred tax liabilities (net)		-	-
	(c) Other long-term liabilities		-	-
	(d) Long-term provisions		-	-
				-
4	Current liabilities			
	(a) Short-term borrowings		-	-
	(b) Trade payables	3	900	-
	(c) Other current liabilities		-	-
	(d) Short-term provisions		-	-
			900	-
	TOTAL (1+2+3+4)		16,740	-
B	ASSETS			
1	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	4	3,540	-
	(ii) Intangible assets	5	180	-
	(iii) Capital work-in-progress		-	-
	(iv) Intangible assets under development		-	-

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Ref No.	Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
			₹	₹
	(v) Fixed assets held for sale		-	-
	(b) Non-current investments	6	2,820	
	(c) Deferred tax assets (net)		-	-
	(d) Long-term loans and advances		-	-
	(e) Other non-current assets		-	-
			6,540	-
2	Current assets			
	(a) Current investments		-	-
	(b) Inventories		-	-
	(c) Trade receivables		-	-
	(d) Cash and cash equivalents		-	-
	(e) Short-term loans and advances		-	-
	(f) Other current assets	7	10,200	-
			10,200	-
	TOTAL (1+2)		16,740	-

Annexure

Note 1. Share Capital	As at 31st December, 2012 (₹)	As at 31st December, 2011 (₹)
Share Capital in Equity Shares	1,500	
Total	1,500	

Note 2. Reserves and Surplus	As at 31st December, 2012 (₹)	As at 31st December, 2011 (₹)
Retained Earnings (W.N 2)	13,200	
Total	13,200	

Note 3. Trade Payables	As at 31st December, 2012 (₹)	As at 31st December, 2011 (₹)
Creditors [300+450+40% of 375]	900	
Total	900	

Note 4. Tangible assets	As at 31st December, 2012 (₹)	As at 31st December, 2011 (₹)
Fixed Assets [1,500 + 1,200 + 840(2,100×40%)]	3,540	
Total	3,540	

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Note 5. Intangible assets	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Goodwill (W.N 1)	180	
Total	180	

Note 6. Noncurrent investments	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Investment in Associates (W.N 4)	2,820	
Total	2,820	

Note 7. Other current assets	As at 31st December, 2012 (₹)	As at 31st December, 2011(₹)
Current Assets [3,300+4,950+ 1,950 (4,875 × 40%)]	10,200	
Total	10,200	

Working Notes :

1.Computation of Goodwill

S Ltd.(subsidiary)

	₹ in lakhs	
Cost of Investment		1,200
Less :Paid up value of shares acquired	480	
Share in pre-acquisition profits of S Ltd. (780 × 80%)	<u>624</u>	<u>1,104</u>
Goodwill		<u>96</u>

T (Jointly Controlled Entity)

	₹ in lakhs	
Cost of Investment		900
Less:Paid up value of shares acquired (40% of 1,200)	480	
Share in pre-acquisition profits (40% of 600)	<u>240</u>	<u>720</u>
Goodwill		<u>180</u>

Note: Jointly controlled entity 'T' to be consolidated on proportionate basis i.e. 40% as per AS 27

Associate Q (AS 23)

	₹ in lakhs	
Cost of investment		900
Less:Paid up value of shares acquired (1,200 × 40%)	480	
Share in pre-acquisition profits (400 × 40%)	<u>240</u>	<u>720</u>
Goodwill		<u>180</u>

Goodwill shown in the Consolidated Balance Sheet

	₹ in lakhs	
Goodwill of 'T'		180
Goodwill of 'S'		96
Less: Goodwill written off of 'S'		<u>96</u>
Goodwill		<u>180</u>

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2. Consolidated Retained Earnings

	₹ in lakhs
R Ltd.	6,000
Share in post acquisition profits of S - 80% (5,100 – 780)	3,456
Share in post acquisition profits of T - 40% (5,400 – 600)	1,920
Share in post acquisition profits of Q - 40% (5,400 – 600)	1,920
Less: Goodwill written off	<u>(96)</u>
	<u>1,3200</u>

3. Minority Interest 'S'

	₹ in lakhs
Share Capital (20% of 600)	120
Share in Retained Earnings (20% of 5,100)	<u>1,020</u>
	<u>1,140</u>

4. Investment in Associates

	₹ in lakhs
Cost of Investments (including goodwill ₹ 180 lakhs)	900
Share of post acquisition profits	<u>1,920</u>
Carrying amount of Investment (including goodwill ₹ 180 lakhs)	<u>2,820</u>

Question No.22 (b)

Write a note Committee on Public Undertaking.

Answer:

The Committee on Public Undertakings exercises the same financial control on the public sector undertakings as the Public Accounts Committee exercises over the functioning of the Government Departments. The functions of the Committee are:

- to examine the reports and accounts of public undertakings.
 - to examine the reports of the Comptroller & Auditor General on public undertakings.
 - to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.
- The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.

The objective of the Financial Committees, in doing so, is not to focus only on the individual irregularity, but on the defects in the system which led to such irregularity, and the need for correction of such systems and procedures.

Question No.23 (a)

Mukta Crop. has 60% shares in joint venture with Indra Crop. Mukta Crop. Sold a plant WDV of ₹80 lakhs for ₹100 lakhs. Calculate how much profit the NDA Crop. Should recognize in its book in case joint venture is

- Jointly controlled operation
- Jointly controlled asset
- Jointly controlled entity

Solution:

As per AS – 27 (refer point 27.2) in case of jointly controlled operation and jointly controlled assets joint venture, the venture should recognize the profit to the extent of other venturer interest.

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In the instant case, Mukta Crop. Should recognize profit of ₹(100 – 80) = ₹20 x 40/100 = ₹8 lakhs only.

However in case of jointly controlled entities Mukta Crop. Should recognize full profit of ₹20 lakhs in its separate financial statements. However while preparing consolidated financial statements it should recognize the profit only to the extent of 40% i.e. 8 lakhs.

Question No.23 (b)

Beautiful Ltd. acquired 30% of Ugly Ltd. Shares for ₹ 4,00,000 on 01-06-2011. By such an acquisition Beautiful Ltd. can exercise significant influence over Ugly Ltd. During the financial year ended on 31.03.2011 Ugly Ltd. earned profits ₹1,60,000 and Declared a dividend of ₹ 1,00,000 on 12.08.2011. Ugly Ltd. reported earnings of ₹ 6,00,000 for the financial year on 31.03.2012 and declared dividends of ₹ 1,20,000 on 12.06.2012.

Calculate the carrying amount of investment in :

- (i) Separate financial statements of Beautiful Ltd. as on 31.03.2012
- (ii) Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2012
- (iii) What will be the carrying amount as on 30.06.2012 in consolidated financial Statements?

Answer:

- (i) Carrying Amount of Investment in Separate Financial Statement of Beautiful Ltd. as on 31.03.2012

	₹
Amount paid for investment in Associate (on 1.06.2011)	4,00,000
Less: Pre- acquisition dividend (₹ 1,00,000 X 30%)	30,000
Carrying amount as on 31.03.2012 as per AS 13	3,70,000

- (ii) Carrying Amount of Investment in Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2012 as per AS 23

	₹
Carrying amount as on 31.03.2012	3,70,000
Add: Proportionate Share of Profit of investee as per equity method (30% of ₹ 6,00,000)	1,80,000
Carrying amount as on 31.03.2012	5,50,000

- (iii) Carrying Amount of Investment in Consolidated Financial Statement of Beautiful Ltd. as on 30.06.2012 as per AS 23

	₹
Carrying amount as on 31.03.2012	5,50,000
Less: Dividend Received received (₹ 1,20,000 X 30%)	36,000
Carrying amount as on 30.06.2012	5,14,000

Question No.24 (a)

The following figures for a period were called out from the books of Asha Corporation:

Particulars	₹
sales	24,80,000
Purchase of raw materials	10,00,000
Agent's commission	20,000
Consumable stores	25,000
Packing material	10,000
Stationery	10,000
Audit fees	4,000
Staff welfare expenses	1,58,000

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Insurance	26,000
Rent rate & taxes	16,000
Managing director's remuneration	84,000
Traveling expenses	21,000
Fuel and oil	9,000
Electricity	5,000
Material used in repairs:	
1. Materials to plant and machinery	24,000
2. Materials to buildings	10,000
Advertisement	25,000
Salaries and wages	6,30,000
Postage and telegMadhus	14,000
Contribution to provident fund, etc.	60,000
Directors' sitting fees & traveling expenses	40,000
Subscription paid	2,000
Carriage	22,000
Interest on loans taken	18,000
Dividend to shareholders	30,000
Depreciation provided	55,000
Income-tax provided	1,00,000
Retained earnings	1,25,000
Opening stock : raw Material	85,000
Finished goods	2,00,000
Closing Stock: raw Material	1,08,000
Finished goods	2,40,000

From the above you are required to prepare a statement detailing the source and disposal to added value.

Answer:

Statement showing the sources and disposal of Added Value

Sources:	Amount (₹)	Amount (₹)
Sales		24,80,000
Less: Agents' commission		20,000
Add change in finished stocks (W.N 1)		40,000
Gross Output		25,00,000
Less:		
(a) Raw Materials :		
Purchases	10,00,000	
Less: Change in Stock	23,000	
	9,77,000	
Other Materials:		
Consumables	25,000	
Packing Materials	10,000	
Stationary	10,000	
Fuel & oil	9,000	
Electricity	5,000	
Repair – Plant & Machinery	24,000	
Repair – Building	10,000	

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Cost of brought in inputs	10,70,000	
(b) Purchased Services:		
Audit Fees	4,000	
Insurance	26,000	
Rent, Rates & Taxes	16,000	
Traveling Expenses	21,000	
Advertisement	25,000	
Postal & Telegraph	14,000	
Subscription	2,000	
Staff Welfare Expenses	1,58,000	
Carriage	22,000	
		13,58,000
Add Value		11,42,000
Disposal:		
To Employee Costs		
MD Remuneration	84,000	
Director Sitting Fees & Expenses	40,000	
Salaries & Wages	6,30,000	
Contribution to PF	60,000	8,14,000
To Government		
Tax Provided		1,00,000
Provider of Finance		
Interest on Loan		18,000
To, Pay Share Holders		
Dividend		30,000
To Entity		
Depreciation	55,000	
Retained Earnings	1,25,000	1,80,000
Added Value		11,42,000

W.N 1 This adjustment is necessary because the cost relating to this closing stock stands included in purchase.

Question No.24 (b)

What are the advantages of preparation of Value Added (VA) statements?

Answer:

Various advantages of preparation of Value Added (VA) Statements are as under:

(i) Reporting on VA improves the attitude of employees towards their employing companies. This is because the VA statement reflects a broader view of the company's objectives and responsibilities.

(ii) VA statement makes it easier for the company to introduce a productivity linked bonus scheme for employees based on VA. The employees may be given productivity bonus on the basis of VA / Payroll Ratio.

(iii) VA based ratios (e.g. VA / Payroll, taxation / VA, VA / Sales etc.) are useful diagnostic and predictive tools. Trends in VA ratios, comparisons with other companies and international comparisons may be useful.

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(iv) VA provides a very good measure of the size and importance of a company. To use sales figure or capital employed figures as a basis for company's rankings can cause distortion. This is

because sales may be inflated by large bought-in expenses or a capital-intensive company with

a few employees may appear to be more important than a highly skilled labour-intensive company.

(v) VA statement links a company's financial accounts to national income. A company's VA indicates the company's contribution to national income.

(vi) VA statement is built on the basic conceptual foundations which are currently accepted in balance sheets and income statements. Concepts such as going concern, matching, consistency and substance over form are equally applicable to VA statement.

Question No.25 (a)

Write a note on Extensible Business Reporting Language (XBRL).

XBRL stands for eXtensible Business Reporting Language. It is one of a family of "XML" languages which is becoming a standard means of communicating information between businesses and on the internet. XBRL provides major benefits in the preparation, analysis and communication of business information and is fast becoming an accepted reporting language globally. It offers major benefits to all those who have to create, transmit, use or analyse such information.

Potential XBRL applications:

- (a) XBRL for Financial Statements - financial statements of all sorts used to exchange financial information
- (b) XBRL for Taxes -specification for tax returns which are filed and information exchanged for items which end up on tax returns
- (c) XBRL for Regulatory Filings – specifications for the large number of filings required by government and regulatory bodies
- (d) XBRL for Accounting and Business Reports - management and accounting reporting such as all the reports that are created by your accounting system rendered in XML to make re-using them possible
- (e) XBRL for Authoritative Literature - a standard way for describing accounting related authoritative literature published by the AICPA, FASB, ASB, and others to make using these resources easier, "drill downs" into literature from financials possible

Question No.25 (b)

(i) Advise P Co. Ltd. about the treatment of the following in the Final Statement of Accounts for the year ended 31st March, 2012.

A claim lodged with the Railways in March, 2009 for loss of goods of ₹ 2,00,000 had been passed for payment in March, 2012 for ₹ 1,50,000. No entry was passed in the books of the Company, when the claim was lodged.

(ii) The notes to accounts of X Ltd. for the year 2011-2012 include the following:

"Interest on bridge loan from banks and Financial Institutions and on Debentures specifically obtained for the Company's Fertiliser Project amounting to ₹ 1,80,80,000 has been capitalized during the year, which includes approximately ₹ 1,70,33,465 capitalised in respect of the utilization of loan and debenture money for the said purpose." Is the treatment correct? Briefly comment.

Answer:

(i) Prudence suggests non-consideration of claim as an asset in anticipation. So receipt of claims is generally recognised on cash basis. Para 9.2 of AS 9 on Revenue Recognition states that where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. Para 9.5 of AS 9 states that when recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is properly recognised. In this case it may be assumed that collectability of claim was not certain in the earlier periods. This is supposed from the fact that only ₹ 1,50,000 were collected against a claim of ₹ 2,00,000. So this transaction cannot be taken as a Prior Period Item.

In the light of revised AS 5, it will not be treated as extraordinary item. However, para 12 of AS 5 (Revised) states that when items of income and expense within profit or loss from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Accordingly, the nature and amount of this item should be disclosed separately as per para 12 of AS 5 (Revised).

(ii) The treatment done by the company is not in accordance with AS 16 'Borrowing Costs'. As per para 10 of AS 16, to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period. Hence, the capitalisation of borrowing costs should be restricted to the actual amount of interest expenditure i.e. ₹ 1,70,33,465. Thus, there is an excess capitalisation of ₹ 10,46,535. This has resulted in overstatement of profits by ₹ 10,46,535 and amount of fixed assets has also gone up by this amount.

Question No.26 (a)

Discuss the general principles of Government Accounting in India and its basic structure.

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 than 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.

Basic Structure of the form of the accounts:

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- (1) Period of Accounts: The annual accounts of the central, state and union territory government shall record transactions, which take place during financial year running from 1st April to 31st March.
- (2) Cash basis Accounts: With the exception of such book adjustments as may be authorized by these rules on the advice of the Comptroller and Auditor General of India (CAG). The transaction in government accounts shall represents the actual cash receipt and disbursement during a financial year.

Form of Accounts: There are mainly three parts i.e. consolidated fund, contingency fund and public account.

In consolidated fund there are two divisions i.e. revenue consisting of section for receipts heads and expenditure heads [Revenue Accounts] capital, public debts, loan consisting of section of receipts heads [capital accounts] where as contingency fund accounts shall be recorded to the transactions connected with the government set up under article 267 of the constitution and Public account transactions relating to the debt deposit, advances, remittances and suspense shall be recorded.

Question No.26 (b)

Discuss CAG's role in the context of Government accounting in India.

Answer:

CAG's Role

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

- (a) for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and
- (b) for keeping such accounts in relation to any of the matters specified in clause (a) as may be necessary;

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

- (i) the said accounts of the Union (either at once or gradually by the issue of several orders); or
- (ii) the accounts of any particular services or departments of the Union;

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

- (i) the said accounts of the State (either at once or gradually by the issue of several orders); or
- (ii) the accounts of any particular services or departments of the State;

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

- (2) Where, under any arrangement, a person other than the Comptroller and Auditor General has, before the commencement of this Act, been responsible-
 - (i) for compiling the accounts of any particular service or department of the Union or of a State, or
 - (ii) for keeping the accounts of any particular class or character, such arrangement shall, notwithstanding anything contained in subsection (1), continue to be in force unless, after consultation with the Comptroller and Auditor General, it is revoked in the case referred to in clause (i), by an order of the President or the Governor of the State, as the case may be, and in the case referred to in clause (ii) by an order of the President.

Question No.27 (a)

Discuss the role of GASAB towards Government Accounting in India.

Answer:

Government Accounting Standards Advisory Board (GASAB) has been constituted by Comptroller and Auditor General of India (CAG), with the support of Government of India through a notification dated 12th August, 2002.

The decision to set-up GASAB has been taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace with the International trends.

The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending instead of just identifying resources for public scheme funding.

The accounting systems, the world over, are being revisited with an emphasis on transition from rule to principle based standards and migration from cash to accrual based system of accounting.

GASAB, as a nodal advisory body in India, is taking similar action to establish and improve standards of government accounting and financial reporting and enhance accountability mechanisms.

Responsibilities of the Board

1. To establish and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
2. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
3. To keep the standards current and reflect change in the Governmental environment;
4. To provide guidance on implementation of standards.
5. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
6. To improve the common understanding of the common understanding of the nature and purpose of information contained in the financial reports.

Question No.27 (b)

Write short notes on the objective and scope of the following GASAB's:

- (i) **IGAS – 1 – Guarantees given by Government : Disclosure requirements**
- (ii) **IGAS - 2 - Accounting and Classification of Grants-in-aid**

Answer:

(i) Guarantees given by Governments: Disclosure Requirements

The Union Government and the State Governments give Guarantees for repayment of borrowings within such limits, if any, as may be fixed upon the security of the Consolidated Fund of India or of the State, as the case may be, in terms of Articles 292 and 293 of the Constitution of India. Guarantees are also given by the Union Government for payment of interest on borrowings, repayment of share capital and payment of minimum annual dividend, payment against agreements for supplies of materials and equipments on credit basis on behalf of State Governments, Union Territories, local bodies, railways, government companies/ corporations, joint stock companies, financial institutions, port trusts, electricity boards and co-operative institutions. Guarantees are also given by the Union Government to the Reserve Bank of India, other banks and financial institutions for repayment of principal and payment of interest, cash credit facility, financing seasonal agricultural operations and for providing working capital in respect of companies, corporations, co-operative societies and co-operative banks. Further, Guarantees are also given in pursuance of agreements

entered into by the Union Government with international financial institutions, foreign lending agencies, foreign governments, contractors and consultants towards repayment of principal, payment of interest and payment of commitment charges on loans. The Union Government also gives performance guarantees for fulfilment of contracts/projects awarded to Indian companies in foreign countries as well as foreign companies in foreign countries besides counter-guarantees to banks in consideration of the banks having issued letters of credit to foreign suppliers for supplies/ services made/ rendered by them on credit basis in favour of companies/ corporations. Furthermore, Guarantees are given by the Union Government to railways, and electricity boards for due and punctual payment of dues and freight charges by the companies and corporations. Similarly, Guarantees are also given by the State Governments.

As the statutory corporations, government companies, co-operative institutions, financial institutions, autonomous bodies and authorities are distinct legal entities, they are responsible for their debts. Their financial obligations may be guaranteed by a Government and thus the Government has a commitment to see that these are fulfilled. When these entities borrow directly from the market, it reduces a Government's budgetary support to them and the magnitude of a Government's borrowings. However, it adds to the level of Guarantees given by the Governments. In consideration of the Guarantees given by the Governments, the beneficiary entities are required to pay guarantee commission or fee to the Governments. The Guarantees have an important economic influence and result in transactions or other economic flows when the relevant

Event or conditions actually occur. Thus guarantees normally constitute contingent liabilities of the Government.

Objective

The objective of this Standard is to set out disclosure norms in respect of Guarantees given by the Union and the State Governments in their respective Financial Statements to ensure uniform and complete disclosure of such Guarantees.

Scope

This Standard applies to preparation of the Statement of Guarantees for inclusion and presentation in the Financial Statements of the Governments. Financial Statements should not be described as complying with this Standard unless these comply with all its requirements.

The Authority in the Government which prepares the Statement of Guarantees for inclusion and presentation in the Financial Statements shall apply this Standard. The Accounting Authority is responsible for inclusion and presentation of the Statement of Guarantees in the Financial Statements as provided by the Authority in the Government.

(ii) IGAS 2 - Accounting and Classification of Grants-in-aid.

Answer:

Grants-in-aid are payments in the nature of assistance, donations or contributions made by one government to another government, body, institution or individual. Grants-in-aid are given for specified purpose of supporting an institution including construction of assets. The general principle of grants-in-aid is that it can be given to a person or a public body or an institution having a legal status of its own. Such grants-in-aid could be given in cash or in kind used by the recipient agencies towards meeting their operating as well as capital expenditure requirement.

Grants-in-aid are given by the Union Government to State Governments and by the State Governments to the Local Bodies discharging functions of local government under the Constitution. This is based on the system of governance in India, which follows three-

tier pattern with the Union Government at the apex, the States in the middle and the Local Bodies (LBs) consisting of the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) at the grass root level. Accounts of these three levels of Government are separate and consequently the assets and liabilities of each level of government are recorded separately. Grants-in-aid released by the Union Government to the State Governments are paid out of the Consolidated Fund of India as per Articles 275 and 282 of the Constitution. The Union Government releases grants-in-aid to the State/ Union Territory Government under Central Plan Schemes and Centrally Sponsored Schemes. Sometimes, the Union Government disburses funds to the State Governments in the nature of Pass-through Grants that are to be passed on to the Local Bodies. Funds are also released directly by the Union Government to District Rural Development Agencies (DRDAs) and other specialized agencies including Special Purpose Vehicles (SPVs) for carrying out rural development, rural employment, rural housing, other welfare schemes and other capital works schemes like construction of roads, etc.

The 73rd and 74th Constitutional Amendment Acts envisage a key role for the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) in respect of various functions such as education, health, rural housing, drinking water, etc. The State Governments are required to devolve funds, functions and functionaries upon them for discharging these functions. The extent of devolution of financial resources to these bodies is to be determined by the State Finance Commissions. Such funds received by the Local Bodies from the State Governments as grants-in-aid are used for meeting their operating as well as capital expenditure requirements. The ownership of capital assets created by Local Bodies out of grants-in-aid received from the States Government lies with the Local Bodies themselves.

Apart from Grants-in-aid given to the State Governments, the Union Government gives substantial funds as Grants-in-aid to other agencies, bodies and institutions. Similarly, the State Governments also disburse Grants-in-aid to agencies, bodies and institutions such as universities, hospitals, cooperative institutions and others. The grants so released are utilized by these agencies, bodies and institutions for creation of capital assets as well as for meeting day-to-day operating expenses.

Objective

The objective of this Standard is to prescribe the principles for accounting and classification of Grants-in-aid in the Financial Statements of Government both as a grantor as well as a grantee. The Standard also aims to prescribe practical solutions to remove any difficulties experienced in adherence to the appropriate principles of accounting and classification of Grants-in-aid by way of appropriate disclosures in the Financial Statements of Government.

Scope

This Standard applies to the Union Government and the State Governments in accounting and classification of Grants-in-aid received or given by them. The Financial Statements should not be described as complying with this Standard unless they comply with all the requirements contained therein. This Standard encompasses cases of Pass-Through Grants mentioned in paragraph 2 above.

Question No.28 (a)

Write short notes on the objective and scope of the following GASAB's:
IGAS – 3 – Cash Flow Statements

Answer:

IGAS 3 - Cash Flow Statements

In India, the Governments at both Union and the States level prepare Finance Accounts and Appropriation Accounts on yearly basis. These accounts are presented before the Parliament and respective State Legislatures and thereafter released in public domain. Governments in India follow cash based system of accounting while preparing above accounts. In conventional cash based accounting system, information about the cash receipts, cash payments and cash balances are made available but information regarding the Government's ability to finance its various operations may not be available. Disclosure of information on matters such as whether cash has been generated from taxes, fines, fees, etc. or the sale of capital assets or borrowings or whether cash was expended to meet operating costs, acquisition of capital assets or for retirement of debt and classifying them in different categories based on their nature, would enhance transparency and accountability of financial reports. These disclosures will also facilitate more informed analysis and assessment of the Governments' current cash flows and the likely sources and sustainability of future cash inflows.

The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. Information about the cash flows of a Government is useful in providing users of financial statements with information for both accountability and decision making purposes. Cash flow information allows users to ascertain how a government raised the cash it required to fund its activities and the manner in which that cash is used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the Government's activities, users require an understanding of the certainty of cash flows.

Objective

The objective of this Standard is to provide information about the historical changes in cash and cash equivalents of the Government by means of a cash flow statement, which classifies cash flows during the period into operating, investing and financing activities.

Scope

The cash flow statement should be presented as an integral part of Financial Statements of the Union and State Governments for each period for which such Financial Statements are presented. It should be prepared in accordance with the requirements of this Standard. The Financial Statements should not be described as complying with this Standard unless they comply with all its requirements. The transactions that do not require the use of cash or cash equivalents (non-cash transactions) should be excluded from a cash flow statement

Information about cash flows may be useful to users of the Government Financial Statements in assessing its cash flows and assessing compliance with legislation and regulations (including authorized budgets where appropriate). Accordingly this Standard requires Governments to present a cash flow statement.

Some activities undertaken by Government do not have direct impact on their current cash flows. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions include accounting for interest payable on provident fund deposits of employees, conversion of debt into equity of an entity. Summary and impact of such non-cash transactions should be disclosed in the notes to Cash Flow Statement forming part of the Financial Statements in a way that provides all the relevant information about these activities.

Benefits of Cash Flow Information

The Cash Flow Statement provides benefit to the users by giving information about the cash flows of a Government to predict the future cash requirements of the Government. The Cash

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Flow Statement also gives information about Government's ability to generate cash flows in the future and to determine the changes in the scope and nature of its activities. A Cash Flow Statement also provides the Government means to discharge its accountability for cash inflows and cash outflows during the reporting period.

A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in its financial structure (including its liquidity and sustainability) and its ability to affect the amounts of cash flows in order to adapt to changing circumstances and opportunities.

Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.

Question No.28(b)

Write short note on

- (i) Consolidated Fund of India and
- (ii) Contingency Fund of India in the light of applicable statute in India.

Answer:

(i) Consolidated Fund of India

Subject to assignment of certain taxes to the States,

- all revenues received by the Government of India,
- all loans raised by the Government and
- all moneys received by that Government in repayment of loans

Shall form one consolidated fund to be called "the Consolidated Fund of India"

- No moneys shall be appropriated out of the Consolidated Fund of India except in accordance with law.
- No money can be issued out of Consolidated Fund of India unless the expenditure is authorised by an Appropriation Act.

(ii) Contingency Fund (Article 267) and Contingency Fund of India Act, 1950

- Parliament may by law establish a Contingency Fund in the nature of an imprest to be called "the Contingency Fund of India.
- Fund shall be placed at the disposal of the President to enable advances to be made for meeting unforeseen expenditure, pending authorization by Parliament

Question No.29 (a)

X Ltd. has 2 divisions A and B.

Division A has been making constant profits while Division B has been invariably suffering losses. On 31st March, 2012 the divisionwise Balance Sheet was:

	(₹ Crores)		
	A	B	Total
Fixed Assets cost (Tangible)	250	500	750
Depreciation	<u>225</u>	<u>400</u>	<u>625</u>
	(i) <u>25</u>	<u>100</u>	<u>125</u>
Current Assets :	200	500	700
Less : Current liabilities	<u>25</u>	<u>400</u>	<u>425</u>
	(ii) <u>175</u>	<u>100</u>	<u>275</u>
	(i) + (ii) <u>200</u>	<u>200</u>	<u>400</u>
Financed by :			
Loan	—	300	300
Capital : Equity ₹ 10 each	25	—	25
Surplus	<u>175</u>	<u>(100)</u>	<u>75</u>

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200 200 400

Division B along with its assets and liabilities was sold for ₹ 25 crores to Y Ltd. a new company, who allotted 1 crore equity shares of ₹ 10 each at a premium of ₹ 15 per share to the members of B Ltd. in full settlement of the consideration in proportion to their shareholding in the company.

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

- i. Pass journal entries in the books of X Ltd.
- ii. Prepare the Balance Sheet of X Ltd. after the entries in (i).
- iii. Prepare the Balance Sheet of Y Ltd.

Solution :

Part I - Books of A Ltd :

Basic Information :

Division A Profit Making Retained by X Ltd	X Ltd.	Division B Loss Making Assets and Liabilities transferred to Y Ltd for consideration of ₹ 25 Crores.
--	--------	--

I. Journal Entries

(₹ Crores)

Particulars	Debit	Credit
i. Sale of Assets and Liabilities to Y Ltd.		
Y Ltd A/c	Dr. 25	
Loan A/c	Dr. 300	
Current liabilities A/c	Dr. 400	
Provision for depreciation A/c	Dr. 400	
To Fixed Assets A/c		500
To Current Assets A/c		500
To Capital Reserve A/c (bal fig)		125
ii. Receipt of consideration from B Ltd.		
Equity shares in Y Ltd.	Dr. 25	
To Y Ltd. A/c		25

II.

Name of the Company: X Ltd.				
Balance Sheet as at 31.03.2012				
Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
			(₹ in Crore)	(₹ in Crore)
	i. Equity and Liabilities			
	1 Shareholders' funds			
	(a) Share capital	1	25.00	
	(b) Reserves and surplus	2	200.00	
	(c) Money received against share warrants			
	2 Share application money pending allotment			
	3 Non-current liabilities			

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	(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	25.00	
	(d) Short-term provisions			
	Total		250.00	
II.	Assets			
1	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	4	25.00	
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investments	5	25.00	
	(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	6	200.00	
	Total		250.00	

Note :

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Division 'B' was sold to M/s. Y Ltd. The consideration received for the transfer was equity shares of Y Ltd. of ₹ 10 each fully paid, issued at a premium of ₹ 15.

Total value of consideration = 1 Crore shares × (₹ 10 + ₹ 15)
 = 1 Crore × ₹ 25
 = ₹ 25 Crores

	(₹ in Crore)	
Note 1. Share Capital	As at 31st March, 2012	As at 31st March, 2011
Authorised, Issued, Subscribed and paid up:-	-	
2.5 crores Equity share of ₹ 10 Each	25.00	
Total	25.00	

RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	As at 31st March, 2012		As at 31st March, 2011	
	Nos	Amount (₹)	Nos	Amount (₹)
Opening Balance as on 01.04.11	-	-	NIL	NIL
Add: Fresh Issue (Includ Bonus shares , Right shares, split shares, shares issued other than cash)	2.50	25.00	NIL	NIL
	2.50	25.00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	2.50	25.00	NIL	NIL

Note 2. Reserve and Surplus	As at 31st March, 2012	As at 31st March, 2011
Capital Reserve	125.00	
Profit & loss(existing)	75.00	
Total	200.00	

Note 3. Other Current liabilities	As at 31st March, 2012	As at 31st March, 2011
Current liabilities	25.00	-
Total	25.00	-

Note 4. Tangible Assets	As at 31st March, 2012	As at 31st March, 2011
Fixed Assets	250.00	-
Less : Provision for Depreciation	225.00	
Total	25.00	-

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(It is assumed that all Fixed Asset are Tangible Fixed Assets)

Note 5. Non Current Investment	As at 31st March, 2012	As at 31st March, 2011
Investment in Equity Share of Y Ltd. (Face value of ₹ 10 subscribed at a Premium of ₹ 15 each)	25.00	-
Total	25.00	-

Note 6. Other Current Assets	As at 31st March, 2012	As at 31st March, 2011
Current Assets	200.00	-
Total	200.00	-

Part II - In the books of Y Ltd.

Journal Entries

(₹ in Crore)

Particulars	Debit	Credit
a. For Business purchase Business Purchase A/c	Dr. 25	
To X Ltd A/c		25
b. Assets and liabilities taken over Fixed Assets A/c	Dr. 100	
Current Assets A/c	Dr. 500	
Goodwill A/c (Balancing Figure)	Dr. 125	
To Loan A/c		300
To Current liabilities A/c		400
To Business Purchase A/c		25
c. Discharge of liability X Ltd A/c	Dr. 25	
To Equity Share capital A/c		10
To Securities premium A/c		15

Name of the Company: Y Ltd.

Balance Sheet as at 31.03.2012

Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
			₹ in Crore	₹ in Crore
I.	Equity and Liabilities			
1	Shareholders' funds			
	(a) Share capital	1	10.00	
	(b) Reserves and surplus	2	15.00	
	(c) Money received against share warrants			
2	Share application money pending allotment			

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Name of the Company: Y Ltd.				
Balance Sheet as at 31.03.2012				
Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
			₹ in Crore	₹ in Crore
3	Non-current liabilities			
	(a) Long-term borrowings	3	300.00	
	(b) Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
4	Current Liabilities			
	(a) Short-term borrowings			
	(b) Trade payables			
	(c) Other current liabilities	4	400.00	
	(d) Short-term provisions			
	Total		725.00	
II.	Assets			
1	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	5	100.00	
	(ii) Intangible assets	6	125.00	
	(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			

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Name of the Company: Y Ltd.				
Balance Sheet as at 31.03.2012				
Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
			₹ in Crore	₹ in Crore
	(d) Cash and cash equivalents			
	(e) Short-term loans and advances			
	(f) Other current assets	7	500.00	
	Total		725.00	

		(₹ in Crore)	
Note 1. Share Capital		As at 31st March, 2012	As at 31st March, 2011
Authorised, Issued, Subscribed and fully paid up :-		-	
1 crore Equity share of ₹ 10 Each		10.00	
Total		10.00	

RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	As at 31st March, 2012		As at 31st March, 2011	
	Nos	Amount (₹)	Nos	Amount (₹)
Opening Balance as on 01.04.11	-	-	NIL	NIL
Add: Fresh Issue (Incd Bonus shares , Right shares, split shares, shares issued other than cash)	1	10.00	NIL	NIL
	1	10.00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	1	10.00	NIL	NIL

Note 2. Reserve and Surplus	As at 31st March, 2012	As at 31st March, 2011
Securities Premium	15.00	
Total	15.00	

Note 3. Long Term borrowing	As at 31st March, 2012	As at 31st March, 2011
Loan Fund	300.00	-
Total	300.00	-

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

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Current Liabilities and Provision	400.00	-
Total	400.00	-

Note 5. Tangible Assets	As at 31st March, 2012	As at 31st March, 2011
Other Fixed Assets	100.00	-
Total	100.00	-

Note 6. Intangible Assets	As at 31st March, 2012	As at 31st March, 2011
Goodwill	125.00	-
Total	125.00	-

Note 7. Other Current Assets	As at 31st March, 2012	As at 31st March, 2011
Other Current Assets	500.00	-
Total	500.00	-

Note :

- a) Goodwill due to business purchase should be amortized over a period of 5 years.
- b) Fixed assets :
- | | |
|--------------------------|------------|
| Gross Block | 500 |
| Less : Accumulated Depn. | <u>400</u> |
| Net Block | 100 |

Question No.29 (b)

From the following information determine the amount of unrealized profit to be eliminated and the apportionment of the same. Om Ltd. holds 80% Equity shares of Shanti Ltd.

- i. Om Ltd. sold goods costing ₹15,00,000 to Shanti Ltd. at a profit of 25% on Cost Price. Entire stock were lying unsold as on the date of Balance Sheet.
- ii. Again, Om Ltd. sold goods costing ₹13,50,000 on which it made a profit of 25% on Sale Price. 60% of the value of goods were included in closing stock of Shanti Ltd.
- iii. Shanti Ltd. sold goods to Om Ltd. for ₹24,00,000 on which it made a profit of 20% on Cost . 40% of the value of goods were included in the closing stock of Om Ltd.

Solution:

Situation I

Transaction	Sale by Om Ltd. to Shanti Ltd. [Holding → Subsidiary]
Nature of Transfer	Downstream Transaction
Profit on Transfer	Cost ₹15,00,000 × Profit on Cost i.e. 25% = ₹3,75,000
% of Stock included in Closing Stock	100%

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Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	$\text{₹ } 1,87,500 \times 100\% = \text{₹ } 3,75,000$
Share of Majority – Reduced from Group Reserve	$\text{₹ } 1,87,500 \times 100\% = \text{₹ } 3,75,000$
Share of Minority	Unrealised Profit in case of a Downstream Transaction is fully adjusted against Group Reserves. Minority Interest is not relevant here.

Situation II

Transaction	Sale by Om Ltd. to Shanti Ltd. [Holding → Subsidiary]
Nature of Transfer	Downstream Transaction
Profit on Transfer	Cost $\text{₹ } 13,50,000 \times$ Profit on Sale Price i.e. 25% \div Cost on Sale i.e. 75% = $\text{₹ } 4,50,000$
% of Stock included in Closing Stock	60%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	$\text{₹ } 4,50,000 \times 60\% = \text{₹ } 2,70,000$
Share of Majority – Reduced from Group Reserve	$100\% \times \text{₹ } 2,70,000 = \text{₹ } 2,70,000$
Share of Minority	Unrealised Profit in case of a Downstream Transaction is fully adjusted against Group Reserves. Minority Interest is not relevant here.

Situation III

Transaction	Sale by Shanti Ltd. to Om Ltd. [Subsidiary → Holding]
Nature of Transfer	Upstream Transaction
Profit on Transfer	Sale $\text{₹ } 24,00,000 \times$ Profit on Cost 20% \div Sale to Cost 120% = $\text{₹ } 4,00,000$
% of Stock included in Closing Stock	40%
Unlealised Profit to be eliminated i.e to be reduced from Closing Stock	$\text{₹ } 4,00,000 \times 40\% = \text{₹ } 1,60,000$
Share of Majority – Reduced from Group Reserve	Share of Majority i.e. 80% \times Unrealised Profit $\text{₹ } 1,60,000$ = $\text{₹ } 1,28,000$
Share of Minority – Reduced from Minority Interest	Share of Majority i.e. 20% \times Unrealised Profit $\text{₹ } 1,60,000$ = $\text{₹ } 32,000$

Question No.30 (a)

Indian Engineering and Technological Institute, an autonomous body furnishes the following information:

On 1.4.2012, unutilised restricted government grant (capital) balance is $\text{₹ } 40,00,000$; unutilised unrestricted government grant (revenue) balance is $\text{₹ } 9,00,000$; Institute's own corpus fund is $\text{₹ } 25,00,000$. Besides, a private endowment fund of $\text{₹ } 18,50,000$ is there on that date. The entire endowment fund is in fixed deposit with a bank fetching interest of

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9.5% p.a. half-yearly transferred on 30th September and 31st March to current account meant for scholarship and awards. The said current account has a debit balance of ₹1,37,500. Apart from this, total cash and bank balance as on 1.4.12 is ₹85,00,000.

Following transactions took place during the year 2012-13:

- (1) Salary paid out of own fund is ₹65,00,000.
- (2) Salary to the research associates of a Government sponsored research scheme is ₹4,00,000, paid out of unrestricted government grant.
- (3) Cost of renovation of the administrative building borne out of the Institute's own fund is ₹4,75,000. The renovation work was completed on 21st November, 2012 which was also the date of payment. Book value of the building was ₹38,00,000 on 1.4.12. The rate of depreciation is 5% p.a. calculated at full year's rate if the asset exists for a period exceeding 6 months, and at half-year's rate in other cases. The same principle is followed by the Institute in all cases of depreciation.
- (4) Tuition fees were received ₹85,00,000.
- (5) Scholarships and awards of ₹1,43,000 were given on 9th December, 2012.
- (6) A laboratory building was under construction for the last two years. Balance of capital work-in-progress on 1.4.12 was ₹28,00,000. The work has been completed on 25th May, 2012. Final payment was made earlier on 29.4.2012. Total expenditure comes to ₹37,00,000. Rate of depreciation on the laboratory building is 5%. The entire expenditure will be spent from the restricted government (capital) Grant on certain conditions attached by the government. The Institute follows the principles of AS 12 in the case of use of revenue and capital grant. Since certain conditionality will apply over a period of time, it is decided that deferred income method will be followed.

Show the following Ledger accounts:

- (i) Restricted Government Grant (capital) A/c.
- (ii) Unrestricted Government Grant (revenue) A/c.
- (iii) Current A/c of Endowment and Scholarship.
- (iv) Cash and Bank A/c.

Answer

(a)

Restricted Government Grant (Capital) Account

Dr.				Cr.			
Date	Particulars	₹	Date	Particulars	₹		
31.3.13	To Income and Expenditure A/c - Grant against laboratory building (recognized to the extent of amount spent)	37,00,000	1.4.12	By Balance b/d	40,00,000		
	To Balance c/d	<u>3,00,000</u>					
		40,00,000			<u>40,00,000</u>		
			1.4.13	By Balance b/d	3,00,000		

Unrestricted Government Grant (Revenue) Account

Date	Particulars	₹	Date	Particulars	₹
31.3.13	To Income & Expenditure A/c (salary paid to research associates)	4,00,000	1.4.12	By Balance b/d	.9,00,000
	To Balance c/d	<u>5,00,000</u>			
		9,00,000			<u>9,00,000</u>
			1.4.13	By Balance b/d	5,00,000

Current Account of Endowment and Scholarship Account

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Date	Particulars	₹	Date	Particulars	₹
1.4.12	To Balance b/d	1,37,500	9.12.12	By Scholarship & awards	1,43,000
30.9.12	To Interest on fixed deposit (9.5% of ₹18,50,000 for 6 months)	87,875	31.3.13	By Balance c/d	1,70,250
31.3.13	To Interest on fixed deposit (9.5% of ₹18,50,000 for 6 months)	87,875			
		3,13,250			3,13,250
1.4.13	To Balance b/d	1,70,250			

Cash and Bank Account

Date	Particulars	₹	Date	Particulars	₹
1.4.12	To Balance b/d	85,00,000	29.4.12	By Capital WIP (37,00,000 –28,00,000)	9,00,000
31.3.13	To Tuition fee	85,00,000*	21.11.12	By Administrative Building A/c	4,75,000
			31.3.13	By Salary	65,00,000
			31.3.13	By Salary to research associates	4,00,000
			31.3.13	By Balance c/d	87,25,000
		1,70,00,000			1,70,00,000
1.4.13	To Balance b/d	87,25,000			

Question No.30 (b)

Describe the process of election of Public Accounts Committee.

Answer:

The Committee on Public Accounts is constituted by Parliament each year for examination of accounts showing the appropriation of sums granted by Parliament for expenditure of Government of India, the annual Finance Accounts of Government of India, and such other Accounts laid before Parliament as the Committee may deem fit such as accounts of autonomous and semi-autonomous bodies (except those of Public Undertakings and Government Companies which come under the purview of the Committee on Public Undertakings).

The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajya Sabha elected by that House in like manner are associated with the Committee. The Chairman is appointed by the Speaker from amongst its members of Lok Sabha. The Speaker, for the first time, appointed a member of the Opposition as the Chairman of the Committee for 1967-68. This practice has been continued since then. A Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment.