Paper 16 – Advanced Financial Accounting & Reporting

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/c ....Dr.	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

(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 x 49,50,000/2,25,00,000] = 8,80,000
54,00,000	[40,00,000 x 54,00,000/2,25,00,000] = 9,60,000
58,50,000	[40,00,000 x 58,50,000/2,25,00,000] = 10,40,000
63,00,000	[40,00,000 x 63,00,000/2,25,00,000] = 11,20,000
2,25,00,000	**Balance of WDV = 40,00,000**

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?

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 from 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

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	20,000
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 x 11)	₹ 92,004

In Shares ₹ 92,000
In Cash ₹ 4

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

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.

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.	10,00,000	10,92,004			
		12,80,004			
III. Less: Paid up capital		(10,00,000)			
IV. Excess		2,80,004			
b. Above excess to be adjusted against					
i. General reserve of Beta Ltd.			2,00,000		
ii. P & L A/c of Beta Ltd.			80,000		
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					

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			

		(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	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2012**		**As at 31st March, 2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.11	3,00,000	30,00,000	NIL	NIL
Add: Fresh Issue (Incld 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)	

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.

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 × ₹ 4 per Share)	N.A.	(20,000)
	Corrected Cost of Investment		5,000	2,20,000
Add:	Bonus Shares	(1/5 × 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

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) Machinery	60,000 1,00,000	40,000 60,000
12% Pref. Shares of ₹ 100 each	1,00,000	50,000	Vehicles	1,80,000	70,000
Reserves:			Furniture	50,000	30,000
General Reserve Profit & Loss A/c	1,00,000 1,50,000	60,000 90,000	Investment: Shares of Star (Cost)	 3,80,000	 –
Current Liabilities & Provisions:			**Current Assets:**		
Creditors	60,000	70,000	Stock Debtors	70,000 1,00,000	1,40,000 1,65,000
Income Tax	70,000	60,000	Bank Balance	40,000	25,000
Total	**9,80,000**	**5,30,000**	**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+ 1/3 x 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 (1/3 x 12,000)	4,000	80%	5,000

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		Less:	Preference Dividend	₹ 6,000
	(12% x 15,000 shares x ₹ 10 each)	(18,000)			**₹ 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 Profit & Loss Account	Nil 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. Preference Shares of Star Ltd.		2,80,000 1,00,000

	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 March, 2012	As at 31st 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	-

		(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	-			

Note 3. Trade Payable

	Current Year	Previous Year
Sundry Debtors		
Sky	60,000	-
Star	70,000	-
	1,30,000	-
Less: set off	20,000	-
	1,10,000	-

Note 4. Short Term Provisions

	Current Year	Previous Year
Prov. For taxations (70000+60000)	1,30,000	-
Proposed Pref. Dividend payable Sky Ltd.	12,000	-
	1,42,000	-

Note 5. Tangible Assets :-

	Current Year	Previous Year
Fixed Assets		
Machinery (100000+60000)	1,60,000	-
Vehicles		
(180000+70000)	2,50,000	-
Furniture (50000+30000)	80,000	-
	-	-
	4,90,000	-

Note 6. Intangible Assets:-

	Current Year	Previous Year
Goodwill		
Sky	60,000	-
Star	40,000	-
	1,00,000	-
Goodwill on consolidation	1,56,000	-
	2,56,000	-

Note 7. Inventories :-

	Current Year	Previous Year
Stock		
Sky	70,000	-
Star	1,40,000	-
	2,10,000	-
Less: Stock Reserve	4,000	-
	2,06,000	-

Note 8. Trade Receivable :-

	Current Year	Previous Year
Sky	1,00,000	-
Star	1,65,000	-
	2,65,000	-
Less: Set off	20,000	-
	2,45,000	-

Note 9. Cash and cash equivqlent :-		
	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	250	100	350
W.D.V. (written down value)	50	200	250
Net Current Assets:			
Current assets	200	150	350
Less: Current liabilities	100	100	200
	100	50	150
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			325
	?	?	350
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

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".**

Solution:

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 1st Jan, 2011	As at 1st Jan, 2010	As at 1st Jan, 2011	As at 1st Jan, 2010

	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**

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

RECONCILIATION OF SHARE CAPITAL

	After Reconstruction				Before Reconstruction			
FOR EQUITY SHARE	As at 1st Jan, 2011		As at 1st Jan, 2010		As at 1st Jan, 2011		As at 1st Jan, 2010	
	Nos.	Amount (₹)	Nos.	Amount (₹)	Nos.	Amount (₹)	Nos.	Amount (₹)
Opening Balance as on 1st 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		

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

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

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

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)

Particulars	**After Reconstruction** ₹	**Before Reconstruction** ₹
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			

	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	

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.		$\frac{₹200 \text{ Crores}}{2.5 \text{ Crore Shares}}$ = **₹80**

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

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		

	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			

		(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	

		(₹)
Note 1. Share Capital	As at 31st March, 2012	As at 31st March, 2011
Authosired 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 60,000 5% Preference Shares of ₹ 10 each	4,60,000 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 (Incld 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 (Incld Bonus shares , Right shares, split shares, shares issued	-	-	NIL	NIL

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	

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**	

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

Solution:

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

(**₹ in Crore**)

Particulars		***Debit***	***Credit***
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

(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	480	1,280
b.	Less : Current liabilities			(80)
	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

C Ltd.	**7,500**	**3,000**	**1,000**	**43,000**	**35,500**	**33,000**

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		**B Ltd.**	**C Ltd.**
Subsidiary = B Ltd.	Consolidation: 31.12.2012	a. Holding Co.	(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 **Less:** Proposed Dividend (10% x 100000) (10,000) **Add:** Dividend from C Ltd. 2,000 (6/12 x 6,000 x 66.67%) **Adjusted Balance 4,000**			Balance on 31.12.2012 9,000 **Less:** Proposed Dividend (10%x60,000) 6,000 **Adjusted Balance 3,000**	
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

		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		
		13,000	**11,250**		
Trfr.	B's share in C (66.67% x ₹ l 1,250)	7.500	(7,500)		
		20,500	3,750		
Less:	Minority Interest	(4,100)	(1,875)	4,100	1,875
	Holding Co's Share	**16,400**	**1,875**		
(c)	**Revenue Reserve:**	1,000	750		
Trfr.	B's share in C (66.67% x ₹ 750)	500	(500)		
		1,500	250		
Less:	Minority Interest	(300)	(125)	300	125
Holding Co.'s Share		**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 Proffits	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**

			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)	–	4,000
		C (1000 Shares x ₹ 10 x 10% x 6/12)	–	500
	Adjusted Balance		**28,000**	**10,500**
Add:	Share of Revenue from	B Ltd.	1,200	NIL
		C Ltd.	125	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			

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 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 3. Trade Payable		
	Current Year	**Previous Year**
Sundry Creditors		
A	7,000	-
B	5,000	-

Note 4. Short Term Provisions		
	Current Year	**Previous Year**
Proposed Dividend	10,000	-
	-	-
	-	-

		-
	12,000	

	10,000	-

Note 5. Tangible Assets

	Current Year	Previous Year
Fixed Assets		
A	20,000	-
B	60,000	-
C	43,000	-
	123,000	

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	

Note 8. Cash and Cash Equivalents

Cash	1,000	
	1,000	

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			**9,000**
	5,22,000	**4,02,000**	**2,34,000**		**5,22,000**	**4,02,000**	**2,34,000**

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**

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 Dec,2012	As at 31st Dec,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**			

	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 Dec,2012**	**As at 31st Dec,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 Dec,2012**		**As at 31st Dec,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				
Total	30,000	3,00,000		

Note 2. Reserve & Surplus	**As at 31st Dec,2012**	**As at 31st Dec,2011**
Reserve	1,47,975	
Profit & Loss A/c	32,940	
Total	180,915	

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

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

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

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

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

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

Note 9. Cash and cash equivalents	**As at 31st Dec,2012**	**As at 31st Dec,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	24,000	12,000
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

	₹	₹	₹
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		

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.		1,500
		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 :			**Sundry Fixed Assets (Tangible)**	**9,50,000**	**4,00,000**
Equity Shares of ₹ 10 each	**7,00,000**	**2,50,000**	**Investments (Non-trade)**	**2,00,000**	**50,000**
General Reserve	**3,50,000**	**1,20,000**	**Stock**	**1,20,000**	**50,000**
Profit and Loss A/c	**2,10,000**	**65,000**	**Debtors**	**75,000**	**80,000**
Export Profit Reserve	**70,000**	**40,000**	**Advance Tax**	**80,000**	**20,000**
12% Debentures	**1,00,000**	**1,00,000**	**Cash and Bank balances**	**2,75,000**	**1,30,000**
Sundry Creditors	**40,000**	**45,000**			
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.**
	₹	₹

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.
₹ 9,05,000 / ₹ 40.40 = 22,400.99

Shares: 22400
Cash for fractions: 0.99 × 40.40 = 40

(vi) Purchase consideration

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

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	2,75,000	30,65,000	1,30,000	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	1,00,000	(2,40,000)	60,000	(2,05,000)
(iii)	Net Assets (i-ii)			28,25,000		9,05,000
(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

A. Capital Employed

		Madhu Ltd.		*Rahim Ltd.*
(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	2,75,000	15,00,000	1,30,000	6,80,000
(ii) Liabilities:				
(a) 12% Debentures	1,00,000		1,00,000	
(b) Sundry creditors	40,000		45,000	
(c) Provision for tax	1,00,000	2,40,000	60,000	2,05,000
(iii) Capital Employed : (i) - (ii)		**12,60,000**		**4,75,000**

B. Average Pre-tax Profit :

	Particulars	*Madhu Ltd.*	*Rahim Ltd.*
(i)	2009-10	5,00,000	1,50,000
(ii)	2010-11	6,50,000	2,10,000
(iii)	2011-12	5,75,000	1,80,000
(iv)	Total (a+b+c)	17,25,000	5,40,000
(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 :

	Madhu Ltd.	**Rahim Ltd.**
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

Particulars			*Debit*	*Credit*
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

	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	

		(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	

		₹
Note 1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
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 (Incld 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		

Note 2. Reserves and Surplus	**As at 31st March, 2012**	**As at 31st March, 2011**
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**

	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	

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	50,000	30,000
	15,00,000	10,00,000		15,00,000	10,00,000

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:

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.

Solution:

Name of the Company: Big Ltd.
Consolidated Balance Sheet as at 30th September,2012

Ref No.		Particulars	Note No.	As at 30th Sept, 2012	As at 30th 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			

Ref No.		Particulars	Note No.	As at 30th Sept, 2012 ₹	As at 30th 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 30th Sept, 2012		As at 30th Sept, 2011	
	Nos.	Amount (₹)	Nos.	Amount (₹)
Opening Balance as on 01.04.11	80,000	8,00,000	-	-
Add: Fresh issue (Incld 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 30th Sept, 2012		As at 30th Sept, 2011	
	Nos.	Amount (₹)	Nos.	Amount (₹)
Opening Balance as on 01.04.11	-	-	-	-

Add: Fresh issue (Incld 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

	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
	14,71,500	8,99,000		14,71,500	8,99,000

*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	2,00,000	1,00,000
	3,02,500	1,54,000
Less: Dividend on Equity Share Capital Paid	1,20,000	45,000
	1,82,500	1,09,000
Less: Dividend on Preference Share Capital Paid	–	20,000
	1,82,500	89,000
Add: Dividend received $\left[\frac{1}{5}\times 45,000\right]$	9,000	–
	1,91,500	89,000

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

		Big Ltd.	Small Ltd.
		(₹)	(₹)
(1)	Building		
	As on 1.4.2012	2,00,000	1,00,000
	Less: Depreciation (5% p.a.)	5,000	2,500
		1,95,000	97,500

(2)	Machinery		
	As on 1.4.2012	5,00,000	3,00,000
	Less: Depreciation (15% p.a.)	37,500	22,500
		4,62,500	2,77,500

(3)	Furniture		
	As on 1.4.2012	1,00,000	60,000
	Less: Depreciation (10% p.a.)	5,000	3,000
		95,000	57,000

2. Calculation of Shares Allotted

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

[*** 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	60,000	
			7,04,000

(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	4,80,000	2,00,000	Goodwill	45,000	30,000
each 10% Preference shares of ₹ 10 each	70,000	38,000	Plant and machinery Motor vehicles	1,20,000 95,000	50,000 75,000
General reserve	55,000	42,000	Furniture and		
Profit and loss account	1,00,000	60,000	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	14,500	-
	7,60,000	4,11,000		7,60,000	4,11,000

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%.

(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, 2012.

Solution:

Consolidated Balance Sheet of Spring Ltd. and its subsidiary Winter Ltd. as on 31st March, 2012

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	

		(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	

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**

	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)	20,000	-	-	
	(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	20,000	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				

	overcharged depreciation (20% on ₹ 10,000)				2,000
	(g) Preference dividend for the year 2012-2013 @ 10%				(3,800)
			-	22,000	48,200
	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				2,375
					98,675
(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.				1,425
					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			7,000	86,800
					50,775

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

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 **Reserves and Surplus**	**15,00,000** **15,00,000**	**Fixed Assets** **Investments** **Current Assets**	**15,00,000** **6,00,000** **9,00,000**
Total	**30,00,000**	**Total**	**30,00,000**

Following additional information are available for the year ended 3103.2013 –

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?**

Solution:

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)**

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 Less: Transfer to Investment in Friend Ltd. A/c i.e. 1.50 lakhs	NIL	
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) Goodwill	₹11.25 ₹1.50	12.75	
Total		12.75	

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

Question No.10 (a)

Future maintainable profit before interest is ₹154 lakhs, normal rate of return on long term fund is 20% and on equity fund is 25%. Long term fund is of the company is ₹640 lakhs and equity fund is ₹420 lakhs. Interest on long term fund is 18% . Find out leverage effect of goodwill.

Solution:

Valuation of Goodwill **(₹ in lakhs)**

Particulars	Shareholders fund approach	Long term funds approach
a. Future maintainable profits	114.40	154.00
b. Normal rate of return	25%	20%
c. Normal capital employed	457.60	770.00
d. Actual capital employed	420.00	640.00
e. Goodwill	37.60	130.00
f. Leverage effect of Goodwill	92.40	

WN # 1: Ascertainment of Long Term Fund (interest thereon)

(₹ in lakhs)

Particulars	Amount
a. Total long term funds	640.00
b. Less: Equity funds	(420.00)
c. Long term fund	220.00
d. Interest @ 18%	39.60

WN # 2: Future Maintainable Profit **(₹ in lakhs)**

Particulars	Shareholders fund approach	Long term funds approach
a. Profit before interest	154.00	154.00
b. Less: Interest	39.60	N.A.
c. Future maintainable profits	114.40	154.00

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:

- 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.

Solution:

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

	₹	₹
	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

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

Answer:

(i) 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) 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)

Tulip Ltd. is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2010, 2011 and 2012 for ₹22,00,000, ₹32,00,000 and ₹42,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognised revenue of ₹14,00,000, ₹36,00,000 and ₹46,00,000 for the years 2010, 2011 and 2012 respectively. Income-tax rate is 30%. Compute the amount of deferred tax asset/liability for the years 2010, 2011 and 2012.

Solution:

Tulip Ltd.
Calculation of Deferred Tax Asset/Liability

Year	Accounting Income ₹	Taxable Income ₹	Timing Difference (balance) ₹	Deferred Tax Liability (balance) ₹
2010	22,00,000	14,00,000	8,00,000	2,40,000

2011	32,00,000	36,00,000	4,00,000	1,20,000
2012	42,00,000	46,00,000	NIL	NIL
	96,00,000	**96,00,000**		

Question No.12 (b)

On 1st December, 2011, Amrit Co. Ltd. undertook a contract to construct a building for ₹ 170 lakhs. On 31st March, 2012 the company found that it had already spent ₹ 1,29,98,000 on the construction. Prudent estimate of additional cost for completion was ₹ 64,02,000. What is the additional provision for foreseeable loss, which must be made in the final accounts for the year ended 31st March, 2012 as per provision of AS-7 on "Accounting for Construction Contracts".

Solution:

Contract Price	₹ 170 Lakhs
Cost Incurred	₹ 129.98 Lakhs
Estimated cost to completion	₹ 64.02 lakhs

Loss to be provided for the year ending ₹[(129.98+64.02)-170]lakhs=₹24 lakhs

As per AS-7 31.03.2012

Loss to be recognised (₹129.98 lakhs/₹194 lakhs × 100) = 67%

$$\therefore \left(\frac{67}{100} \times ₹\ 24 \text{ lakhs}\right) = ₹\ 16.08 \text{ lakhs}$$

Loss to be provided (provision) `(24 – 16.08)Lakhs = ₹ 7.92 lakhs.

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

Working Note – 2
Calculation of Return on operating Capital

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

Working Note – 3

Calculation of WACC
Kd = 10% (1-0.40) X 4,00,000/19,00,000=1.26
Kp = 12% X 2,00,000/19,00,000 = 1.26%
Ke = 7% + 1.1(15%-7%) = 15.8% X 13/19 = 10.81=13.33%

Working Note – 4
Return on operating capital (%) = (₹2,24,000/₹18,00,000)×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.

Solution:

Gross Value Added Statement

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

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

Notes :

(i) Production and Operational expenses	**₹ in lakhs**
Consumption of raw materials	**293**
Consumption of stores	**59**
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.

Solution:

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 *Add*: Other income		341 55
Total value added		396

Application of Value Added

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

Statement showing reconciliation of Gross Value Added with Profits before taxation

₹ in lakhs

Profits before taxes		225
Add: Depreciation Directors' remuneration Salaries, wages & gratuities etc. Cess and local taxes Interest on debentures Interest on fixed loan	 17 9 82 43 2 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 (approx.)*
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 31.03.2012. 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 01.04.11 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 31.03.12 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 contact 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 contacts costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. Thus the forseesable 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, 2012.

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).

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)

Following are the Balance Sheets of Veer Ltd. and Virat Ltd. as at 31.03.2012 -

Liabilities	Veer Ltd. ₹	Viral Ltd. ₹	Assets	Veet Ltd. ₹	Virat Ltd. ₹
Equity Share Capital of ₹ 100	3,00,000	50,000	Land & Building	1,00,000	50,000
each fully paid			Machinery	1,40,000	25,000
General Reserve	25,000	15,000	350 Shares in Virat Ltd.	50,000	–
Profit & Loss Account	40,000	20,000	Stock in Trade	35,000	20,000
Sundry Creditors	50,000	20,000	Debtors	75,000	10,000
Bills Payable	15,000	22,500	Bills Receivable	15,000	–
			Cash at Bank	15,000	22,500
Total	8,60,000	2,55,000	Total	8,60,000	2,55,000

Prepare Consolidated Balance Sheet as at 31st March, 2012 and give proper working notes required for the Consolidated Balance Sheet, from the following additional Information -

(i) All the Bills Receivable of Veer Ltd. including those discounted were accepted by Virat Ltd.

(ii) When Veer Ltd. had acquired 300 Shares in Virat Ltd., the latter had ₹ 10,000 in General Reserve and ₹ 2,500 Credit Balance in Profit and Loss Account.

(iii) At the time of acquisition of further 50 Shares by Virat Ltd., the latter had ₹ 12,500 General Reserve and ₹ 14,000 Credit Balance in Profit and Loss Account, from which 20% dividend was paid by Virat Ltd.

(iv) The dividends received by Veer Ltd. on these shares were credited to Profit & Loss Account.

(v) Stock of Virat Ltd. includes goods valued at ₹ 10,000 purchased from Veer Ltd. which has made 25% profit on cost.

(vi) For the financial year ending 31.03.2012, Veer Ltd. had proposed a dividend of 10% and Virat Ltd. has proposed a dividend of 15%, but no effect has yet been given in the above Balance Sheets.

Solution:

1. Basic Information

Company Status	**Date of Acquisition**	**Holding Status**
Holding Company = Veer Ltd. Subsidiary = Virat Ltd.	Lot 1 = 300 Shares = DOA - 1 Lot 2 = 50 Shares = DOA - 2	Holding Company = 70% Minority Interest = 30%

Date of Consolidation = 31.03.2012

2. Analysis of Reserves & Surplus of Virat Ltd.

(a) General Reserve as per B/S = ₹ 15,000

As on DOA-1 (Lot 1 date) ₹ 10,000 **Capital**	For the period DOA-1 to DOA-2 (Lot 2 date) ₹ 12,500 - ₹ 10,000 = ₹ 2,500 For 300 Shares (Lot 1): **Revenue** For 50 Shares (Lot 2): **Capital**	From DOA-2 to B/s Date (upto Consolidation) ₹ 2,500) (bal. figure) **Revenue**

Total Capital Profits = ₹ 10,000; Total Revenue Reserves = ₹ 5,000

Note: Addition to Reserves of ₹2,500 between DOA-1 and DOA-2 have been considered as Revenue Reserves in full, only for the purpose of determining the share of Minority Interest. After allocating for Minority Interest, the revenue portion of ₹ 250 (i.e. 10% Shares x ₹ 2,500) will be added to Capital Profits.

(b) Profit & Loss Account

	P & L A/c Balance as per B/S	= ₹ 20,000
Less:	Proposed Dividend = 50,000 x 15%	= ₹ 7,500
	Adjusted Balance of Virat Ltd.'s Profits	= ₹ 12,500

As on DOA-1 (Lot 1 date) ₹ 2,500 **Capital**	For the period DOA-1 to DOA-2 (Lot 2 date) ₹ 14,000 - ₹ 2,500 = ₹ 11,500 **Less:** Dividend out of this = ₹ 10,000 Net Balance = **₹ 1,500** For 300 Shares (Lot 1): **Revenue** For 50 Shares (Lot 2): **Capital**	From DOA-2 to B/s Date (upto Consolidation) ₹ **8,500** (bal. figure) **Revenue**

Total Capital Profits = ₹ 2,500; Total Revenue Reserves = ₹ 10,000

Note: Addition to P&L A/c ₹1,500 between DOA-1 and DOA-2 have been fully considered as Revenue only for the purpose of determining the share of Minority Interest. After allocating for minority Interest, the revenue portion of ₹ 150 (i.e. 10% Shares x ₹ 1,500) will be added to Capital Profits.

3. Analysis of Net Worth of Virat Ltd.

Particulars	Total ₹	Veer Ltd. ₹	Minority ₹
% of share Holding on Consolidation Date	**100%**	**70%**	**30%**
(a) Equity Share Capital	**50,000**	**35,000**	**15,000**
(b) **Capital Profits:** General Reserve	10,000		
Profit & Loss A/c	2,500		
	12,500	**8,750**	**3,750**
Add: Capital Items [Reserve ₹2,500+P&L A/c ₹1,500]×10%		400	
Net Share in Capital Profit		**9,150**	
(c) Revenue Reserves: General Reserve	**5,000**	**3,500**	**1,500**
Less: Capital Item included in Revenue [₹2,500×10%]		(250)	
Net Share in Revenue Reserves		**3,250**	
(d) Revenue Profits: Profit & Loss A/c	**10,000**	**7,000**	**3,000**
Less: Capital Item included in Revenue[₹1,500×10%]		(300)	
Net Share in Revenue Profit		**6,700**	
(e) Proposed Dividend	**7,500**	**5,250**	**2,250**
Minority Interest			**25,500**

4. Cost of Control

	Particulars		₹
	Cost of Investment in Equity Shares of Virat Ltd.		50,000
Less:	Dividend out of Pre-acquisition profits of Virat Ltd. (Only for Lot 2 - 50 Shares) - (₹ 5,000 x 20%)		1,000
	Adjusted Cost of Investment		49,000
Less:	(1) Nominal Value of Equity Capital	35,000	
	(2) Share in Capital Profit of Virat Ltd.	9,150	44,150
	Goodwill on Consolidation		**4,850**

5. Consolidation of Reserves & Surplus

	Particulars		Gen. Res ₹	P&L A/c ₹
	Balance as per Balance Sheet of Veer Ltd.		25,000	40,000
Less:	Dividend out of Pre-acquisition Profits	(₹ 10,000 x 10%)	–	(1,000)
Less:	Proposed Dividend	(₹ 3,00,000 x 10%)	–	(30,000)
Add:	Share of Dividend from Virat Ltd.	(₹ 7,500 x 70%)	–	5,250
	Adjusted Balance		**25,000**	**14,250**
Add:	Share of Revenue Profits/Reserves of Virat Ltd.		3,250	6,850
	Consolidated Balance		**28,250**	21,100

Less:	Unrealised Profits on Closing Stock ₹ 10,000 x 25 / 125	–	(2,000)
	Adjusted Consolidated Balance	**28,250**	**19,100**

Name of the Company: Veer Ltd. And its subsidiary Virat Ltd.
Consolidated Balance Sheet as at 31st , March 2012

Ref No.	Particulars		Note No.	As at 31st March, 2012	As at 31st March, 2011
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital @ ₹ 10 each	1	3,00,000	-
		(b) Reserves and surplus	2	47,350	-
		(c) Money received against share warrants		-	-
				3,47,350	-
	2	**Minority Interest**		25,500	-
	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	70,000	-
		(c) Other current liabilities	4	22,500	-
		(d) Short-term provisions	5	30,000	-
				1,22,500	-
		TOTAL (1+2+3+4+5)		4,95,350	-
	B	**ASSETS**			
	1	**Non-current assets**			

Ref No.	Particulars		Note No.	As at 31st March, 2012	As at 31st March, 2011
				₹	₹
		(a) Fixed assets			
		(i) Tangible assets	6	3,15,000	-
		(ii) Intangible assets (goodwill)	7	4,850	-
		(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		-	-
				3,19,850	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories	8	53,000	-
		(c) Trade receivables	9	85,000	-
		(d) Cash and cash equivalents	10	37,500	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets		-	-
				1,75,500	-
		TOTAL (1+2)		4,95,350	-

Annexure

Note1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
Authorised Capital		
Issued and Paid up Capital	3,00,000	
Total	3,00,000	

Note 2. Reserve and Surplus	**As at 31st March, 2012**	**As at 31st March, 2011**
General Reserve	28,250	

Profit & Loss A/c	19,100	
Total	47,350	

Note 3. Trade Payables	**As at 31st March, 2012**	**As at 31st March, 2011**
Creditors (50,000+20,000)	70,000	
Total	70,000	

Note 4. Other Current Liabilities	**As at 31st March, 2012**	**As at 31st March, 2011**
Bills Payable ₹(15,000+22,500)Less: Mutual Indebtedness ₹15,000	22,500	
Total	22,500	

Note 5. Short Term Provision	**As at 31st March, 2012**	**As at 31st March, 2011**
Proposed Dividend	30,000	
Total	30,000	

Note 6. Tangible Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Land and Buildings	1,50,000	
Plant & Machinery	1,65,000	
Total	3,15,000	

Note 7. Intangible Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Goodwill	4,850	
Total	4,850	

Note 8. Inventories	**As at 31st March, 2012**	**As at 31st March, 2011**
Stock [35,000+20,000]-2,000	53,000	

Total	53,000	

Note 9. Trade Receivable	**As at 31st March, 2012**	**As at 31st March, 2011**
Debtors (75,000+10,000)	85,000	
Total	85,000	

Note 10. Cash and Cash equivalent	**As at 31st March, 2012**	**As at 31st March, 2011**
Cash at Bank [15,000+22,500]	37,500	
Total	37,500	

Note 11. Other Current Assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Bills Receivable (15,000-15,000)	NIL	
Total	NIL	

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 upride 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)

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.

Solution:

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=Market value of capital – 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 = Net Operating Profit After Taxes (NOPAT) – (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)
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)

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2012 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2012

Particulars	Amount ₹ '000	Particulars	Amount ₹ '000
Balance on 1.4.2011	400	Payment to Suppliers	2,600
Issue of Equity Shares	1,000	Purchase of Fixed Assets	1,200
Receipts from Customers	4,500	Overhead expense	200
Sale of Fixed Assets	200	Wages and Salaries	600

		Taxation	450
		Dividend	100
		Repayment of Bank Loan	800
	_____	Balance on 31.3.2012	150
	6,100		6,100

Solution:

X Ltd.

Cash Flow Statement for the year ended 31st March, 2012 (Using the direct method)

Particulars	₹ '000	₹ '000
Cash flows from operating activities		
Cash receipts from customers	4,500	
Cash payment to suppliers	(2,600)	
Cash paid to employees	(600)	
Cash payments for overheads	(200)	
Cash generated from operations	1,100	
Income tax paid	(450)	
Net cash from operating activities		650
Cash flows from investing activities		
Payment for purchase of fixed assets	(1,200)	
Proceeds from sale of fixed assets	200	
Net cash used in investing activities		(1,000)
Cash flows from financing activities		
Proceeds from issuance of equity shares	1,000	
Bank loan repaid	(800)	
Dividend paid	(100)	
Net cash from financing activities		100
Net increase in cash		(250)
Cash at beginning of the period (01.04.2011)		400
Cash at end of the period(31.03.2012)		150

Question No.18 (b)

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

	Particulars	***₹ in Crores***
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**
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

		Situation I	Situation II	Situation III
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		120	
	To Bank A/c			180		120
	[Being purchase of shares from public]					
b.	Share capital A/c	Dr.	60		40	
	Securities premium A/c	Dr.	100		80	
	General reserve A/c (*balancing figure*)	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)

	Particulars	Amount
a.	Paid up capital	300
b.	Free reserves	420
c.	Shareholders fund (a+b)	720
d.	25% of shareholders fund	180
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	800	1,200	1,500
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**
		Plant	**3,00,000**
30,000 Equity Shares of ₹ 10		**Loose Tools**	**10,000**
each fully paid	**3,00,000**	**Debtors**	**2,50,000**
2,000 8% Cumulative Pref.		**Stock**	**1,50,000**
Shares of ₹ 100 each fully paid	**2,00,000**	**Cash**	**10,000**
Securities Premium	**90,000**	**Bank**	**35,000**
Unsecured Loan(From Director)	**50,000**	**Preliminary Expenses**	**5,000**
Sundry creditors	**3,00,000**	**Profit & Loss Account**	**2,00,000**
Outstanding Expenses (including Directors' remuneration ₹ 20,000)	**70,000**		
	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 inconsideration 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.**
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 utili sed 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
	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 infact 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			
		(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 (Incld 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

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 less: Amount written off under the sceme of reconstruction	₹ 3,00,000 ₹ 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	
Cash in Hand	10,000	
Total	1,35,000	

Question No.19 (b)

A factory started it 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)

Write a note on - Reversal of an Impairment Loss.

Answer:

Reversal of an Impairment Loss
As per AS 28 on Impairment of Assets, an enterprise should assess at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased. If there is any such indication , the enterprise should estimate the recoverable amount of that asset. In assessing whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased, an enterprise should consider , as a minimum, the following indications:

External sources of information

(a) the asset's market value has increased significantly during the period;

(b) there are significant changes with a favourable effects on the enterprise have taken place during the period, or will take place in the near future, in the technological market, economic or legal environment in which the enterprise operates or in the market to which the asset is dedicated;

(c) market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

Internal sources of information

(d) significant changes with a favourable effect on the enterprise have taken place during the period, or are expected to take place in the near future, to the extent to which, or manner in which, the asset is used or is expected to be used. These changes include capital expenditure that has been incurred during the period to improve or enhance an asset in excess of its originally assessed standard of performance or a commitment to discontinue or restructure the operation to which the asset belongs;

(e) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.

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

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)	96,000
	Actual Shareholding	2,88,000

DOA - 1 (Original Acquisition)	First Bonus Issue (1 : 1 as at DOA-1)	DOA - 2 Rights Issue	Second Bonus Issue (1 :2 as at DOA-2)
80,000	**80,000**	**32,000**	**96,000**
(balancing figure)	[(1,92,000 - 32,000) ÷ 2]	[1,92,000 x 1 ÷ (5 + 1)]	

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 **₹ 40,000**
Capital Profit

(b) General Reserve

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

	DOA-1	₹ 22,00,000
Less:	First Bonus	(₹ 10,00,000) (80,000 Shares/80% x ₹ 10)
Less:	Second Bonus	(₹ 12,00,000)
	Capital Profit	**₹ NIL**

Additions upto Consolidation (balancing figure) **₹ 4,00,000**
Revenue Reserve

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)	(2,40,000)
	Adjusted Balance	2,96,000

DOA - 1
(₹ 3,00,000) Debit balance given
Capital Profit

Additions to P&L A/c
₹ 5,96,000
Revenue Profit

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 Premium Account	1,00,000		
General Reserve	NIL		
Profit & Loss Account	(3,00,000)		
Preliminary Expenses	(50,000)		
	(2,50,000)	(2,00,000)	(50,000)
(c) Securities Premium (after acquisition date)	**40,000**	32,000	8,000
(d) Revenue Reserves: General Reserve	**4,00,000**	3,20,000	80,000
(e) Revenue Profits: Profit & Loss A/c	**5,96,000**	4,76,800	1,19,200
(f) Proposed Equity Dividend	**2,40,000**	1,92,000	48,000

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.

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.

Solution:

Name of the Company: R Ltd.
Consolidated Balance Sheet as at 31st March,2012

Ref No.		**Particulars**	**Note No.**	**As at 31st March, 2012**	**As at 31st March, 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		-	-

Ref No.		Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
				₹	₹
				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		-	-
		(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	-

Ref No.		Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
				₹	₹
				10,200	-
		TOTAL (1+2)		16,740	-

Annexure

Note 1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
Share Capital in Equity Shares	1,500	
Total	1,500	

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

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

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

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

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

Note 7. Other current assets	**As at 31st March, 2012**	**As at 31st March, 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%)	624	1,104
Goodwill		96

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)	240	720
Goodwill		180

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%)	240	720
Goodwill		180

Goodwill shown in the Consolidated Balance Sheet

	₹ in lakhs
Goodwill of 'T'	180
Goodwill of 'S'	96
Less: Goodwill written off of 'S'	96
Goodwill	180

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	(96)
	1,3200

3. Minority Interest 'S'

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

4. Investment in Associates

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

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:
i. to examine the reports and accounts of public undertakings.
ii. to examine the reports of the Comptroller & Auditor General on public undertakings.
iii. 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, progMadhumes 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 Ltd. has 60% shares in joint venture with Indra Ltd. Mukta Ltd. Sold a plant WDV of ₹80 lakhs for ₹100 lakhs. Calculate how much profit the Mukta Ltd. 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.

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

However in case of jointly controlled entities Mukta Ltd. 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?

Solution:

(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**
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.

Solution:

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	
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.
(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)

(a) Discuss the concept of Cost v/s Fair value with reference to Indian Accounting Standards.

Answer:

Cost vs. Fair value
Meaning of Cost basis: The term cost refers to cost of purchase, costs of conversion on other costs incurred in bringing the goods to its present condition and location. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some

circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Meaning of Fair value: Fair value of an asset is the amount at which an enterprise expects to exchange an asset between knowledgeable and willing parties in an arm's length transaction.

Indian Accounting Standards are generally based on historical cost with a very few exceptions:
AS 2 "Valuation of Inventories" – Inventories are valued at lower of net realizable value (NRV) and cost of inventories.
AS 10 "Accounting for Fixed Assets" – Items of fixed assets that have been retired from active use and are held for disposal are stated at net realizable value if their net book value is more than NRV.
AS 13 "Accounting for Investments" – Current investments are carried at lower of cost and fair value. The carrying amount of long term investments is reduced to recognise the permanent decline in value.
AS 15 "Employee Benefits" – The provision for defined benefits is made at fair value of the obligations.
AS 26 "Intangible Assets" – If an intangible asset is acquired in exchange for shares or other securities of the reporting enterprise, the asset is recorded at its fair value, or the fair value of the securities issued, whichever is more clearly evident.
AS 28 "Impairment of Assets"– Provision is made for impairment of assets. On the other hand IFRS and US GAAPs are more towards fair value. Fair value concept requires a lot of estimation and to the extent, it is subjective in nature.

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

Basic Structure of the form of the accounts:

(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)

Write a note on Objections to Segmental Reporting .

Answer:

Objections to Segmental Reporting :

The possible objections to Segmental Reporting can be enumerated as below :

i. It is generally felt that Segmental Revenues and Expenses are not distinguishable objectively in many cases. Revenues of a weak product line may be derived only because of the existence of a strong product line. Also many joint costs are only separable arbitrarily.

ii. Much of segmental results depend on the inter-departmental transfer pricings which are not always logically established.

iii. Various segments of an enterprise may use common resources which makes it difficult to arrive at a segment wise performance ratio.

iv. Since the users are not in a position to know the proper base for cost allocation, the segment results would be less than meaningful.

v. The last objection consists of the competitive implications to the firm. Someacademics contend that company secrets will be disclosed while others referred to the competitive hardship suffered by some firms if segmented data is required. Suppose that Company X, a small company, has a segment identical to one in Company Y, a huge conglomerate. Company X would have to disclose the segment while Company Y would not because the segment is not considered material to Y's operations.

However, considering the problems of joint cost allocation, often it is suggested to follow a contribution margin approach for reporting segmental results. By this only identifiable costs are deducted from segment revenues and gross segment margins may only be indicated. But for all practical purposes, this becomes a useless exercise when proportion of identifiable cost is insignificant.

Question No.27 (b)

State the disclosures to be made in relation to Provisions ,Contingent Liabilities and Contingent Assets (AS 29).

Answer:

Disclosure to be made in relation to Provisions, Contingent Liabilities and Contingent Assets:

Disclosure of provisions in financial statements

Enterprise should disclose for each class of provision the following:

• Opening balance

• Addition to and use of the provision

• Unused amount written back

• Closing balance of the provision

Besides these the following other disclosures are required:

• A brief description of provision.

• Major assumption about future events made while measuring the provision and indication of uncertain items.

• The expected reimbursement recognized as an asset.

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

• A brief description of the nature of the contingent liability where practicable.

• An estimate of the amount as per measurement principles as prescribed for provision.

• Indications of the uncertainties relating to outflow.

• The possibility of any reimbursement.

• Where any of the information required as above is not disclosed because it is not practicable to do so, that fact should be stated.

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

Disclosure of Contingent Assets:

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

Question No.28 (a)

Mugdha Ltd. has three divisions X, Y and Z. details their turnover; results and net assets are given below:

Particulars	₹('000)
Division X	
Sales to Y	**3,050**
Other sales (Home)	**60**
Export sales	**4,090**
	7,200
Division Y	
Sales to Z	**30**
Export sales to Europe	**200**
	230
Division Z	
Export sales to America	**180**

₹('000)

	Head Office	Divisions		
		X	Y	Z
Operating Profit or Loss before tax		**160**	**20**	**(8)**
Re - allocated cost from Head office		**48**	**24**	**24**
Interest current assets		**4**	**5**	**1**
Fixed assets	**50**	**200**	**40**	**120**
Net current assets	**48**	**120**	**40**	**90**
Long- term liabilities	**38**	**20**	**10**	**120**

Prepare a Segment report for publication in Mugdha Ltd.

Solution:

₹('000)

Mugdha Ltd. Segment Report					
	Divisions			**Inter segment Eliminations**	**Consolidated Total**
	X	**Y**	**Z**		
Segment Revenue Sales:					
Domestic	60	-	-	-	60
Export	4,090	200	180	-	4,470
External sales	4,150	200	180	-	4,530
Inter – segment sales	3,050	30	-	3,080	-
Total revenue	7,200	230	180	3,080	4,530
Segment result (given)	160	20	(8)		172
Head office expenses					(96)
Operating profit					76
Interest expenses					(10)

Profit before tax					66
Other Information					
Fixed assets	200	40	120		360
Net current assets	120	40	90		250
Segment assets	320	80	210		610
Unallocated corporate Assets					98
Segment liabilities	20	10	120		150
Unallocated corporate Liabilities					38

Sales Revenue by Geographical Market				
Home Sales	**Export sales (by Division X)**	**Export to Europe**	**Export to America**	**Consolidated total**
60	4,090	200	180	4,530

Question No.28 (b)

From the following information, calculate the value of a share if you want to buy a small lot of shares

Year	Profit (₹)	Capital Employed (₹)	Dividend %
2009	**55,00,000**	**3,43,75,000**	**12**
2010	**1,60,00,000**	**8,00,00,000**	**15**
2011	**2,20,00,000**	**10,00,00,000**	**18**
2012	**2,50,00,000**	**10,00,00,000**	**20**

Solution:

Buying a small lot of shares

If the purpose of valuation is to provide database to aid a decision of buying a small (non-controlling) position of the equity of a company, dividend yield method is most appropriate. Dividend rate is rising continuously, weighted average will be more appropriate for calculation of average dividend.

Year	Rate of dividend	Weight	Product
2009	12	1	12
2010	15	2	30
2011	18	3	54
2012	20	4	80
		10	**176**

Average dividend = $\frac{176}{10} = 17.6\%$

Value of share on the basis of dividend for buying a small lot of shares will be

$\frac{\text{Average dividend rate}}{\text{Market expectation rate}} \times 100 = \frac{17.60}{12} \times 100 =$ ₹146.67 per share.

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		**225**	**400**	**625**
	(i)	**25**	**100**	**125**
Current Assets:		**200**	**500**	**700**
Less: Current liabilities		**25**	**400**	**425**
	(ii)	**175**	**100**	**275**
	(i) + (ii)	**200**	**200**	**400**
Financed by :				
Loan		**—**	**300**	**300**
Capital : Equity ₹ 10 each		**25**	**_**	**25**
Surplus		**175**	**(100)**	**75**
		200	**200**	**400**

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

Asssuming 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 entires in (i).

iii. Prepare the Balance Sheet of Y Ltd.

Solution:

Part I - Books of A Ltd :

Basic Information :

X Ltd.

Division A	Division B
Profit Making	Loss Making
Retained by X Ltd	Assets and Liabilites 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			
		(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 :
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	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2012**		**As at 31st March, 2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.11	-	-	NIL	NIL
Add: Fresh Issue (Incld 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	-

(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			
	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			

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**
		(e) Other non-current assets			
	2	Current assets			
		(a)Current investments			
		(b) Inventories			
		(c) Trade receivables			
		(d) Cash and cash equivalents			
		(e) Short-term loans and advances			
		(f) Other current assets	7	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	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2012**		**As at 31st March, 2011**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.11	-	-	NIL	NIL
Add: Fresh Issue (Incld 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 Liablities	As at 31st March, 2012	As at 31st March, 2011
Current Liablities 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 Blcok	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%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 1,87,500 × 100% = ₹3,75,000
Share of Majority – Reduced from Group Reserve	₹ 1,87,500 × 100% = ₹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 ₹13,50,000 × Profit on Sale Price i.e.25% ÷ Cost on Sale i.e. 75% = ₹4,50,000
% of Stock included in Closing Stock	60%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 4,50,000 × 60% = ₹2,70,000
Share of Majority – Reduced from Group Reserve	100% × ₹2,70,000 = ₹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 ₹24,00,000 × Profit on Cost 20% ÷Sale to Cost 120% =₹4,00,000
% of Stock included in Closing Stock	40%
Unlealised Profit to be eliminated i.e to be reduced from Closing Stock	₹ 4,00,000 × 40% = ₹1,60,000
Share of Majority – Reduced from Group Reserve	Share of Majority i.e. 80% × Unrealised Profit ₹1,60,000 = ₹1,28,000
Share of Minority – Reduced from Minority Interest	Share of Majority i.e. 20% × Unrealised Profit ₹1,60,000 = ₹32,000

Question No.30 (a)

Kalpana Ltd. purchased an old well for $200 million. It estimates that the well contains 500 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 20,000 barrels of oil during the first year, how much depletion expense should be recognized as per IFRS 6?

Solution:

In the above situation will compute the depletion rate and depletion expense as per IFRS 6

"Exploration for and Evaluation of Mineral Resources"

Depletion rate = current period production / Total barrels of production

= 20,000 barrels / 500,000,000 barrels
=0.00004

Depletion expense for the first year
=Purchase price x Depletion rate
= $ 200,000,000 x 0.00004
= $ 8000.

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.