Paper 18 – Corporate Financial 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.1(c)

State the applicability of Accounting Standards to non-corporate entities.

Answer:

Applicability of Accounting Standard to Non-corporate Entities:

For applicability of Accounting Standards to Non-corporate entities, Non-corporate entities are classified into three broad heading as Level I, Level II & Level III entities as given below –

Level I Entities

Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

Level II Entities (SMEs)

Non-corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees forty lakh but does not exceed rupees fifty crore in the immediately preceding accounting year.

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

Level III Entities (SMEs)

Non-corporate entities which are not covered under Level I and Level II are considered as Level III entities.

Question No.1(d)

State the applicability and scope of International Accounting Standards on Impairment of Assets (IAS) 36.

Answer:

International Accounting Standard 36 *Impairment of Assets* (IAS 36) should be applied:

(a) on acquisition to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004.

(b) to all other assets, for annual periods beginning on or after 31 March 2004. Earlier application is encouraged.

Scope

This Standard shall be applied in accounting for the impairment of all assets, other than:

(a) inventories;

(b) assets arising from construction contracts;

(c) deferred tax assets;

(d) assets arising from employee benefits;

(e) financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement;

(f) investment property that is measured at fair value;

(g) biological assets related to agricultural activity that are measured at fair value less estimated point-of-sale costs;

(h) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4 Insurance Contracts; and

(i) non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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.2 (c)

AB Ltd. Seeks you advise about the treatment of the following in the final statement of accounts for the year ended 31st March 2014:

"As a result of a recent announced price revision, granted by the Government of India with effect from 1st July,2013, the company stands to receive ₹ 12 lakhs from its customers in respect of sales made in 2013-14".

Solution:

The company is preparing the financial statements for the year ended 31.3.14. Due to price revision granted by the Government of India, the company has to receive an additional sales revenue of ₹ 12 lakhs in respect of sales made during the year 2013-14.

As per AS-9, where uncertainty exists in collection of revenue, its recognition is postponed to the extent of uncertainty involved and it should be recognized as revenue only when it is reasonably certain about its collection.

In view of the above statement, if there is no uncertainty exists as to the collect ability of ₹ 12 lakhs, it should be recognized as revenue in the financial statements for the year ended 31.3.14.

Question No.2 (d)

Z Ltd.purchased a machine costing ₹ 8 lakhs for its manufacturing operations and paid transportation costs ₹ 80,000. Z Ltd. spent an additional amount of ₹ 50,000 for testing and preparing the machine for use. What amount should Z Ltd. record as the cost of the machine?

Solution:

As per Para 20 of AS-10, the cost of the fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. In this case, the cost of machinery includes all expenditures incurred in acquiring the asset and preparing it for use. Cost includes the purchase price, freight and handling charges, insurance cost on the machine while in transit, cost of special foundations, and costs of assembling, installation and testing. Therefore, the cost to be recorded is ₹9,30,000 (= 8,00,000 + 80,000 + 50,000).

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.3 (c)

A company has invested a substantial amount in the shares of another company under the same management. The market price of the shares of the aforesaid company is about half of that at which these shares were acquired by the company. The management is not prepared to provide for the fall in the value of shares on the ground that the loss is only notional till the time the shares are actually sold?

Solution:

As per AS-13, for the purpose of determining carrying amount of shares the investment has to be classified into long-term and current. In the instant case, it appears that the investment is long-term, hence it should be carried at cost, unless there is a permanent diminution in value of investment. At the market price, investment is half of its cost. The reduction appears to be heavy and permanent, hence the provision for permanent diminution (decrease) in value of investment should be made. The contention of management is not as per AS-13.

Question No.3 (d)

In the context of relevant Accounting Standards, give your comment on the following matter for the financial year ending 31st March, 2013:

"Increase in pension liability on account of wage revision in 2012-13 is being provided for in 5 instalments commencing from that year. The remaining liability of ₹300 lakhs as redetermined in actuarial valuation will be provided for in the next 2 years".

Solution:

As per AS-15, the costs arising from an alteration in the retirement benefits to employees should be treated as follows:

(i) The cost may relate to the current year of service or to the past years of service.

(ii) In case of costs relating to the current year, the same may be charged to Profit and Loss Account

(iii) Where the cost relates to the past years of service these should be charged to Profit and Loss Account as 'prior period' items in accordance with AS-5.

(iv) Where retirement benefit scheme is amended in a manner which results in additional benefits being provided to retired employees, the cost of the additional benefits should be taken as " Prior Period and Extraordinary Items" as per AS-5.

In view of the above, the method adopted for accounting the increase in pension liability is not in consonance to the provisions mentioned in AS-15.

Question No.4 (a)

The following summarized 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	
	2	Non-current liabilities			
		(a) Long-term borrowings	3	6,00,000	
	3	Current Liabilities			
		(a)Other current liabilities	4	5,30,000	
		(b) 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	

	2	Current assets			
		(a) Inventories	7	13,56,000	
		(b) Trade receivables	8	8,30,000	
		(c) Cash and cash equivalents	9	4,60,004	
		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)

J Ltd., and K Ltd., had the following summarized financial position as at 31st March, 2012.

Liabilities	J Ltd. ₹	K Ltd. ₹	Assets	J Ltd. ₹	K Ltd. ₹
Share capital: Equity shares of ₹100 each fully paid	**48,00,000**	**36,00,000**	**Goodwill**	**30,00,000**	**6,00,000**
General Reserve	**18,00,000**	**12,00,000**	**Fixed Assets**	**24,00,000**	**42,00,000**
Investment Allowance Reserve	**-**	**18,00,000**	**Investment at cost**	**18,00,000**	**12,00,000**
Current Liabilities	**24,00,000**	**9,00,000**	**Current Assets**	**18,00,000**	**13,00,000**
	90,00,000	**75,00,000**		**90,00,000**	**75,00,000**

It was decided that J Ltd. will take over the business of K Ltd., on that date, on the basis of the respective share values adjusting, wherever necessary, the book values of assets and liabilities on the strength of information given below :

i. **Investment of K Ltd., included 6,000 shares in J Ltd., acquired at a cost of ₹ 150 per share. The other investments of K Ltd., have a market value of ₹ 1,50,000;**

ii. **Investment Allowance Reserve was in respect of additions made to Fixed assets by K Ltd., in the years 2007-2012 on which Income Tax relief has been obtained. In terms of the Income Tax Act, the company has to carry forward till 2014, reserve of ₹ 9,00,000 for utilisation;**

iii. **Goodwill of J Ltd., and K Ltd., are to be taken at ₹ 24,00,000 and ₹ 12,00,000 respectively;**

iv. **The market value of investments of J Ltd., was ₹ 12,00,000;**

v. **Current assets of J Ltd., included ₹ 4,80,000 of stock in trade obtained from K Ltd. which company sold at a profit of 25% over cost ;**

vi. **Fixed assets of J Ltd., and K Ltd., are valued at ₹ 30,00,000 and ₹ 45,00,000 respectively.**

Suggest the scheme of absorption and show the journal entries necessary in the books of J Ltd. Also prepare the Balance Sheet of that company after takeover of the business of K Ltd.

Solution :

Part I: Purchase Consideration

WN # 1 : Intrinsic Value of Shares

Particulars	J Ltd. (₹)	K Ltd. (₹)
Goodwill	24,00,000	12,00,000
Fixed assets	30,00,000	45,00,000
Investment-Outside	12,00,000	1,50,000
-Inter Co [6,000 Shares @₹125 each]	------	7,50,000
Current assets	18,00,000	15,00,000
Liabilities	(24,00,000)	(9,00,000)
Net assets	60,00,000	72,00,000
No. of shares outstanding	48,000	36,000
Intrinsic Value per share (60,00,000/48,000); (72,00,000/36,000)	125	200

WN # 2 : Purchase Consideration

Particulars	K Ltd. (₹)
Total no. of Shares outstanding in K Ltd.	36,000
Value of Shares @₹200 each	72,00,000
No. of shares issuable on the basis of intrinsic value of share (72,00,000÷125)	57,600
Less: Shares already held	(6,000)
No. of Shares to be issued	51,600
Shares price	125
Purchase Consideration (51,600×125)	64,50,000

Part II : In the Books of J Ltd.

- Nature of Amalgamation-Purchase
- Method of Accounting-Purchase

	Particulars		Debit (₹)	Credit (₹)
1.	For Purchase Consideration Due Business Purchase A/C To Liquidator of K Ltd. A/C	 Dr. 	 64,50,000 	 64,50,000
2.	For Assets and Liabilities taken over: Goodwill A/C Fixed Assets A/C	 Dr. Dr.	 12,00,000 45,00,000	

	Investment A/C Current Assets A/C To Liabilities A/C To Business Purchase A/C	Dr. Dr.	1,50,000 15,00,000	 9,00,000 64,50,000
3.	For Discharge of purchase consideration Liquidator of K Ltd. A/C To Equity Share Capital A/C To Securities Premium A/c	 Dr.	 64,50,000	 51,60,000 12,90,000
4.	Contra entry for statutory reserve Amalgamation adjustment A/C To Investment allowance A/c	 Dr.	 9,00,000	 9,00,000
5.	For adjustment of stock reserve Goodwill A/C To Stock reserve A/C	 Dr.	 96,000	 96,000

Name of the Company: J 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	99,60,000	—
		(b) Reserves and surplus	2	39,90,000	—
	2	Current Liabilities			
		(a) Other current liabilities	3	33,00,000	—
		Total		**1,72,50,000**	**—**
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	4	69,00,000	—
		(ii) Intangible assets	5	42,96,000	—
		(b) Non-current investments	6	19,50,000	—
		(c) Other non-current assets	7	9,00,000	—
	2	Current assets			
		(a)Other current assets	8	32,04,000	—
		Total		**1,72,50,000**	**—**

		(₹)
Note 1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
Authorised, Issued, Subscribed and paid up:- 99,600 Eqity Shares of ₹ 100 (of which 51,600 shares of ₹ 1,00 each issued for consideration other than cash)	99,60,000	
Total	99,60,000	

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	48,000	48,00,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares, Right shares, split shares, shares issued other than cash)	51,600	51,60,000	NIL	NIL
	99,600	99,60,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	99,600	99,60,000	NIL	NIL

Note 2. Reserves and Surplus	**As at 31st March, 2012**	**As at 31st March, 2011**
Securities Premium	12,90,000	
Investment allowance Reserve	9,00,000	
General Reserve	18,00,000	
Total	39,90,000	

Note 3. Other Current Liabilities	**As at 31st March, 2012**	**As at 31st March, 2011**
Current Liabilities	33,00,000	
Total	33,00,000	

Note 4. Tangible assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Fixed Assets (24,00,000+45,00,000)	69,00,000	
Total	69,00,000	

Note 5. Intangible assets	**As at 31st March, 2012**	**As at 31st March, 2011**
Goodwill	42,96,000	
Total	42,96,000	

Note 6. Non-Current Investments	As at 31st March, 2012	As at 31st March, 2011
Investment at cost	19,50,000	
Total	19,50,000	

Note 7. Other Non Current Assets	As at 31st March, 2012	As at 31st March, 2011
Amalgamation Adjustment Accounts	9,00,000	
Total	9,00,000	

Note 8. Other Current Assets	As at 31st March, 2012	As at 31st March, 2011
Current Assets (33,00,000 – 96,000)	32,04,000	
Total	32,04,000	

Question No.4 (c)

Shiva Ltd. and Hari Ltd. decided to amalgamate as on 01.04.2014. Their Balance Sheets as on 31.03.2014 were as follows: (₹ in '000)

Particulars	Shiva Ltd.	Hari Ltd.
Source of Funds :		
Equity share capital (₹ 10 each)	150	140
9% preference share capital (₹ 100 each)	30	20
Investment allowance reserve	5	2
Profit and Loss Account	10	6
10 % Debentures	50	30
Sundry Creditors	25	15
Tax provision	7	4
Equity Dividend Proposed	30	28
Total	307	245
Application of Funds :		
Building	60	50
Plant and Machinery	80	70
Investments	40	25
Sundry Debtors	45	35
Stock	36	40
Cash and Bank	40	25
Preliminary Expenses	6	----
Total	307	245

From the following information, you are to prepare the draft Balance Sheet as on 01.04.2014 of a new company, Indra Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50 % Debentures are to be converted into Equity Shares of the New Company.

(ii) Out of the investments, 20% are non-trade investments.

(iii) Fixed Assets of Shivas Ltd. were valued at 10% above cost and that of Hari Ltd. at 5% above cost.

(iv) 10 % of sundry Debtors were doubtful for both the companies. Stocks to be carried at cost.

(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.
(vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹ 10 each of the new company at a premium of ₹ 5 per share. Amalgamation is in the nature of purchase

Solution:

Balance Sheet as at 1.4.2014
[as per Revised Schedule VI]

₹ in lakhs

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	3,27,990	—
(b) Reserves and Surplus	2	1,45,995	—
(2) Non-current liabilities :			
(a) Long-term borrowings	3	40,000	—
(3) Current Liabilities :			
(a) Trade Payables	4	40,000	—
(b) Short-term provisions	5	11,000	—
Total		5,64,985	—
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	6	2,80,000	—
(b) Non-current Investment	7	65,000	—
(2) Current assets :			
(b) Inventories	8	76,000	—
(c) Trade receivables	9	72,000	—
(d) Cash and Cash equivalents	10	64,985	—
(f) Other Current assets	11	7,000	—
Total		5,64,985	—

Note 1. Share Capital

Particulars	**Amount (₹)**
Share Capital 3,63,840 Equity shares of ₹ 10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	36,38,400
Total	36,38,400

Note 2. Trade Payables

Particulars	**Amount (₹)**
Creditors	4,50,000
Total	4,50,000

Note 3. Tangible Assets

Particulars	Amount (₹)
Other fixed Assets (12,00,000 + 3,00,000)	15,00,000
Total	15,00,000

Note 4. Intangible Assets

Particulars	Amount (₹)
Goodwill (W.N. 2) (₹ 3,19,200 + ₹ 1,21,200)	4,40,400
Total	4,40,400

Note 5. Short-term Provisions

Particulars	Amount (₹)
Tax provision (₹ 7,000 + ₹ 4,000)	11,000
Total	11,000

Note 6. Tangible Assets

Particulars	Amount (₹)
Building (₹ 66,000 + ₹ 52,500)	1,18,500
Plant and Machinery (₹ 88,000 + ₹ 73,500)	1,61,500
Total	2,80,000

Note 7. Non-current Investments

Particulars	Amount (₹)
Investments (₹ 40,000 + ₹ 25,000)	65,000
Total	65,000

Note 8. Inventories

Particulars	Amount (₹)
Stock (₹ 36,000 +₹ 40,000)	76,000
Total	76,000

Note 9. Trade Receivables

Particulars	Amount (₹)
Sundry Debtors 90% of (₹ 45,000 + ₹ 35,000)	72,000
Total	72,000

Note 10. Cash and Cash Equivalent

Particulars	Amount (₹)
Cash and Bank (₹ 40,000 + ₹ 25,000 - ₹ 15)	64,985
Total	64,985

Note 11. Other Current Assets

Particulars	**Amount (₹)**
Amalgamation adjustment account	7,000
Total	7,000

Working Notes:

1. Calculation of value of equity shares issued to transferor companies

		Shiva Ltd. ₹		**Hari Ltd.** ₹
Assets taken over:				
Building		66,000		52,500
Plant and machinery		88,000		73,500
Investments (trade and non-trade)		40,000		25,000
Stock		36,000		40,000
Sundry Debtors		40,500		31,500
Cash & Bank		40,000		25,000
		3,10,500		2,47,500
Less: Liabilities:				
10% Debentures	50,000		30,000	
Sundry Creditors	25,000		15,000	
Tax Provision	7,000	82,000	4,000	49,000
		2,28,500		1,98,500
Less: Preference Share Capital		30,000		20,000
		1,98,500		1,78,500

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	Shiva Ltd.	Hari Ltd.	Total
share (including ₹ 5 premium)			
Equity shares issued @ ₹ 15 per			
1,98,500 divided by 15	13,233 shares*		
1,78,500 divided by 15		11,900 sh	25,133 sh
Equity share capital @ ₹ 10	₹ 1,32,330	₹ 1,19,000	₹ ,51,330
Securities premium @ ₹ 5	₹ 66,165	₹ 59,500	₹ ,25,665
	₹ 1,98,495	₹ 1,78,500	₹ 3,76,995
50% of Debentures are converted into equity shares @ ₹ 15 per share			
25,000 divided by 15	1,666 shares**		
15,000 divided by15		1,000 shares	2,666 shares
Equity share capital @ ₹ 10	₹ 16,660	₹ 10,000	₹ 26,660
Security premium@ ` 5	₹ 8,330	₹ 5,000	₹13,330
	₹ 24,990	₹15,000	₹ 9,990
9% Preference share capital issued	₹ 30,000	₹ 20,000	₹ 50,000

*** Cash paid for fraction of shares = ₹ 1,98,500- ₹ 1,98,495 = ₹ 5.**

**** Cash paid for fraction of shares = ₹ 25,000- ₹ 24,990 = ₹ 10.**

Question No. 5 (a)

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 (b)

(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	Nil		
		Profit & Loss Account	6,000		
			6,000	4,800	1,200
(c)	Revenue Reserve:		60,000	48,000	12,000
(d)	Revenue Profit:	Profit & Loss Account of Star Ltd. for the year	78,000	62,400	15,600
(e)	Preference Dividend		6,000	4,800	1,200
	Minority Interest				80,000

D. Cost of Control

Particulars		₹
Cost of Investment: Equity Shares of Star Ltd.		2,80,000
Preference Shares of Star Ltd.		1,00,000
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	-
	2	**Minority Interest**		80,000	-
	3	**Current liabilities**			
		(b) Trade payables	3	110,000	-
		(d) Short-term provisions	4	142,000	-
		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	-
	2	**Current assets**			
		(b) Inventories	7	206,000	-
		(c) Trade receivables	8	245,000	-
		(d) Cash and cash equivalents	9	65,000	-
		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			**Note 4. Short Term Provisions**		
	Current Year	**Previous Year**		**Current Year**	**Previous Year**
Sundry Debtors			Prov. For taxations (70000+60000)	1,30,000	-
Sky	60,000	-	Proposed Pref. Dividend payable Sky Ltd.	12,000	-
Star	70,000	-		1,42,000	-
	1,30,000	-			
Less: set off	20,000	-			
	1,10,000	-			

Note 5. Tangible Assets :-			**Note 6. Intangible Assets:-**		
	Current Year	**Previous Year**		**Current Year**	**Previous Year**
Fixed Assets			**Goodwill**		
Machinery (100000+60000)	1,60,000	-	Sky	60,000	-
Vehicles			Star	40,000	-
(180000+70000)	2,50,000	-		1,00,000	-
Furniture (50000+30000)	80,000	-	Goodwill on consolidation	1,56,000	-
	-	-		2,56,000	-
	4,90,000	-			

Note 7. Inventories :-			Note 8. Trade Receivable :-		
	Current Year	Previous Year		Current Year	Previous Year
Stock			Sky	1,00,000	-
Sky	70,000	-	Star	1,65,000	-
Star	1,40,000	-		2,65,000	-
	2,10,000	-	Less: Set off	20,000	-
Less: Stock Reserve	4,000	-		2,45,000	-
	2,06,000	-			

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(c)

Globetrotters Ltd. has two divisions – 'Inland' and 'International'. The summarized 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 (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.)		175

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	
	2	**Current Liabilities**					
		(a) Short-term borrowings	3			50	
		(b)Other current liabilities	4	100		200	
		Total (1+2+3+4)		**250**		**600**	
	II	**ASSETS**					
	1	Non-current assets					
		(a) Fixed assets					
		(i) Tangible assets	5	50		250	
	2	**Current assets**					
		(a) 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			
		(a) Share capital	1	25	
		(b)Reserves and surplus	2	175	
	2	Current Liabilities			
		(a) Short-term borrowings	3	50	
		(b) Other current liabilities	4	100	
		Total		**350**	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	200	
	2	Current assets			
		(a)Other current assets	6	150	
		Total		350	

Notes to Accounts

	₹	₹
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. 5(d)

The following are the summarized Balance Sheet of Anurag Ltd. and Farhan Ltd.as at 31.12.2014

Anurag Ltd.

Liabilities	₹ '000	Assets	₹ '000
Share Capital 3,00,000 Equity shares of ₹ 10 each 10,000 Preference shares of ₹ 10 each General Reserves Secured Loans (secured against pledge of stocks) Unsecured Loans Current Liabilities	 3,000 1,000 400 16,000 8,600 13,000	Fixed Assets Stock (pledge with secured loan creditors) Other Current Assets Profit and Loss Account	3,400 18,400 3,600 16,600
	42,000		42,000

Farhan Ltd.

Liabilities	₹'000	Assets	₹ '000
Share Capital 1,00,000 Equity shares of ₹ 10 each General Reserves Secured Loans Current Liabilities	 1,000 2,800 8,000 4,600	Fixed Assets Current Assets	6,800 9,600
	16,400		16,400

Both the companies go into liquidation and Oscar Ltd. is formed to take over their businesses. The following information is given-

(a) All current Assets of two companies, except pledged stock are taken over by Oscar Ltd. The realizable value of all Current Assets are 80% of book values in case of Anurag Ltd. and 70% for Farhan Ltd. , Fixed assets are taken over at book value .

(b) The braek up of Current liabilities ` -

Particulars	Anurag Ltd.	Farhan Ltd.
Statutory Liabilities (including ₹ 22 lakhs in case of Anurag Ltd. , incase of claim not having been admitted shown as contingent liability)	72,00,000	10,00,000
Liabilities to employees	30,00,000	18,00,000

Balance of Current liability is miscellaneous creditors

(c) Secured Loan include ₹ 16,00,000 accrued interest in case of Farhan Ltd.
(d) 2,00,000 equity shares of ₹10 each are allotted by Oscar Ltd., at par against cash payment of entire face value to the shareholders of Anurag Ltd. and Farhan Ltd. in the ratio of shares held by them in Anurag Ltd. and Farhan Ltd.
(e) Preference shareholders are issued Equity shares worth ₹ 2,00 in lieu of present holding
(f) Secured Loan Creditors agree to continue the balance amount of their loans to Oscar Ltd. , after adjusting value of pledged security in case of Anurag Ltd. and after waiving 50% of interest due in the case of Farhan Ltd.
(g) Unsecured Loans are taken over by Oscar Ltd. at 25% of loan amount.
(h) Employees are issued fully paid Equity Shares in Oscar Ltd. in full settlement of their dues
(i) Statutory liabilities are taken over by Oscar Ltd. at full values and miscellaneous creditors are taken over at 80% of the book value.

Solution:

WN 1 Value of miscellaneous creditors taken over by Oscar Ltd.

	Anurag Ltd. ₹	Farhan Ltd. ₹
Given in balance sheet	13,000	4,600
Less:		
Statutory Liabilities	5,000	1,000
Liability to employees	3,000	1,800
Miscellaneous creditors	5,000	1,800
80% thereof	4,000	1,440

WN 2 Value of total liabilities taken over by Oscar Ltd.

	Anurag Ltd.		Farhan Ltd.	
	₹	₹	₹	₹
Current liabilities				
Statutory liabilities	7,200		1,000	
Liabilities to employees	3,000		1,800	
Miscellaneous liabilities (WN 1)	4,000	14,200	1,440	4,240
Secured Loans				
Given in Balance Sheet	16,000		8,000	7,200
Interest waived	-		800	
Value of Stock (80% of ₹184 lakhs)	14,720	1,280		
Unsecured Loans (25% of ₹86 lakhs)		2,150		--
		17,630		11,440

WN 3 Assets taken over by Oscar Ltd.

	Anurag Ltd.	Farhan Ltd.
Fixed Assets (at Book Value)	3,400	6,800
Current Assets	2,880 (3,600 × 80%)	6,720 (9,600 × 70%)
Total of Assets Taken Over	6,280	13,520

WN 4 Goodwill/Capital Reserve on amalgamation

	Anurag Ltd.	Farhan Ltd.
Liabilities taken over (WN 2)	17,630	11,440
Equity shares to be issued to Preference shareholders	200	--
A	17,830	11,440
Less: total assets taken over (W.N 3) B	6,280	13,520
A-B	11,550	(2080)
	Goodwill	Capital Reserve
Net Goodwill		**9,470**

D. Balance Sheet of Oscar Ltd. as at 31.12.2014

[as per Revised Schedule VI]

₹ in '000

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	7,000	—
(2) Current Liabilities :			
(a) Short-term borrowings	2	10,630	—
(b) Trade Payables	3	5,440	—
(c) Other current liabilities	4	8,200	—
	Total	**31,270**	**—**
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	5	10,200	—
(ii) Intangible assets	6	9,470	—
(2) Current assets :			
(a) Cash and Cash equivalents	7	2,000	—
(b) Short-term loans and advances		—	—
(c) Other Current assets	8	9,600	—
	Total	**31,270**	**—**

Note 1. Share Capital

Particulars	**Amount (₹)**
7,00,000 Equity Shares of ₹10 each , fully paid (5,00,000 Equity Shares issued for consideration other than cash)	7,000
Total	7,000

Note 2. Short term Borrowings

Particulars	**Amount (₹)**
Secured Loans (₹1,280 + ₹ 7,200)	8,480
Unsecured Loans	2,150
Total	10,630

Note 3. Trade Payables

Particulars	**Amount (₹)**
Miscellaneous Creditors (₹4,000 + ₹1,440)	5,440
Total	5,440

Note 4. Other Current Liabilities

Particulars	Amount (₹)
Statutory Liabilities (₹ 5,000 + ₹ 2,200 + ₹ 1,000)	8,200
Total	8,200

Note 5. Tangible Assets

Particulars	Amount (₹)
Fixed assets (₹ 6,800 + ₹ 3,400)	10,200
Total	10,200

Note 6. Intangible Assets

Particulars	Amount (₹)
Goodwill	9,470
Total	9,470

Note 7. Cash and Cash Equivalents

Particulars	Amount (₹)
Cash/ Bank (from raising Equity)	2,000
Total	2,000

Note 8. Other Current Assets

Particulars	Amount (₹)
Current assets (₹ 2,880 + ₹6,720)	9,600
Total	9,600

Question No.6 (a)

The Balance Sheet of X Ltd. before reconstruction is:

Liabilities	**₹**	***Assets***	**₹**
		Building at cost	
12,000 7% Preference shares of ₹ 50 each	**6,00,000**	**Less: Depreciation**	**4,00,000**
		Plant at cost	
7,500 Equity shares of ₹ 100 each	**7,50,000**	**Less: Depreciation**	**2,68,000**
		Trade Marks and Goodwill at Cost	**3,18,000**
(Note : Preference dividend is in arrear for five years)		**Stock**	**4,00,000**
		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	-	
	2	**Current Liabilities**			
		(a) Short-term borrowings	3	2,23,000	
		(b) Trade payables	4	2,07,000	

		(c) Other current liabilities	5	35,000	
		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	
	2	**Current assets**			
		(b) inventories	8	4,00,000	
		(c) trade receivables	9	3,28,000	
		(d) Cash and cash equivalents	10	12,500	
		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 other than cash)	-	-	NIL	NIL
	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. 6(c)

The summarized Balance sheets of Aman Ltd. and its subsidiary Ayan Ltd. as at 31.3.2014 were as follows :

Liabilities	Aman Ltd.	Ayan Ltd.	Assets	Aman Ltd.	Ayan Ltd.
Share capital (Share of ₹ 10 each)	50,00,000	10,00,000	Fixed assets	60,00,000	18,00,000
General reserves	50,00,000	20,00,000	Investment in Ayan Ltd. (60,000 shares)	6,00,000	---
Profit and Loss account	20,00,000	15,00,000	Sundry debtors	35,00,000	5,00,000
Secured loan	20,00,000	2,50,000	Inventories	30,00,000	25,00,000
Current liabilities	30,00,000	2,50,000	Cash and bank	39,00,000	2,00,000
	1,70,00,000	50,00,000		1,70,00,000	50,00,000

Aman Ltd. holds 60% of the paid-up capital of Ayan Ltd. and the balance is held by a foreign company.

A memorandum of understanding has been entered into with the foreign company by Aman Ltd. to the following effect:

(i) The shares held by the foreign company will be sold to Aman Ltd. at a price per share to be calculated by capitalizing the yield at 15%. Yield, for this purpose, would mean 50% of the average of pre-tax profits for the last 3 years, which were ₹ 12 lakhs, ₹ 18 lakhs and ₹ 24 lakhs respectively. (Average tax rate was 40%).

(ii) The actual cost of shares to the foreign company was ₹ 4,40,000 only. Gains accruing to the foreign company are taxable at 20%. The tax payable will be deducted from the sale proceeds and paid to government by Aman Ltd. 50% of the consideration

(after payment of tax) will be remitted to the foreign company by Aman Ltd. and also any cash for fractional shares allotted.

(iii) For the balance of consideration, Aman Ltd. would issue its shares at their intrinsic value. It was also decided that Aman Ltd. would absorb Ayan Ltd. Simultaneously by writing down the Fixed assets of Ayan Ltd. by 10%. The Balance Sheet figures included a sum of ₹1,00,000 due by Ayan Ltd. to Aman Ltd. and stock of Aman Ltd. included stock of ₹1,50,000 purchased from Ayan Ltd., who sold them at cost plus 20%. The entire arrangement was approved and put through by all concern effective from 1.4.2014.

You are required to indicate how the above arrangements will be recorded in the books of Aman Ltd. and also prepare a Balance Sheet after absorption of Ayan Ltd. Workings should form part of your answer.

Solution:

Aman Ltd.
Balance Sheet as at 1st April, 2014

₹

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	53,34,660	—
(b) Reserves and Surplus	2	82,95,000	—
(2) Current Liabilities :			
(a) Short-term borrowings	3	22,50,000	—
(c) Other current liabilities	4	31,50,000	—
	Total	1,96,98,980	—
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	5	76,20,000	—
(2) Current assets :			
(b) Inventories	6	54,75,000	—
(c) Trade receivables	7	39,00,000	—
(d) Cash and Cash equivalents	8	27,03,980	—
	Total	1,96,98,980	—

Note 1. Share Capital

Particulars	**Amount (₹)**
Share of ₹10 each 500000 shares Share issued in lieu of purchase consideration 33,466 shares (Share of ₹ 10 each)	53,34,660
Total	53,34,660

Note 2. Reserves and Surplus

Particulars	Amount (₹)
General Reserve	50,00,000
Capital Reserve	13,20,000
Profit and Loss Account (₹20,00,000 – Unrealised Profit on stock ₹ 25,000)	19,75,000
Total	82,95,000

Note 3. Short term Borrowings

Particulars	Amount (₹)
Secured Loans (₹ 20,00,000 + ₹2,50,000)[assumed to be for less than 12 months]	22,50,000
Total	22,50,000

Note 4. Other Current Liabilities

Particulars	Amount (₹)
Current Liabilities [(30,00,000 + 2,50,000) – Mutual Debt 1,00,000]	31,50,000
Total	31,50,000

Note 5. Tangible Assets

Particulars	Amount (₹)
Fixed Assets (₹ 78,00,000 – Revaluation Loss ₹ 1,80,000)	76,20,000
Total	76,20,000

Note 6. Inventories

Particulars	Amount (₹)
Inventories [(₹30,00,000 +₹ 25,00,000) – Unrealised Profit on stock ₹25,000]	54,75,000
Total	54,75,000

Note 7. Trade Receivables

Particulars	Amount (₹)
Sundry Debtors [(₹35,00,000 + ₹ 5,00,000) – Mutual Debt. ₹1,00,000]	39,00,000
Total	39,00,000

Note 8. Cash and Cash Equivalents

Particulars	Amount (₹)
Cash at Bank	27,03,980
Total	27,03,980

Working Notes :

i. **Average of Pre Tax Profit** $= \frac{12+18+24}{3}$ =₹ 18lakhs

Yield = 18 × $\frac{50}{100}$ = ₹ 9 lakhs

ii. Price per share of Ayan Ltd:-

Capitaised value of yield of Ayan Ltd. = $\frac{9\,\text{lakhs}}{15}\times 100$ = 60 lakhs.

No. of shares = 1,00,000

Price per share = $\frac{60\,\text{lakhs}}{1\text{lakhs}}$ =₹ 60 per share

iii. Purchase consideration for 40% of share capital of Ayan Ltd.

= 1,00,000 x 60 x $\frac{40}{100}$ = ₹ 24,00,000

iv. Calculation of intrinsic value of shares of Aman Ltd.

Total Assets excluding Investments in Ayan Ltd. Value of Investment 60,000 ×60		1,64,00,000 36,00,000
		2,00,00,000
Less: Outside Liabilities: Secured Loan Current Liabilities	 20,00,000 30,00,000	 50,00,000
Net Assets		1,50,00,000

Intrinsic value per share = $\frac{\text{Net asset}}{\text{No of shares}} = \frac{₹1,50,00,000}{5,00,000}$ =₹ 30per share

v. **Discharge of purchase consideration by Aman Ltd.**

	Equity share capital `	Cash ₹	Total ₹
Payment of tax $(24 - 4.40)\times\frac{20}{100} =$	----	3,92,000	3,92,000
Issue of shares to foreign company $\left[\begin{array}{l}50\%\text{ of }(24-3.92)=10.04\text{lakhs}\\ \text{No. of shares issued by Aman Ltd. }\frac{10,04,000}{30}\\ =33,466.666\text{ shares}\end{array}\right]$ Value of shares capital = 33,466 × 30	10,03980	----	10,03980
Cash payment $[50\%\text{ of }(24-3.92)=10.04\text{ lakhs}]$	----	10,04,000	10,04,000
Cash for fractional shares 0.6666 x 30	----	20	20
Total	10,03,980	13,96,020	24,00,000

vi. Calculation for Goodwill/Capital Reserve to Aman Ltd.

	₹
Total of Assets as per Balance Sheet of Ayan Ltd. Less: 10% Reduction in the value of Fixed Assets $(\frac{10}{100}\times 18,00,000)$	50,00,000 1,80,000
	48,20,000

Less: Secured Loan Current Liabilities	₹ 2,50,000 ₹ 2,50,000	5,00,000
Net Assets Less: Purchase consideration (outside shareholders)		43,20,000 24,00,000
Less: Investment in Ayan Ltd. as per Balance Sheet of Aman Ltd.		19,20,000 6,00,000
		13,20,000

vii. Cash and Bank Balance of Aman Ltd. after acquisition of shares

	₹
Opening Balance (Aman Ltd.) Cash and Bank Balance of Ayan Ltd.	39,00,000 2,00,000
Less: Remittance to the foreign company	41,00,000 10,04,020
Less: T.D.S. paid to Government 3,92,000	30,95,980 3,92,000
	27,03,980

viii. Unrealised profit included in stock of Aman Ltd. $1,50,000 \times \frac{20}{120} =$ ₹ 25,000

Question No. 6(d)

The following are the summarized Balance Sheet of Uttar Ltd. and Dakshin Ltd. as on 31st December, 2013.

Amount in ₹

	Uttar Ltd	**Dakshin Ltd**
Assets		
Fixed Assets	**7,00,000**	**2,50,000**
Stock	**2,40,000**	**3,20,000**
Debtors	**3,60,000**	**1,90,000**
Bills Receivable	**60,000**	**20,000**
Cash at Bank	**1,10,000**	**40,000**
Investment in :		
6000 shares of Dakshin Ltd	**80,000**	
5000 shares of Uttar Ltd		**80,000**
	15,50,000	**15,50,000**
Liabilities		
Share Capital : **Equity Shares of ₹ 10each**	**6,00,000**	**3,00,000**
10% preference shares of ₹ 10 each	**2,00,000**	**1,00,000**
Reserve and surplus	**3,00,000**	**2,00,000**
12 % Debentures	**2,00,000**	**1,50,000**
Sundry Creditords	**2,20,000**	**1,25,000**
Bills Payable	**30,000**	**25,000**
	15,50,000	**15,50,000**

Fixed assets of both the companies are to be revalued at 15% above book value and stock and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends having been paid already.

After the above transactions are given effect to, Uttar Ltd. will absorb Dakshin Ltd. on the following terms:

(i) 8 equity shares of ₹ 10 each will be issued by Uttar Ltd. at par against 6 shares of Dakshin Ltd.

(ii) 10% preference shares of Dakshin Ltd. will be paid off at 10% discount by issue of 10% preference shares of ₹ 100 each of Uttar Ltd. at par.

(iii) 12 % Debenture holders of Dakshin Ltd. are to be paid off at a 8% premium by 12% debentures in Uttar Ltd. issued at a discount of 10%

(iv) ₹ 30,000 to be paid by Uttar Ltd. to Dakshin Ltd. for liquidation expenses.

(v) Sundry creditors of Dakshin Ltd. include ₹ 10,000 due to Uttar Ltd.

Solution :

(a) Statement of Purchase Consideration payable by Uttar Ltd.

(i) 8 Equity Shares of Uttar Ltd. for every 6 Equity Shares of Dakshin Ltd.

30,000 shares X $\frac{8}{6}$ =	40,000 shares
Less: $1/5$ already held by Uttar Ltd. of Dakshin Ltd.	8,000 shares
	32,000 Shares
Less: 5,000 shares of Uttar Ltd. with Dakshin Ltd.	5,000 shares
	27,000 Shares
27,000 equity shares at ₹ 10	₹2,70,000
(ii) payment of 10% Preference Shares at 10% discount by issue of 10% Preference Shares of Uttar Ltd. ₹ 100 each	
(1,00,000 X $\frac{90}{100}$)	₹ 90,000
	₹ 3,60,000

(b) Balance Sheet of Uttar Ltd. after its absorption of Dakshin Ltd.

Particulars	**Note No.**	**Figures as at the end of current reporting period** ₹	**Figures as at the end of previous reporting period**
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	11,60,000	—
(b) Reserves and Surplus	2	3,76,000	—
(2) Non-current liabilities :			
(a) Long-term borrowings	3	3,80,000	—
(3) Current Liabilities :			
(a) Trade Payables	4	3,35,000	—
(b) Other current liabilities	5	55,000	—
	Total	23,06,000	—
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	6	10,92,500	—

(2) Current assets :			
(a) Inventories	7	5,44,000	—
(b) Trade receivables	8	6,10,500	—
(c) Cash and Cash equivalents	9	41,000	—
(d) Other Current assets	10	18,000	—
	Total	23,06,000	—

Note 1. Share Capital

Particulars	Amount (₹)
Equity Share of ₹10 each 87,000 shares (Out of above- share issued in lieu of purchase consideration 27,000 shares other than cash)	8,70,000
10% Preference Shares of ₹ 10 each	2,00,000
10% Preference Shares of ₹ 100 each	90,000
Total	11,60,000

Note 2. Reserves and Surplus

Particulars	Amount (₹)
Revaluation reserves (15% of ₹ 7,00,000)	1,05,000
Capital Reserve	25,000
Other Reserves	2,46,000
Total	3,76,000

Note 3. Long term Borrowings

Particulars	Amount (₹)
12% debentures	3,80,000
Total	3,80,000

Note 4. Trade Payables

Particulars	Amount (₹)
Sundry creditors (2,20,000+1,25,000-10,000)	3,35,000
Total	3,35,000

Note 5. Other Current Liabilities

Particulars	Amount (₹)
Bills Payables (30,000+25,000)	55,000
Total	55,000

Note 6. Tangible Assets

Particulars	Amount (₹)
Fixed Assets (₹8,05,000+₹ 2,87,500)	10,92,500
Total	10,92,500

Note 7. Inventories

Particulars	**Amount (₹)**
Stock [(₹2,40,000 + ₹ 3,04,000)	5,44,000
Total	5,44,000

Note 8. Trade Receivables

Particulars	**Amount (₹)**
Debtors [(₹3,60,000 + ₹1,80,500 - ₹10,000) – Mutual Debt. ₹ 1,00,000]	5,30,500
Total	5,30,500

Note 9. Cash and Cash Equivalents

Particulars	**Amount (₹)**
Cash at Bank	41,000
Total	41,000

Note 10. Other Current Assets

Particulars	**Amount (₹)**
Discount on Issue of debentures [1,50,000 × 108% × (10/90)]	18,000
Total	18,000

Working Notes :

1. **Calculation of Capital Reserve**

Net assets taken over from Dakshin Ltd.	₹
Fixed Assets (2,50,000 X 115%)	2,87,500
Stock (3,20,000 X 95%)	3,04,000
Debtors (1,90,000 X 95%)	1,80,500
Bills Receivable	20,000
Cash at Bank	15,000
Total assets (A)	8,07,000
Less: Liabilities taken over	
Debentures (1,50,000 X 108%)	1,62,000
Sundry Creditors	1,25,000
Bills Payable	25,000
Total Liabilities (B)	3,12,000
Net Assets taken over(A-B)	4,95,000
Less: Investment Cancelled	80,000
	4,15,000
Purchase Consideration	3,60,000
Capital Reserve	55,000
Less: Liquidation expenses reimbursed to Dakshin Ltd.	30,000
	25,000

2. Cash taken over from Dakshin Ltd.

	₹
Cash balance given in Balance Sheet of Dakshin Ltd.	40,000
Add: Dividend received from Uttar Ltd.	5,000
	45,000
Less: Dividend paid	30,000
	15,000

3. Cash balance in Balance Sheet (after absorbtion)

		₹
Cash balance given in Balance Sheet of Uttar Ltd.		1,10,000
Add: Dividend received from Dakshin Ltd.		15,000
		1,25,000
Less: Dividend Paid	60,000	
Expenses on liquidation	30,000	90,000
		35,000
Less: Dividend from Dakshin Ltd.		6,000
		41,000

4. Other Reserves in the Balance Sheet (after absorption)

	₹
Reserves given in the Balance Sheet of Uttar Ltd.	3,00,000
Dividend from Dakshin Ltd.	6,000
	3,06,000
Less: Dividend declared	60,000
	2,46,000

Question No. 7(a)

The following are the summarised Balance Sheets of P Co. Ltd. and S Co. Ltd. as on 31.3.2014.

Liabilities	P Co. Ltd. ₹	S Co. Ltd. ₹
Share Capital:		
Authorised	**70,00,000**	**30,00,000**
Issued and Subscribed Capital		
Equity shares of ₹10 each fully paid	**50,00,000**	**20,00,000**
Capital Reserve	**5,00,000**	**3,10,000**
Revenue Reserve	**8,50,000**	**75,000**
Profit and Loss Account	**4,00,000**	**2,80,000**
Sundry Creditors	**2,50,000**	**2,25,000**
Bills Payable	**1,00,000**	**10,000**
	71,00,000	**29,00,000**
Assets		
Land and Buildings	**20,00,000**	**15,20,000**
Plant and Machinery	**20,00,000**	**8,00,000**
Furniture	**5,00,000**	**1,60,000**
Investments	**16,10,000**	**-**
Stock	**3,40,000**	**1,00,000**
Sundry Debtors	**3,60,000**	**2,00,000**
Bills Receivable	**50,000**	**40,000**
Bank	**2,40,000**	**80,000**
	71,00,000	**29,00,000**

P Ltd. acquired 80% shares of S Ltd. on 30.09.2013 at a cost of ₹18,10,000. On 1.10.2013 S Ltd. declared and paid dividend on Equity Shares. P Ltd. appropriately adjusted its share of dividend in Investment Account.

On 1.4.2013, the Capital Reserve and Profit and Loss Account stood in the books of S Ltd. at ₹50,000 and ₹ 2,75,000 respectively.

Land and Buildings standing in the books of S Ltd. at ₹ 16,00,000 on 1.4.2013, revalued at ₹20,00,000 on 1.10.2013. Furniture, which stood in the books at ₹2,00,000 on 1.4.2013 revalued at ₹1,50,000 on 1.10.2013. In both the cases the effects have not yet been given in the books.

S Ltd. bought an item of machinery from P Ltd. on hire-purchase basis. The following are the balances in respect of this machinery in the books on 31.03.2014 :

	₹
Instalment due	**20,000**
Instalment not due	**8,000**
Hire-purchase stock reserve	**1,600**

The above items stood included under appropriate heads in Balance Sheet.
Prepare a Consolidated Balance Sheet of P Ltd. and its subsidiary S Ltd. as at 31.03.2014, complying with the requirements of AS-21.

Solution:

Consolidated Balance Sheet as at 31st March, 2014

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period ₹
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	50,00,000	—
(b) Reserves and Surplus	2	25,90,400	—
(2) Current Liabilities :			
(a) Trade Payables	3	4,47,000	—
(b) Other current liabilities	4	1,10,000	—
Total		**87,61,400**	—
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	5	73,79,400	—
(2) Current assets :			
(b) Inventories	6	4,32,000	—
(c) Trade receivables	7	5,40,000	—
(d) Cash and Cash equivalents	8	3,20,000	—
(f) Other Current assets	9	90,000	—
Total		**87,61,400**	—

Note 1. Share Capital

Particulars	**Amount (₹)**
Authorised	70,00,000
Issued and subscribed Equity shares of ₹10 each, fully paid up	50,00,000
Total	50,00,000

Note 2. Reserves and Surplus

Particulars	Amount (₹)
Capital Reserve (W.N. 8)	12,18,000
Revenue Reserve (W.N. 9)	8,80,000
Profit and Loss A/c (W.N. 10)	4,92,400
Total	25,90,400

Note 3. Trade Payables

Particulars	Amount (₹)
Sundry creditors [(₹ 2,50,000 + ₹ 2,25,000) – Mutual hire purchase indebtedness ₹28,000]	4,47,000
Total	4,47,000

Note 4. Other Current Liabilities

Particulars	Amount (₹)
Bills Payables (₹1,00,000 + ₹10,000)	1,10,000
Total	1,10,000

Note 5. Tangible Assets

Particulars	Amount (₹)
Land and Buildings (₹ 20,00,000 + ₹ 19,50,000)	39,50,000
Plant and Machinery [(₹20,00,000 + ₹ 8,00,000) – Unrealised profit on Hire purchase transaction ₹ 5,600]	27,94,400
Furniture (₹5,00,000 + ₹1,35,000)	6,35,000
Total	73,79,400

Note 6. Inventories

Particulars	Amount (₹)
Stock [(₹3,40,000 - ₹1,00,000) – Hire purchase not due ₹8,000]	4,32,000
Total	4,32,000

Note 7. Trade Receivables

Particulars	Amount (₹)
Sundry Debtors [(₹3,60,000 + ₹2,00,000) – Hire purchase instalment due ₹20,000	5,40,000
Total	5,40,000

Note 8. Cash and Cash Equivalents

Particulars	Amount (₹)
Cash and Bank (₹2,40,000 + ₹80,000)	3,20,000
Total	3,20,000

Note 9. Other Current assets

Particulars	Amount(₹)
Bills Receivable (₹ 50,000 + ₹ 40,000)	90,000
Total	90,000

Working Notes:

1. **Analysis of reserves and profits of S Co. Ltd. as on 31.03.2014.**

		Pre-acquisition profit upto 30.09.2011 Capital profits)	Post-acquisition profits (1.10.2011 – 31.3.2012) Capital reserve	Revenue reserve	Profit and loss account
Capital reserve as on 31.3.2014	3,10,000				
Less: Balance as on 1.4.2013	50,000	50,000			
Created during the year	2,60,000	1,30,000	1,30,000		
Revenue reserve as on 31.3.2014	75,000				
Less: balance as on 1.4.2013	-				
Created during the year	75,000	37,500		37,500	
Profit and loss account as on 31.3.2014	2,80,000				
Add: Dividend paid on 1.10.2013 (out of pre-acquisition profits	2,50,000				
	5,30,000				
Less: balance as on 1.4.2013	2,75,000				
Earned during the year	2,55,000	1,27,500			1,27,500
Profit as on 1.4.2013	2,75,000				
Less: Dividend paid [(₹ 18,10,000 – ₹ 16,10,000) × 5/4]	2,50,000				
Balance of pre-acquisition profit as on 31.3.2014	25,000	25,000			
Revaluation reserves as on 1.10.2013:					
Profit on land and buildings (W.N. 2)		4,40,000			
Loss on furniture (W.N. 2)		(30,000)			
Difference in depreciation (for 6 months) due to revaluation:					
Short depreciation on land and building (W.N. 3)					(10,000)
Excess depreciation on furniture (W.N. 3)					5,000
Total	7,80,000		1,30,000	37,500	1,22,500
Minority Interest (20%)	1,56,000		26,000	7,500	24,500
Share of P Co. Ltd. (80%)	6,24,000		1,04,000	30,000	98,000

2. Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 31.3.2014

	₹
Land and buildings	
Book value as on 1.4.2013	16,00,000
Depreciation at 5% p.a. [(80,000 × 100)/16,00,000] for 6 months	40,000
	15,60,000
Revalued on 1.10.2013	20,00,000
Profit on revaluation	4,40,000
Value as per balance sheet on 31.3.2014	15,20,000
Add: Profit on revaluation	4,40,000
	19,60,000
Less: Short Depreciation (W.N. 3)	10,000
Value as on 31.3.2014	19,50,000
Furniture:	
Book value as on 1.4.2013	2,00,000
Less: Depreciation @ 20% p.a. [(40,000 × 100)/2,00,000] for 6 months	20,000
	1,80,000
Revalued on 1.10.2013	1,50,000

Loss on revaluation	30,000
Value as per balance sheet on 31.3.2014	1,60,000
Less: Loss on revaluation	30,000
	1,30,000
Add: Excess depreciation written back (W.N. 3)	5,000
Value as on 31.3.2014	1,35,000

3. Calculation of short/excess depreciation

	Building	Furniture
Revalued figure as on 1.10.2013	20,00,000	1,50,000
Rate of depreciation	5% p.a.	20% p.a.
Depreciation for 6 months on revalued figure (1.10.2013 to 31.3.2014)	50,000	15,000
Depreciation already provided	40,000	20,000
Difference [(short)/excess]	(10,000)	5,000

4. Calculation of cost of control

	₹
Share capital in S Ltd.	16,00,000
Add: Capital profit	6,24,000
	22,24,000
Less: Cost of Investments	16,10,000
Capital Reserve	6,14,000

5. Calculation of minority interest

	₹	₹
Share capital		4,00,000
Capital (pre-acquisition) profits		1,56,000
Revenue (post-acquisition) profits:		
Capital Reserve	26,000	
Revenue reserve	7,500	
Profit and loss	24,500	58,000
		6,14,000

6. Stock reserve (plant and machinery)

Percentage of profit on hire purchase transaction $\frac{1,600 \times 100}{8,000}$ = 20%

20% on ₹ 20,000 = ₹ 4,000

Total unrealized profit = ₹ (4,000+1,600) =₹5600

7. Elimination of mutual indebtedness

Elimination of mutual indebtedness in respect of sale of machinery on hire purchase basis will be made as under in the Consolidated Balance Sheet.

	Creditors	Debtors	Stock	Plant and machinery
	₹	₹	₹	₹
Total (P Ltd. and S Ltd.)	4,75,000	5,60,000	4,40,000	28,00,000
Less: Instalment due	20,000	20,000	-	-
Less: Instalment not due	8,000	-	8,000	-
Less: Profit on plant purchased by S Ltd. from P Ltd. on hire purchase	-	-	-	5,600
	4, 47,000	5,40,000	4,32,000	27,94,400

For consolidated balance sheet purpose, the unrealised profits will be eliminated by deducting ₹ 5,600 from Plant & Machinery and from profit and loss account.

8. Consolidated capital reserve as on 31.3.2014

	₹
Capital reserve of P Ltd. as on 31.3.2014	5,00,000
Add: Share in post acquisition capital reserve of S Ltd. (W.N. 1)	1,04,000
Add: Cost of control (W.N. 4)	6,14,000
	12,18,000

9. Consolidated revenue reserve as on 31.3.2014

	₹
Revenue reserve of P Ltd. as on 31.3.2014	8,50,000
Add: Share in post acquisition revenue reserve of S Ltd. (W.N. 1)	30,000
	8,80,000

10. Consolidated profit and loss account as on 31.3.2014

	`
Profit and loss account balance of P Ltd. as on 31.3.2014	4,00,000
Add: Share in post acquisition profit and loss account of S Ltd. (W.N. 1)	98,000
Less: Unrealised profit on hire purchase	(5,600)
	4,92,400

Note : In the question, the balance of capital reserve and profit and loss account of S Ltd., as on 1.4.2013 only has been given and not of revenue reserve. Hence, it has been assumed in the above solution that the revenue reserve is created during the year from current year's profits.

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 March,2012	As at 31st March,2011
	1	**EQUITY AND LIABILITIES**			
		(a) Share capital	1	3,00,000	
		(b) Reserves and surplus	2	1,80,915	
	2	**Minority Interest (W.N.5)**		1,13,460	
	3	**Current Liabilities**			
		(a) Trade payables	3	36,000	
		(b) Short-term provisions	4	30,000	
		Total(1+2+3)		**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	
	2	**Current assets**			

		(a) inventories	7	34,800	
		(b) trade receivables	8	2,37,000	
		(c) Cash and cash equivalents	9	3,000	
		Total(1+2)		**6,60,375**	

Notes to the Accounts

₹ in crores

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

Reconciliation of Share Capital

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

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

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

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

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

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

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

Note 8. Sundry debtors	As at 31st March,2012	As at 31st March,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 March,2012	As at 31st March,2011
Cash in transit (24,000-21,000)	3,000	
Total	3,000	

Working Notes:

(1) Position on 30.06.2012

	Reserves	Profit and Loss Account
B Ltd.	₹	₹
Balance on 31.12.2012	30,000	36,000
Less: Balance on 31.12.2011	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 7 (c)

On 31st March, 2011 BA Ltd. became the holding company of CA Ltd. and DA Ltd. by acquiring 1,800 lakhs fully paid shares in CA Ltd. for ₹ 27,000 lakhs and 960 lakhs fully paid shares in DA Ltd. for ₹ 8,640 lakhs. On that date, CA Ltd. showed a balance of ₹ 10,200 lakhs in General Reserve and a credit balance of ₹ 3,600 lakhs in Profit and Loss Account. On the same date, DA Ltd. showed a debit balance of ₹ 1,440 lakhs in Profit and Loss Account. While its Preliminary Expenses Account showed a balance of ₹ 120 lakhs.

After one year, on 31st March, 2012 the summarised Balance Sheets of three companies stood as follows:

			(₹ in lakhs)
Liabilities	**BA Ltd.**	**CA Ltd.**	**DA Ltd.**
Fully paid equity shares of ₹ 10 each	**1,08,000**	**30,000**	**12,000**
General Reserve	**1,32,000**	**12,600**	**-**
Profit and Loss Account	**36,000**	**4,800**	**3,000**
60 lakh fully paid 9.5%			
Debentures of ₹ 100 each	**-**	**-**	**6,000**
Loan from CA Ltd.	**-**	**-**	**300**
Bills Payable	**-**	**-**	**600**
Sundry Creditors	**56,400**	**10,800**	**3,720**
	3,32,400	**58,200**	**25,620**
Assets			
Machinery	**1,56,000**	**30,000**	**8,400**
Furniture and Fixtures	**24,000**	**6,000**	**2,400**
Investments:			
1,800 lakhs shares in CA Ltd.	**27,000**	**-**	**-**
960 lakhs shares in DA Ltd.	**8,640**	**-**	**-**
12 lakhs debentures in DA Ltd.	**1,176**	**-**	**-**
Stocks	**66,000**	**12,000**	**6,000**
Sundry Debtors	**36,000**	**5,400**	**5,160**
Cash and Bank balances	**12,804**	**4,200**	**3,600**
Loan to DA Ltd.	**-**	**360**	**-**
Bills Receivable	**780**	**240**	**-**
Preliminary Expenses	**-**	**-**	**60**
	3,32,400	**58,200**	**25,620**

The following points relating to the above mentioned Balance Sheets are to be noted:

(i) All the bills payable appearing in DA Ltd.'s Balance Sheet were accepted in favour of CA Ltd. out of which bills amounting to ₹300 lakhs were endorsed by CA Ltd. in favour of BA Ltd. and bills amounting to ₹180 lakhs had been discounted by CA Ltd. with its bank.

(ii) On 29th March, 2012 DA Ltd. remitted ₹60 lakhs by means of a cheque to CA Ltd. to return part of the loan; CA Ltd. received the cheque only after 31st March, 2012.

(iii) Stocks with CA Ltd. includes goods purchased from BA Ltd. for ₹800 lakhs. BA Ltd. invoiced the goods at cost plus 25%.

(iv) In August, 2011 CA Ltd. declared and distributed dividend @ 10% for the year ended 31st March, 2011. BA Ltd. credited the dividend received to its Profit and Loss Account.

You are required to prepare a Consolidated Balance Sheet of BA Ltd. and its subsidiaries CA Ltd. and DA Ltd. as at 31st March, 2012.

Solution :

Consolidated Balance Sheet of BA Ltd. and its subsidiaries CA Ltd. and DA Ltd. as at 31st March, 2012

₹ In Lakhs

Ref No.	Particulars		Note No.	As at 31st March,2012	As at 31st March,2011
	1	**EQUITY AND LIABILITIES**			
		(a) Share capital	1	1,08,000	—
		(b) Reserves and surplus	2	1,73,600	—
	2	**Minority Interest (W.N.2)**		21,948	—
	3	**Non-current liabilities**			
		(a) Long-term borrowings	3	4,800	—
	4	**Current Liabilities**			
		(b) Trade payables	4	70,920	—
		(c)Other current liabilities	5	180	—
		Total (1+2+3+4)		**3,79,448**	—
	II	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	6	2,26,800	—
		(ii) Intangible assets	7	984	—
	2	**Current assets**			
		(a) inventories	8	83,840	—
		(b) trade receivables	9	46,560	—
		(c) Cash and cash equivalents	10	20,664	—
		(d) Other current assets	11	600	—
		Total (1+2)		**3,79,448**	—

₹ In lakhs

Note 1. Share Capital	As at 31st March,2012	As at 31st March,2011
Authorized, Issued, Subscribed and fully paid-up Share capital:-		
10,800 Lakhs Equity share of ₹ 10 each	1,08,000	
	1,08,000	

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	10,800	1,08,000		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)				
	10,800	1,08,000		
Less: Buy Back of share				
Total	10,800	1,08,000		

Note 2. Reserve & Surplus	As at 31st March,2012	As at 31st March,2011
General Reserve (WN.4)	1,33,440	
Profit & Loss A/c (WN.4)	40,160	
Total	1,73,600	

Note 3. Long- term borrowings	As at 31st March,2012	As at 31st March,2011
9.5% Debentures	4,800	
Total	4,800	

Note 4. Trade Payables	As at 31st March,2012	As at 31st March,2011
Sundry Creditors (56,400+10,800+3,720)	70,920	
Total	70,920	

Note 5. Other Current liabilities	As at 31st March,2012	As at 31st March,2011
Bills Payable	180	
Total	180	

Note 6. Tangible Assets	As at 31st March,2012	As at 31st March,2011
Machinery	1,94,400	
Furniture & Fixture	32,400	
Total	2,26,800	

Note 7.Intangible assets	As at 31st March,2012	As at 31st March,2011
Goodwill (WN.3)	984	
Total	984	

Note 8. Inventories	As at 31st March,2012	As at 31st March,2011
Stock	84,000	
Less: unrealized profit	160	
Total	83,840	

Note 9.Trade Receivables	As at 31st March,2012	As at 31st March,2011
Debtors (more than six months considered good) – (36,000+5,400+5,160)	46,560	
Total	46,560	

Note 10. Cash and cash equivalents	As at 31st March,2012	As at 31st March,2011
Cash and bank	20,604	
Cash-in-transit	60	
Total	20,664	

Note 11.Other current assets	As at 31st March,2012	As at 31st March,2011
Bills receivables	1,020	
Less: mutual debts(WN.5)	420	
Total	600	

Working Notes:

(i) Calculation of pre and post acquisition profits of subsidiaries:

				(₹ in lakhs)
		Pre-acquisition capital profit	Post-acquisition	
			General Reserve	Profit/Loss A/c
CA Ltd.				
General Reserve (Cr.)		10,200	2,400	
Profit and Loss A/c (Cr.)	3,600			
(-) Dividend	3,000	600		4,200
		10,800	2,400	4,200
Holding (60%)		6,480	1,440	2,520
Subsidiary (40%)		4,320	960	1,680

			(₹ in lakhs)
	Pre-acquisition capital profit	Post-acquisition	
		Preliminary expenses	Profit / Loss A/c
DA Ltd.			
Profit and Loss A/c (Cr.)	(1,440)		4,440
Preliminary expenses (Dr.)	(120)	60	
	(1,560)	60	4,440
Holding (80%)	(1,248)	48	3,552
Subsidiary (20%)	(312)	12	888

(ii) Minority Interest (₹ in lakhs)

CA Ltd.				
Share capital			12,000	
Capital profit		4,320		
Revenue General Reserve		960		
Profit/Loss		1,680	6,960	18,960
DA Ltd.				
Share capital			2,400	

Capital profit		(312)		
Revenue profit (Cr.)	888			
Add: Preliminary expenses written off	12	900	588	2,988
				21,948

(iii) Cost of Control (₹ in lakhs)

CA Ltd.			
Investment	27,000		
Less: Dividend received and wrongly credited to Profit and Loss	1,800	25,200	
Less: Paid-up share capital (60%)	18,000		
Capital profit	6,480	24,480	720
Dee Ltd.			
Investment in Shares	8,640		
in debentures	1,176	9,816	
Less: Paid-up share capital (80%)	9,600		
Nominal value of debentures	1,200		
Capital profit	(1,248)	9,552	264
Goodwill			984

(iv) Consolidated General Reserve and Profit and Loss Account (₹ in Lakhs)

	General Reserve ₹	Profit and Loss A/c ₹
BA Ltd.	1,32,000	36,000
Less: Wrong dividend credited	-	1,800
	1,32,000	34,200
CA Ltd.	1,440	2,520
DA Ltd. (3,552 + 48)	-	3,600
	1,33,440	40,320
Less: Unrealised profit on stock	-	160
	1,33,440	40,160

(v) Mutual owing regarding bills = ₹(600 – 180) lakhs = ₹420 lakhs.

(vi) Unrealised profit

$= 800x\frac{25}{125}$ Lakhs

= ₹ 160 lakhs

(vii) Amount of dividend wrongly credited to Profit and Loss A/c
= 60% of ₹3,000 lakhs = ₹1,800 lakhs.

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.

Summarised 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	
	3	Non-current liabilities			

		(a) Long-term borrowings	3	2,00,000	
	4	Current Liabilities			
		(a) Trade payables	4	85,000	
		(b) 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	
		(b) Non-current investments	8	2,50,000	
		(c) Long-term loans and advances	9	1,00,000	
		(d) Other non-current assets	10	40,000	
	2	Current assets			
		(a) Inventories	11	1,70,000	
		(b) Trade receivables	12	1,55,000	
		(c) Cash and cash equivalents	13	4,04,960	
		(d) 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 March, 2012**	**As at 31st 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:

Summarized 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	-
	2	Share Application money pending allotment		19,36,500	-
	3	**Current liabilities**			
		(a) Trade payables	3	3,90,000	-
		TOTAL (1+2+3)		23,26,500	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	12,30,500	-
	2	**Current assets**			
		(a) Inventories	5	2,70,000	-
		(b) Trade receivables	6	6,30,000	-
		(c) Cash and cash equivalents	7	1,46,000	-
		(d) Other current assets	8	50,000	-
		TOTAL (1+2)		23,26,500	-

Notes to Accounts

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 Sept, 2012	As at 30th 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 1.4.1995	2,00,000	1,00,000
	Less: Depreciation (5% p.a.)	5,000	2,500
		1,95,000	97,500
(2)	Machinery		
	As on 1.4.1995	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 1.4.1995	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. 8(c)

Sky Ltd., as listed company, entered into an expansion programme on 1st October,2011. On that date the company purchased from Cloud Ltd. its investments in two Private Limited Companies. The purchase was of

(a) the entire share capital of Sun Ltd.

And

(b) 50% of the share capital of Moon Ltd.

Both the investments were previously owned by Cloud Ltd. after acquisition by Sky Ltd., Moon Dry Ltd. was to be run by Sky Ltd. and Cloud Ltd. as a jointly controlled entity.

Sky Ltd. makes its financial statements up to 30th September each year. The terms of acquisition were :

Sun Ltd.

The total consideration was based on price earning ratio (P/E) of 12 applied to the reported profit of ₹ 20 Lakhs of Sun Ltd. for the 30th Sept. 2011. The consideration was settled by Sky Ltd. issuing 8% debentures for ₹ 140 lakhs (at par) and the balance by a new issue of ₹ 1 equity shares, based on its market value of ₹ 2.50 each.

Moon Ltd.

The market value of Moon Ltd. on first Oct, 2011 was mutually agreed as ₹375 lakhs. Sky Ltd. satisfied its share of 50% of this amount by issuing 75 lakhs ₹1 equity shares (market value ₹2.50 each) to Cloud Ltd.

Sky Ltd. has not recorded in its books the acquisition of the acquisition of the above investments or the discharge of the consideration.

The summarized statements of financial position of the three entities at 30st Sept,2012 are:

₹ in thousands

Assets	**Sky Ltd.**	**Sun Ltd.**	**Moon Ltd.**
Tangible Assets	**34,260**	**27,000**	**21,060**
Inventories	**9,640**	**7,200**	**18,640**
Debtors	**11,200**	**5,060**	**4,620**
Cash	**--**	**3,410**	**40**
	55,100	**42,670**	**44,360**
Liabilities			

Equity Capital: ₹ 1 each	**10,000**	**20,000**	**25,000**
Retained earnings	**20,800**	**15,000**	**4,500**
Trade and other payables	**18,660**	**5,270**	**14,100**
Provision for taxes	**5,640**	**2,400**	**760**
	55,100	**42,670**	**44,360**

The following information is relevant.

(a) The book values of net assets of Sun Ltd. and Moon Ltd. on the date of acquisition were considered to be a reasonable approximation to their fair values.

(b) The current profits of Sun Ltd. and Moon Ltd. for the year ended 30th Sept, 2012 were ₹80 lakhs and ₹20 lakhs respectively. No dividends were paid by any of the companies during the year.

(c) Moon Ltd., the jointly controlled entity, is to be accounted for using proportional consolidation, in accordance with AS 27 "Interests in joint venture".

(d) Goodwill in respect of the acquisition of Moon Ltd. has been impaired by ₹10 lakhs at 30th Sept, 2012. Gain on acquisition, if any, will be separately accounted.

Prepare the consolidated Balance Sheet of Sky Ltd. and its subsidiaries as at 30th Sept,2012.

Solution:

Consolidated Balance Sheet of Sky Ltd. With its Subsidiary Sun Ltd. and Jointly controlled Moon Ltd. As at 30th Sept, 2012

₹ in thousand

Particulars	**Note No.**	**Figures as at the end of current reporting period**	**Figures as at the end of previous reporting period**
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	21,500	—
(b) Reserves and Surplus	2	49,050	—
(2) Non-current liabilities :			
(a) Long-term borrowings	3	14,000	—
(3) Current Liabilities :			
(a) Trade Payables	4	30,980	—
(b) Short-term provisions	5	8,420	—
Total		**1,23,950**	**—**
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	6	71,790	—
(ii) Intangible assets	7	4,000	—
(2) Current assets :			
(a) Inventories	8	26,160	—
(b) Trade receivables	9	18,570	—
(c) Cash and Cash equivalents	10	3,430	—
Total		**1,23,950**	**—**

Note 1. Share Capital

Particulars	Amount (₹ in thousand)
Equity Share Capital (₹ 10,000+ ₹4,000+ ₹ 7,500) (Out of the above 11,500 thousand shares have been issued for consideration other than cash)	21,500
Total	21,500

Note 2. Reserves and Surplus

Particulars	Amount (₹ in thousand)
Retained Earnings (W.N 4)	28,800
Capital Reserve (W.N 5)	3,000
Securities Premium	17,250
Total	49,050

Note 3. Long term Borrowings

Particulars	Amount (₹ in thousand)
8% debentures	14,000
Total	14,000

Note 4. Trade Payables

Particulars	Amount (₹ in thousand)
Trade and other payables (₹18,660+ ₹ 5,270 + ₹ 7,050)	30,980
Total	30,980

Note 5. Short term Provision

Particulars	Amount (₹ in thousand)
Provision for taxes (₹ 5,680+ ₹2,400 + ₹380)	8,420
Total	8,420

Note 6. Tangible assets

Particulars	Amount (₹ in thousand)
Tangible assets (₹34,260+ ₹27,000+ ₹10,530)	71,790
Total	71,790

Note 7. Intangible Assets

Particulars	Amount (₹ in thousand)
Goodwill (W.N 6)	4,000
Total	4,000

Note 8. Inventories

Particulars	Amount (₹ in thousand)
Inventories (₹9,640 + ₹ 7,200 + ₹ 9,320)	26,160
Total	26,160

Note 9. Trade Receivables

Particulars	Amount (₹ in thousand)
Debtors (₹11,200 + ₹ 5,060 + ₹ 2,310)	18,570
Total	18,570

Note 10. Cash and Cash Equivalents

Particulars	Amount (₹ in thousand)
Cash [(₹3,412 + ₹20) Less Overdraft ₹ 1,540]	1,890
Total	1,890

Working Notes :

1. Purchase consideration paid to Sun Ltd.

Earnings per share for the year 30th Sept. ,2011

$$= \frac{20,00,000}{2,00,00,000} = ₹0.10 \text{ per share}$$

Market price per share = ₹ 0.10 x 12 (i.e. P/E ratio) = ₹ 1.20 per share

Purchase consideration to be paid as under:

8% Debentures	₹14,000 thousand
Equity Shares	₹10,000 thousand
Purchase consideration paid to Sun Ltd. will be	₹24,000 thousands.

2. Consideration Paid to Moon Ltd.

	₹ in thousands
Total market value (as given)	37,500
50% Shares acquired by Sky Ltd. (75,00,000shares @ ₹2.50 each)	18,750

3. Analysis of retained earnings of Sun Ltd. as on 30.09.2012

	₹ in thousands
Retained earnings given in balance sheet on 30.09.2012	15,000
Less: Current profits for the year ended 30.09.2012 (Post acquisition)	8,000
Pre acquisition retained earnings	7,000

Sky Ltd. has 100% share in pre acquisition profits of Sun Ltd.

4. Retained earnings in the consolidated Balance Sheet

	₹ in thousands
Balance in Sky Ltd. balance sheet	20,800
Add: Share in post acquisition profits of Sun Ltd.	8,000
Add: Share in post acquisition profits of Moon Ltd. (joint venture)	1,000
	29,800
Less: Goodwill (written off)	1,000
	28,800

5. Capital Reserve

		₹ in thousands
Amount Paid		24,000
Less: Paid up value of shares	20,000	

Pre-acquisition profit	7,000	27,000
Capital Reserve		3,000

6. Goodwill

	₹ in thousands
Amount paid for shares of Moon Ltd. (₹ 37,500 × 50%) Less: Paid up value of shares (₹25,000 × 50%) Pre- acquisition profit (₹2,500 × 50%)	18,750 12,500 1,250
Goodwill Less: Impairment (Written off)	5,000 1,000
	4,000

Question No.9 (a)

The summarized 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, 2013.

Solution:

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

Ref No.	Particulars		Note No.	As at 31st March,2012	As at 31st March,2011
	1	**EQUITY AND LIABILITIES**			
		(a) Share capital	1	5,50,000	
		(b) Reserves and surplus	2	1,22,275	
	2	**Minority Interest (W.N.3)**		98,675	
	3	**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)		**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	
		(b) Non-current investments	9	99,000	
	2	**Current assets**			
		(a) inventories	10	1,16,200	
		(b) trade receivables	11	1,71,000	

		(c) Cash and cash equivalents	12	43,500	
		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 March,2012**	**As at 31st 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)] **Less:** Cost of Investment	 7.50 (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)

Discuss the concept of Triple Bottom Line Reporting.

Answer:

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

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

The concept of TBL does not mean that companies are required to maximise returns across three dimensions of performance - in terms of corporate performance, it is recognized that financial performance is the primary consideration in assessing its business success.
• An expanded spectrum of values and criteria for measuring organizational and societal success - economic, environmental, social.
• In the private sector, a commitment to CSR implies a commitment to some form of TBL reporting.
The Triple Bottom Line is made up of "Social, Economic and Environmental"

"People, Planet, Profit "
The trend towards greater transparency and accountability in public reporting and communication is reflected in a progression towards more comprehensive disclosure of corporate performance to include the environmental, social and economic dimensions of an entity's activities.
Reporting information on any one or more of these three elements is referred to as TBL (Triple Bottom Line) Reporting. This trend is being largely driven by stakeholders, who are increasingly demanding information on the approach and performance of companies in managing the environmental and social/community impact of their activities and obtaining a broader perspective of their economic impact.

Question No.10(b)

(i) Define a Financial Instrument. Give examples

Answer:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Examples of financial instruments:
- financial investments - like, listed and unlisted debt securities; listed equity securities; private equity and other unlisted equity investments
- originated and purchased loans
- repurchase agreements and securities lending/borrowing transactions
- derivative instruments (whether held for trading or hedging purposes)
- trade and other receivables
- cash and cash equivalents
- trading liabilities (short provisions and derivatives with negative fair values)
- trade and other payables and accruals
- current and long-term bank borrowings
- Bonds, debentures and notes issued.

(ii) Define derivatives instrument

Answer:

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

(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. 10(c)

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

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

Question No. 10(d)

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.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?

Answer:

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

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

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

Answer:

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

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

Question No.11(c)

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.11(d)

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.12 (a)

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

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

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

Average Annual earning after tax	**Number of Option per employee**
Less than ₹100 crores	**NIL**
₹100 crores to less than ₹120 crores	**30**
₹ 120 crores to less than ₹150 crores	**45**
Above ₹150 crores	**60**
Position on 31.03.2010	**Position on 31.03.2011**
• **The Company expects to earn ₹115 crores after tax on average per year during vesting period.** • **No. of employees expected to be entitled to option = 280**	• **The Company expects to earn ₹130 crores after tax on average per year during vesting period.** • **No. of employees expected to be entitled to option = 270**
Position on 31.03.2012	**Position on 31.07.2012**
• **The Company earned ₹128 crores after tax on average per year during vesting period.** • **No. of employees entitled to option = 275**	• **No. of employees excercising option = 265**

Compute expenses to recognize in each year.

Solution:

A. Expense for 2009-10

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

B. Expense for 2010-11

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

C. Expense for 2010-11

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

D. Forfeiture in 2012-13 and Transfer General Reserves

Total Eligible Employee	275
Less: Employees Exercising the option	265
Employees forfeiting their rights	10
No. of shares under option per employee	45
Number of shares forfeited	450
Fair value of the Option Forfieted 450 shares ×₹20	9,000

Question No.12 (b)

What is Sustainability Reporting?

Answer:

A sustainability report is an organizational report that gives information about economic, environmental, social and governance performance.
For companies and organizations, sustainability – the capacity to endure, or be maintained – is based on performance in these four key areas.
An increasing number of companies and organizations want to make their operations sustainable. Establishing a sustainability reporting process helps them to set goals, measure performance, and manage change. A sustainability report is the key platform for communicating positive and negative sustainability impacts.
To produce a regular sustainability report, organizations set up a reporting cycle – a progMadhu of data collection, communication, and responses. This means that their sustainability performance is monitored on an ongoing basis. Data can be provided regularly to senior decision makers to shape company strategy and policy, and improve performance. Sustainability reporting is therefore a vital step for managing change towards a sustainable global economy – one that combines long term profitability with social justice and environmental care Sustainability reporting can be considered as synonymous with other terms for non-financial reporting; triple bottom line reporting, corporate social responsibility (CSR) reporting, and more. It is also an intrinsic element of integrated reporting ; a recent development that combines the analysis of financial and non-financial performance.
A sustainability report enables companies and organizations to report sustainability information in a way that is similar to financial reporting. Systematic sustainability reporting gives comparable data, with agreed disclosures and metrics.
Major providers of sustainability reporting guidance include:

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

Benefits:
An effective sustainability reporting cycle should benefit all reporting organizations.
Internal benefits for companies and organizations can include:

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

External benefits of sustainability reporting can include:

- Mitigating - or reversing - negative environmental, social and governance impacts
- Improving reputation and brand loyalty
- Enabling external stakeholders to understand company's true value, and tangible and intangible assets
- Demonstrating how the organization influences, and is influenced by, expectations about sustainable development.

Question 12(c)

Venus Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2014 at ₹1000 lakhs. As at that date the value in use is ₹ 800 lakhs and the net selling price is ₹750 lakhs.
From the above data :
(i)Calculate impairment loss.
(ii) Prepare journal entries for adjustment of impairment loss.
(iii)Show, how impairment loss will be shown in the Balance Sheet.

Solution:

(i) Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Thus, Impairment loss = Carring amount – Recoverable amount*****

= ₹ 1000 lakhs – ₹ 800 lakhs = ₹ 200 lakhs

*****Recoverable amount is higher of asset's net selling price ₹ 750 lakhs and its value in use ₹800 lakhs.

∴ Recoverable amount = ₹800 lakhs

(ii) **Journals**

	Particulars	***Dr.*** **Amount ` in lakhs**	***Cr.*** **Amount ` in lakhs**
(a)	Impairment loss A/c Dr. To Assets A/c (Being the entry for accounting impairment loss)	200	200
(b)	Profit and loss A/c Dr. To Impairment loss A/c (Being the entry to transfer impairment loss to profit and loss account)	200	200

(iii)

Balance Sheet of Venus Ltd. as on 31.3.2014	**` in lakhs**
Fixed Assets	1000
Asset less depreciation	200
Less: Impairment loss	800

Question 12(d)

(i) Ashmit Ltd. entered into a sale deed for its immovable property before the end of the year. But registration was done with registrar subsequent to Balance Sheet date. But before finalisation, is it possible to recognise the sale and the gain at the Balance Sheet date? Give your view with reasons.

(ii) A private limited company manufacturing fancy terry towels had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyer. Comment on the valuation of the stocks by the company.

(iii) During the year, the Software division supplied a special program for a foreign firm on a consideration of ₹200 lakhs. It was found on June 1st, 2013 that the foreign firm has become bankrupt. The company had received an advance of ₹100 lakhs in the year ended 31st March, 2013 from the foreign firm. Please discuss.

Solution (i)

Yes, it is possible for Ashmit Ltd. to recognise the sale and the gain at the balance sheet date according to AS 9 'Revenue Recognition'. It is evident that the significant risks and rewards of ownership had passed before the balance sheet date and the delay in transfer of property was merely because of formality in getting the transfer deed registered. Further the registration post the balance sheet date confirms the condition of sale at the balance sheet date as per AS 4 'Contingencies and Events occurring after the Balance Sheet Date'.

Solution (ii)

Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realisable value. AS 9 on "Revenue Recognition" states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at Net-realisable value."
Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net-realisable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

Solution (iii)

Sales to foreign firm: This is an event occurring after the balance sheet date and the accounts are only at draft stage. In accordance with para 13 of AS-4 (Revised) on Contingencies and Events Occurring after the Balance Sheet Date, adjustments to assets and liabilities are required. Hence the sum of ₹ 100 lakhs (₹ 200 lakhs – advance of ₹100 lakhs) should be provided for by way of provision for bad debts.

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. 13(c)

On 1st April, 2014 Good Morning Ltd. offered 100 shares to each of its 550 employees at ₹50 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan (ESPP) shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant dated is ₹ 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹56 per share.
On 30th April, 2014 , 400 employees accepted the offer and paid ₹30 per share purchased . Normal value of each share is ₹ 10.
Record the issue of shares in the books of the company under the aforesaid plan.

Solution:

Fair value of an ESPP = ₹ 56 - ₹ 50 = ₹ 6.00
Number of shares issued = 400 employees X 100 shares / employee= 40,000 shares
Fair value of ESPP which will be recognized as expenses in the year 2014-2015
= 40,000 shares × ₹ 6 = ₹ 2,40,000
Vesting period = 1 month
Expenses recognized in 2014-2015 = ₹ 2,40,000

Journals

Date	Particulars	Dr. ₹	Cr. ₹
30.04.2014	Bank A/c (40,000 shares X ₹50) Dr. Employees compensation expenses A/c Dr. To, Share Capital A/c (40,000 shares X ₹ 10) To, securities Primium (40,000 shares X ₹ 46) (Being shares issued under ESPP @ ₹ 50.00)	20,00,000 2,40,000	 4,00,000 18,40,000

Question No. 13(d)

Beautiful Ltd. acquired 30% of Ugly Ltd. Shares for ₹4,00,000 on 01-06-2013. By such an acquisition Beautiful Ltd. can exercise significant influence over Ugly Ltd. During the financial year ending on 31.03.2013 Ugly Ltd. earned profits ₹ 1,60,000 and declared a dividend of ₹1,00,000 on 12.08.2013. Ugly Ltd. reported earnings of ₹6,00,000 for the financial year on 31.03.2014 and declared dividends of ₹1,20,000 on 12.06.2014.
Calculate the carrying amount of investment in :
(i) Separate financial statements of Beautiful Ltd. as on 31.03.2014
(ii) Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2014
(iii) What will be the carrying amount as on 30.06.2014 in consolidated financial Statements?

Solution:

(i) Carrying Amount of Investment in Separate Financial Statement of Beautiful Ltd. as on 31.03.2014

	₹
Amount paid for investment in Associate (on 1.06.2013)	4,00,000
Less: Pre- acquisition dividend (₹1,00,000 X 30%)	30,000
Carrying amount as on 31.03.2014 as per AS 13	3,70,000

(ii) Carrying Amount of Investment in Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2014 as per AS 23

	₹
Carrying amount as per separate financial statement	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 31.03.2014	5,50,000

(iii) Carrying Amount of Investment in Consolidated Financial Statement of Beautiful Ltd. as on 30.06.2014 as per AS 23

	₹
Carrying amount as on 31.03.2014	5,50,000
Less: Dividend Received received (₹ 1,20,000 X 30%)	36,000
Carrying amount as on 30.06.2014	5,14,000

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.

Summarized 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		341
Add: Other income		55
Total value added		396

Application of Value Added

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

Statement showing reconciliation of Gross Value Added with Profits before taxation

₹ in lakhs

Profits before taxes		225
Add:		

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

Working Note:
Calculation of Excise Duty
Say cost of bought in materials and services is 'x'
Excise Duty is 10% of x = x/10
x = 461 + 24 + 9 + x/10
x = 494 + x/10 = 549 (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.14 (c)

Answer:

State the principles of derecognition of Securitised Asset in the books of Originator.

(i) Derecognition Criterion: Securitised Assets should be **derecognized** in the Originator's Books, if and only if the Originator loses control of the contractual rights that comprise the securitised asset, either by a single transaction or by a series of transactions taken as a whole. The Originator loses such control if it surrenders the rights to benefits specified in the contract.

(ii) Analysis of Conditions: Whether or not the Originator has lost control over the securitised asset should be determined on the basis of the facts and circumstances of the case by considering all the evidence available. If the position of either the Originator or SPE indicates that the Originator has retained control, the Originator **should not remove** the securitised asset from its balance sheet.

(iii) No Loss of Control: The Originator will not be deemed to have lost control over the securitized asset, in each of the following cases – *(Hence, derecognition may not be permissible in the following cases)*

- **Creditors' Rights:** Creditors of the Originator are entitled to attach or otherwise deal with the securitised assets;
- **No Rights to SPE:** SPE does not have the right (to the extent it was available to the Originator) to pledge, sell, transfer or exchange for its own benefit the securitised asset;
- **Resumption of Control:** Originator has the right to reassume control of the securitised asset except –
  - Where it is entitled to do so by a Call Option, where such Call Option can be justified on its own commercial terms as a separate transaction between the SPE

and the Originator, e.g. Where the Call Option is exercisable at fair value of the asset on the date of exercise of the Option; or

- Where it is entitled to do so by a Clean-up Call Option.

(d) Originator's Obligation of Repurchase:

(i) Obligation Only: Sometimes the securitised asset may be beyond the control of the Originator, but the Originator may be under an obligation (not an entitlement) to repurchase the Securitised Asset at a later date, at a specified price. Such obligation accepted by the Originator should be accounted for as per AS - 4 and a provision should be created for the contingent loss arising from the obligation.

(ii) Obligation-cum-Entitlement: Where the Originator is both entitled and obligated to repurchase the securitised asset at a pre-determined price, the Originator has not lost control over the securitised asset. So, it **should not be removed (i.e. should not be derecognized)** from the Originator's Balance Sheet.

Question No.15 (a)

Mr. Investor buys a stock option of Z Ltd. in July 2012 with a Strike Price on 30th July, 2012 ₹350 to be expired on 30th August, 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:

(a) the option is settled by delivery of the asset, and

(b) the option is settled in cash and the Index price is `360 per unit.

Solution: **Journal Entries in the Books of Investor/Buyer**

1. When the option is settled by delivery of the asset

S. No.	Particulars	Debit ₹	Credit ₹
1 30.7.12	Equity Stock Option Premium (Z Ltd.) A/c Dr. To Bank Account (Being Premium Paid on Stock Option of Z Ltd. purchased at ₹20 per unit for 100 units constituting one lot)	2,000	 2,000
2 30.8.12	Equity Shares of Z Ltd. A/c Dr. To Bank A/c (Being Call Option exercised and the shares acquired)	35,000	 35,000
3 30.8.12	Profit & Loss A/c Dr. To Equity Stock Option Premium A/c (Being Premium on option written off on exercise of option)	2,000	 2,000

Note: No entries have passed in respect of Margin Payments. This is because, the buyer of the option contract is not required to pay any margins.

2. When the option is settled in cash and the Index Price is ₹ 260 per unit

S.No.	Particulars	Debit ₹	Credit ₹
1 30.7.12	Equity Stock Option Premium (Z Ltd.) A/c Dr. To Bank Account (Being Premium Paid on Stock Option of Z Ltd. purchased at ₹20 per unit for 100 units constituting one lot)	2,000	 2,000
2 30.8.12	Bank A/c Dr. To Profit & Loss A/c (Being the profit on exercise of option received. Profit = Market Lot of 100 x (Index Price of ₹360 Less Strike Price of ₹350)	1,000	 1,000
3 30.8.12	Profit & Loss A/c Dr. To Equity Stock Option Premium (Being Premium on option written off on exercise of option)	2,000	 2,000

Question No.15 (b)

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

Answer:

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

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

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

Question No.15 (c)

State the differences between Equity Index Options and Equity Stock Options.

Answer:

Difference between Equity Index Options and Equity Stock Options.

Particulars	Equity Index Options	Equity Stock Options
Meaning	Derivative instruments whereby a person gets the right to buy/sell an agreed amount of equity index on the specified future date.	Derivative instruments whereby a person gets the right to buy/sell an agreed amount of equity stock on or before the specified future date.
Underlying Asset	Equity Index itself.	Equity Shares of a Company.
Time of Settlement	European Style, i.e., Buyer/Holder can exercise his option **only on the day on which the option expires.**	American Style, i.e., the Buyer/Holder can exercise his option at any time before the expiry date or on the date of expiry itself.
Mode of Settlement	Since delivery cannot be made, the difference between the strike/exercise price and the value of the index on the maturity date, is paid or received in cash.	Settlement either through delivery of shares or by payment of the difference between strike/exercise price and the value of the share in cash

Question No. 15(d)

Briefly discuss inspection of Stock Broker's books by SEBI.

Answer:

SEBI may appoint one or more persons as inspecting authority to inspect the books of account, and other records and documents of the Stock Brokers for –

(a) Ensuring that books of accounts and other books are being maintained in the manner required;

(b) To confirm compliance with the statutory requirements under Act, Rules and Regulations;

(c) Investigating into the complaints received from investors, other stock brokers, sub-brokers or any other person on any matter affecting the stock-broker's activities.

(d) Investigating in the interest of Securities Business or Investor's interest into the affairs of Stock Brokers.

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.

Answer:

Accounting entries in the books of buyer

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

Question No. 16(c)

Write short notes on maintenance of Books of Account by Stock Brokers.

Answer:

I. Required by Statute: A Members is required to maintain the following books as per Rule 15 of Securities Contracts (Regulation) Rules, 1957, and Rule 17 of SEBI (Stock Brokers and Sub-Brokers) Rules, 1992 –

a. Transactions Register (Sauda Book) / Daily Transaction List.

b. Clients Ledger and General Ledger.

c. Journals and Cash Book.

d. Bank Pass Book.

e. Securities Inward – Outward Register for particulars of Shares / Securities received and delivered.

f. Members' Contract Book for all contracts entered into by him with other Members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other Member.

g. Counterfoils/Duplicates of Contract Notes issued to Clients.

h. Written Consent of Clients in respect of contracts entered into as principles.

i. Margin Deposit Book.

j. Register of Accounts of Sub-Brokers.

k. Agreement with a Sub-Broker giving the scope of authority and responsibilities of the Stock-Broker & such Sub-Brokers.

II. Required by the Exchange: The following additional books / documents / registers may be required under the Rules /Regulations / Bye-Laws of the concerned Stock Exchange –

a. Copies of all Margin Statements downloaded from the Exchange.

b. Copies of Spot Delivery Transactions entered into (including securities delivered and payments made to Members).

c. Client Database and Broker Client Agreement.

d. Copy of Registration Certificate of each sub-Broker issued by SEBI.

e. Copy of approval for each Remisier given by the Exchange.

f. Copy of Power of Attorney / Board Resolution authorizing Directors / Employees to sign Contract Notes.

g. Copies of Pool Account Statements.

III. Other Conditions:

(a) A Member should maintain separate sets of books of accounts / documents / records, if he holds membership – (i) of any other recognized Stock Exchange, or (ii) in a different segment of the same Stock Exchange.

(b) A member should intimate of SEBI, the place where the books of accounts, records and documents are maintained.

The books of accounts and other records maintained under Regulation 17 should be preserved for a minimum period of 5 years.

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.17 (c)

Write notes on Liquid Asset Requirements of NBFCs.

Answer:

I. Minimum Liquid Assets: NBFCs accepting public deposits should maintain Liquid Assets the minimum level of 15% of public deposits outstanding as on the last working day of the second preceding quarter. [Section 45 – IB of RBI Act]

II. Break Up for Minimum Level:

(a) Government Securities / Guaranteed Bonds: Of this minimum level, not less than 10% must be invested in approved securities i.e. in Government Securities or Government Guaranteed Bonds. The liquid assets in form of investments in approved Securities must be maintained in dematerialized form only.

(b) Term Deposits: The remaining 5% of Minimum Liquid Assets can be invested in unencumbered Term Deposits with any Scheduled commercial Bank.

III. Utilisation: The Liquid Assets maintained as above are utilized for payment of claims of depositors. However, the Deposits being unsecured, the depositors do not have any direct claim on Liquid Assets.

Question No.17 (d)

Write notes on Asset Liability Management.

Answer:

I. Definition: Asset Liability Management (ALM) is a **Risk Management Tool** that helps a bank or NBFC **to manage its liquidity risk and interest rate risk**. This helps Banks or NBFCs plan Long Term Financial, Funding and capital Strategy using present value Analysis.

II. Application / Uses of ALM:

(a) With ALM, a bank or NBFC can model interest income and expenses for analysis and re-price Assets and Liabilities.

(b) Based on ALM position, Banks or NBFCs can also model effects of Competitive pricing to create innovative and imaginative Banking products.

(c) ALM also helps regulatory compliance for Banks or NBFCs by through appropriate investment or Disinvestment Decisions to maintain the required Statutory Liquidity ratio (SLR), credit reserve Ratio (CRR) and other ratios specified by RBI Guidelines.

III. Components of ALM: ALM involves Structural Liquidity Gap Analysis, Interest rate gap analyses Duration Gap analysis, Trend Analyses, comparative analysis, Present Value Analysis, Forward analysis and Scenario Analysis.

Question No.18 (a)

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

Conversion option to holder at the end of 3 years. Consideration - ₹122 lacs.
Give required accounting treatments taking the debenture as an embedded derivative instrument.

Answer:

Fair value of debt = ₹12 x 3.791 + ₹100 x 0.621
= ₹45.49 + ₹62.10
= ₹107.59

Now, the total consideration will be divided in two parts
Liability = ₹107.59 issuer prospective
Equity = ₹14.41

Date	Particular	Debit ₹	Credit ₹
31.03.2012	Bank A/c Dr. To, To Liability To, Equity (security premium)	122	 107.59 14.41

	In the Books of Investors		
	Investment in debt A/c Dr. Investment in Derivative A/c Dr. To Bank A/c	107.59 14.41	 122

Question No.18 (b)

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

	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.18 (c)

What are the principles relating to Asset Classification and Provisioning for NPA in NBEC's

Answer:

Principles relating to Asset Classification and Provisioning for NPA in NBEC's

I. Classification: Every NBFC shall, after taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realization, classify its lease/ hire purchase assets, loans and advances and any other forms of credit into –

(a) Standard Assets;

(b) Sub – Stander Assets;

(c) Doubtful Assets; and

(d) Loss Assets.

Note: The above class of assets shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.

II. Provisioning requirements: Every NBFC shall, after taking into account the time lag between an account becoming non- performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against – (a) Sub-Standard Assets, (b) Doubtful Assets and (c) Loss Assets as under –

(a) For Loans, Advances and other credit facilities including Bills Purchased and Discounted

Type of Asset	**Provisioning Norms**
(1) Sub- Standard Assets	10% of Total outstanding.
(2) Doubtful Assets	• 100% of the Unsecured portion i.e. extent to which the advance is not covered by the realizable value of the security; • Additional Provision as under – <u>Period for which the Asset is doubtful Additional Provision</u> Upto 1 year 20% of Secured portion. 1-3 years 30% of Secured portion More than 3 years 50% of Secured portion
(3) Loss Assets	The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding should be provided for.

(b) Lease and HP Assets:

- **Basic Provision**: In respect of HP assets, provision should be made for the total dues (overdue and future installments taken together) as reduced by – (a) Finance charges not credited to P & L Account and carried forward as unmatured finance charges; and (b) depreciated value of the underlying asset. For provisioning purpose, depreciated value of the asset shall be notionally computed as original / Actual cost Less depreciation at 20% p.a. on SLM basis.
- **Additional Provision:** For lease and Hp Assets, additional provisioning will be as under –

Type of Asset	Period of overdue	Provisioning Norms
(1) Sub- Standard Assets	More than 12 months but up to 24 months	10% of Net Book Value.

(2) Doubtful Assets	More than 24 months but up to 36 months More than 36 months but up to 48 months	40% of Net Book Value. 70% of Net Book Value.
(3) Loss Assets	More than 48 months	100% of Net Book value.

Note: On expiry of a period of 12 months after the due date of the last installment of hire purchase / leased asset, the entire Net Book Value shall be fully provided for.

Additional Points:

- Caution Money / Margin Money or Security Deposits kept by the borrower with the NBFC in pursuance of the HP agreement may be deducted against the basic provision, if not already taken into account while arriving at the EMI's under the agreement. The value of any other security available in pursuance to the HP agreement may be deducted only against the additional provisions.
- Security Deposits kept by the borrower with the NBFC in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement may be deducted only against the additional provisions described above.
- Income Recognition on and provisioning against NPAs are two different aspects of prudential norms. The fact that income on an NPA has not been recognised cannot be taken as reason for not making provision.
- An asset which has been renegotiated or rescheduled shall be as sub- standard asset or continue to remain in the same category in which it was prior to its renegotiation or reschedulement as a doubtful asset or a loss asset as the case may be. Necessary provision is required to be made as applicable to such asset till it is upgraded.

III. Disclosed of Provisions in the Balance Sheet:

(a) Every NBFC shall separately disclose in its Balance Sheet the provisions made as above without netting them from the income or against the value of assets. The provisions shall be distinctly indicated under separate heads of accounts as – (i) provisions for bad and doubtful debts; and (ii) provisions for depreciation in investments.

(b) Such provisions shall not be appropriated from the General Provisions and Loss Reserves held, if any, by the NBFC.

(c) Such provisions for each year shall be debited to the P&L Account. The excess of provisions, if any, held under the heads "General Provisions and Loss Reserves" may be written back without making adjustment against them.

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		**Goodwill**	**50,000**
Subscribed Capital :		**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	
	2	Current Liabilities			
		(a) Trade payables	3	2,40,000	
		(b)Other current liabilities	4	50,000	
		Total		**7,45,000**	
	II.	**Assets**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	2,43,000	
	2	Current assets			
		(a) Inventories	6	1,32,000	
		(b) Trade receivables	7	2,35,000	
		(c) Cash and cash equivalents	8	1,35,000	
		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.19 (c)

What are the accounting issues involved in Environmental Accounting?

Answer:

Major Accounting Issues in Environmental Accounting are –

(i) **Environmental Expenditure vs. Normal Business Expenditure:** Many machines may have state-of-the-art environmental technology. Hence, a portion of such capital costs and also the running and maintenance expenditure may be treated as environment related expenditure. There should be proper guidelines for allocating the capital and revenue expenditures between Environmental Expenditure and Normal Business Expenditure.

(ii) **Capitalisation vs. Charging Off of Environmental Expenditure:** Environmental protection costs relating to prior periods and current period are generally very high. If these are expensed off in one year, EPS may be adversely affected. Some Companies may capitalise such expenditure and amortise the same over say 10 years. Uniformity is required for comparative analysis of Financial Statements.

(iii) **Recognition of Environment related Contingent Liabilities:** Environmental Contingent Liabilities are a matter of increasing concern. Recognizing a liability for hazardous waste remediation frequently depends on the ability to estimate remediation costs reasonably. Developing a reliable estimate requires evaluation of technological, regulatory and legal factors, each of which calls for exercise of management judgement to reach a supportable accounting conclusions.

Question No. 19(d)

Why Human Resources are not recognized as an asset in the Balance Sheet?

Answer:

Human Resource is generally not recognized in the Balance Sheet due to the following reasons -

(i) Difficulty in Measurement: An asset to be recognized in the Balance Sheet should be measured first. An asset is generally valued / measured based on cost of acquisition or expected future benefits. Generally human resources are not bought, but only hired. Future benefits can be measured tangibly for machineries, furniture as their performance follows predictable lines. However, human nature and performance is generally not on predictable lines.

(ii) Subjectivity: The various models of Human Resources Valuation deal with capitalisation of Historical Costs, Replacement Costs, Estimated Future Earnings etc. The amounts associated with such costs, and also the determination of various probabilities and discount rates are subjective in nature.

(iii) Timing: Unlike the owned physical resources (Fixed Assets), the Company does not "own" the human resources as such. Hence, the timing as to when such resources should be recognised in financial reporting, is an issue to be addressed.

(iv) Human vs. Non-Human Capital: Traditional Accounting focusses on recognition of non-human capital i.e. physical resources. Entries in the P&L Account on Salaries and Wages are the only reference to Human Capital. The concept of capitalisation of Human Resources is not recognised in the accounting framework.

(v) Sensitive: Unlike physical resources, human assets are highly sensitive to the values placed on them.

(vi) Useful Life: Physical Resources have a defined Useful Life or Economic Life, which can be reasonably estimated by the Company. However, the duration of an individual serving the Company can only be determined probabilistically.

(vii) Qualitative Factors: All models of HR Valuation attempt to fix a monetary value on the Human Resources. Qualitative factors like attitude, morale, loyalty, commitment, job satisfaction, work culture, behavioural factors etc. are ignored.

Question No.20 (a)

Write a note on Methods of Government Accounting.

Answer:

The mass of the Government accounts being on cash basis is kept on Single Entry. There is, however, a portion of the accounts which is kept on the Double Entry System, the main purpose of which is to bring out by a more scientific method the balance of accounts in regard to which Government acts as banker or remitter, or borrower or lender. Such balances are, of course, worked out in the subsidiary accounts of single entry compilations as well but their accuracy can be guaranteed only by a periodical verification with the balance brought out in the double entry accounts.
Business and merchant accounting methods are different than government accounting system because government accounting system is ruling over the nation and keeps various departments i.e. production, service utility or entertainment industry etc. The operations of department of government sometimes include under taking of a commercial or quasi-commercial character and industrial factory or a store. It is still necessary that the financial results of the undertaking should be expressed in the normal commercial form so that the cost of the services or undertaking may be accurately known.

Question No.20 (b)

Write a note on IFRS.

Answer:

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

Question No.21 (a)

Discuss the process of Triple Bottom Line Reporting.

Answer:

The major steps involved in undertaking the reporting process are:

1. Planning for Reporting

• Understand the national, international and industry sector trends in Triple Bottom Line Reporting (TBL) reporting

• Identify key stakeholders

• Establish the 'business case' and set high-level objectives for TBL reporting

• Secure support from the Board and senior executives

• Identify resource requirements and determine budget

2. Setting the Direction for TBL Reporting

• Engage with stakeholders to understand their requirements

• Prioritise stakeholder requirements and concerns

• Set overall objectives for TBL reporting

• Review current approach and assess capability to deliver on reporting objectives

• Identify gaps and barriers associated with current approach, and prioritise risks associated with overall reporting objective

• Review of associated legal implications

• Develop TBL reporting strategy

• Determine performance indicators for inclusion in report

• Establish appropriate structure and content of the report

3. Implementation of TBL Reporting Strategy

• Implementation of TBL reporting strategy (including required data collection and review processes)

• Clarify relationship to statutory financial reporting

4. Publication of TBL Report

• Prepare draft report

• Review content and structure of report internally, and modify accordingly

• Obtain independent assurance - external verification

• Publish TBL report

• Seek feedback from stakeholders and incorporate into planning for the next period's reporting.

Question No.21 (b)

Summarized 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)]	

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

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

(c) Profit & Loss Account

	Balance as on 31.12.2012	6,00,000
Less:	Debenture Interest (10,00,000 x 8%)	(80,000)
Add:	Debenture Interest from P (2,00,000 x 8%)	16,000
Less:	Proposed Dividend (24,00,000 x 15% – Interim 1,20,000)	(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. Summarized 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 December,2012

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	1,500	-
		(b) Reserves and surplus	2	13,200	-
		(c)Money received against share warrants		-	-
				14,700	-
	2	**Minority Interest**		1,140	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	900	-
		(c) Other current liabilities		-	-
		(d) Short-term provisions		-	-
				900	-
		TOTAL (1+2+3+4)		16,740	-

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

Notes to Accounts

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

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

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

Total	900	
Note 4. Tangible assets	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Fixed Assets [1,500 +1,200 + 840(2,100×40%)]	3,540	
Total	3,540	

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

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

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

Working Notes :

1.Computation of Goodwill

S Ltd.(subsidiary)

		₹ in lakhs
Cost of Investment		1,200
Less :Paid up value of shares acquired	480	
Share in pre-acquisition profits of S Ltd. (780 × 80%)	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 Crop. has 60% shares in joint venture with Indra Crop. Mukta Crop. Sold a plant WDV of ₹80 lakhs for ₹100 lakhs. Calculate how much profit the NDA Crop. Should recognize in its book in case joint venture is

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

Solution:

As per AS – 27 (refer point 27.2) in case of jointly controlled operation and jointly controlled assets joint venture, the venture should recognize the profit to the extent of other venturer interest.
In the instant case, Mukta Crop. Should recognize profit of ₹(100 – 80) = ₹20 x 40/100 = ₹8 lakhs only.
However in case of jointly controlled entities Mukta Crop. Should recognize full profit of ₹20 lakhs in its separate financial statements. However while preparing consolidated financial statements it should recognize the profit only to the extent of 40% i.e. 8 lakhs.

Question No.23 (b)

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

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

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)

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

Answer:

XBRL stands for e**X**tensible **B**usiness **R**eporting **L**anguage. It is one of a family of "XML" languages which is becoming a standard means of communicating information between businesses and on the internet. XBRL provides major benefits in the preparation, analysis and communication of business information and is fast becoming an accepted reporting language globally. It offers major benefits to all those who have to create, transmit, use or analyse such information.

Potential XBRL applications:

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

Question No.25 (b)

(i) Advise P Co. Ltd. about the treatment of the following in the Final Statement of Accounts for the year ended 31st March, 2012.
A claim lodged with the Railways in March, 2009 for loss of goods of ₹ 2,00,000 had been passed for payment in March, 2012 for ₹ 1,50,000. No entry was passed in the books of the Company, when the claim was lodged.

(ii) The notes to accounts of X Ltd. for the year 2011-2012 include the following:
"Interest on bridge loan from banks and Financial Institutions and on Debentures specifically obtained for the Company's Fertiliser Project amounting to ₹ 1,80,80,000 has been capitalized during the year, which includes approximately ₹ 1,70,33,465 capitalised in respect of the utilization of loan and debenture money for the said purpose." Is the treatment correct? Briefly comment.

Solution:

(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)
Discuss the role of GASAB towards Government Accounting in India.

Answer:

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

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

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

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

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

Responsibilities of the Board

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

Question No.27 (b)

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

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

Answer:

(i) Guarantees given by Governments: Disclosure Requirements
The Union Government and the State Governments give Guarantees for repayment of borrowings within such limits, if any, as may be fixed upon the security of the Consolidated Fund of India or of the State, as the case may be, in terms of Articles 292 and 293 of the Constitution of India. Guarantees are also given by the Union Government for payment of interest on borrowings, repayment of share capital and payment of minimum annual dividend, payment against agreements for supplies of materials and equipments on credit basis on behalf of State Governments, Union Territories, local bodies, railways, government companies/ corporations, joint stock companies, financial institutions, port trusts, electricity boards and co-operative institutions. Guarantees are also given by the Union Government to the Reserve Bank of India, other banks and financial institutions for repayment of principal and payment of interest, cash credit facility, financing seasonal agricultural operations and for providing working capital in respect of companies, corporations, co-operative societies and co-operative banks. Further, Guarantees are also given in pursuance of agreements entered into by the Union Government with international financial institutions, foreign lending agencies, foreign governments, contractors and consultants towards repayment of principal, payment of interest and payment of commitment charges on loans. The Union Government also gives performance guarantees for fulfilment of contracts/projects awarded to Indian companies in foreign countries as well as foreign companies in foreign countries besides counter-guarantees to banks in consideration of the banks having issued letters of credit to foreign suppliers for supplies/ services made/ rendered by them on credit basis in favour of companies/ corporations. Furthermore, Guarantees are given by the Union Government to railways, and electricity boards for due and punctual payment of dues and freight charges by the companies and corporations. Similarly, Guarantees are also given by the State Governments.
As the statutory corporations, government companies, co-operative institutions, financial institutions, autonomous bodies and authorities are distinct legal entities, they are responsible for their debts. Their financial obligations may be guaranteed by a Government and thus the Government has a commitment to see that these are fulfilled. When these entities borrow directly from the market, it reduces a Government's budgetary support to them and the magnitude of a Government's borrowings. However, it adds to the level of Guarantees given by the Governments. In consideration of the Guarantees given by the Governments, the beneficiary entities are required to pay guarantee commission or fee to the Governments.

The Guarantees have an important economic influence and result in transactions or other economic flows when the relevant
Event or conditions actually occur. Thus guarantees normally constitute contingent liabilities of the Government.

Objective

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

Scope
This Standard applies to preparation of the Statement of Guarantees for inclusion and presentation in the Financial Statements of the Governments. Financial Statements should not be described as complying with this Standard unless these comply with all its requirements.
The Authority in the Government which prepares the Statement of Guarantees for inclusion and presentation in the Financial Statements shall apply this Standard. The Accounting Authority is responsible for inclusion and presentation of the Statement of Guarantees in the Financial Statements as provided by the Authority in the Government.

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

Answer:

Grants-in-aid are payments in the nature of assistance, donations or contributions made by one government to another government, body, institution or individual. Grants-in-aid are given for specified purpose of supporting an institution including construction of assets. The general principle of grants-in-aid is that it can be given to a person or a public body or an institution having a legal status of its own. Such grants-in-aid could be given in cash or in kind used by the recipient agencies towards meeting their operating as well as capital expenditure requirement.
Grants-in-aid are given by the Union Government to State Governments and by the State Governments to the Local Bodies discharging functions of local government under the Constitution. This is based on the system of governance in India, which follows three-tier pattern with the Union Government at the apex, the States in the middle and the Local Bodies (LBs) consisting of the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) at the grass root level. Accounts of these three levels of Government are separate and consequently the assets and liabilities of each level of government are recorded separately.
Grants-in-aid released by the Union Government to the State Governments are paid out of the Consolidated Fund of India as per Articles 275 and 282 of the Constitution. The Union Government releases grants-in-aid to the State/ Union Territory Government under Central Plan Schemes and Centrally Sponsored Schemes. Sometimes, the Union Government disburses funds to the State Governments in the nature of Pass-through Grants that are to be passed on to the Local Bodies. Funds are also released directly by the Union Government to District Rural Development Agencies (DRDAs) and other specialized agencies including Special Purpose Vehicles (SPVs) for carrying out rural development, rural employment, rural housing, other welfare schemes and other capital works schemes like construction of roads, etc.
The 73rd and 74th Constitutional Amendment Acts envisage a key role for the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) in respect of various functions such as education, health, rural housing, drinking water, etc. The State Governments are required to devolve funds, functions and functionaries upon them for discharging these functions. The extent of devolution of financial resources to these bodies is to be determined by the State Finance Commissions. Such funds received by the Local Bodies from the State Governments as grants-in-aid are used for meeting their operating as well as capital expenditure

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

Objective

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

Scope

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

Question No.28 (a)

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

Answer:

IGAS 3 - Cash Flow Statements

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

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

Objective

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

Scope

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

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

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

Benefits of Cash Flow Information

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

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

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

Question No.28(b)

Write short note on

(i) Consolidated Fund of India and

(ii) Contingency Fund of India in the light of applicable statute in India.

Answer:

(i) Consolidated Fund of India

Subject to assignment of certain taxes to the States,

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

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

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

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

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

Question No.29 (a)

X Ltd. has 2 divisions A and B.

Division A has been making constant profits while Division B has been invariably suffering losses. On 31st March, 2012 the division-wise summarized 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	
	2	Current Liabilities			
		(a) Other current liabilities	3	25.00	
		Total		**250.00**	
	II.	**Assets**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	4	25.00	
		(b) Non-current investments	5	25.00	
	2	Current assets			
		(a) 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	
	2	Non-current liabilities			
		(a) Long-term borrowings	3	300.00	
	3	Current Liabilities			
		(a)Other current liabilities	4	400.00	

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**
		Total		**725.00**	
	II.	**Assets**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	100.00	
		(ii) Intangible assets	6	125.00	
	2	Current assets			
		(a) 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.29 (c)

State the principles of Government Accounting.

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.

Question No.30 (a)

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

On 1.4.2012, unutilised restricted government grant (capital) balance is ₹40,00,000; unutilised unrestricted government grant (revenue) balance is ₹9,00,000; Institute's own corpus fund is ₹25,00,000. Besides, a private endowment fund of ₹18,50,000 is there on that date. The entire endowment fund is in fixed deposit with a bank fetching interest of 9.5% p.a. half-yearly transferred on 30th September and 31st March to current account meant for scholarship and awards. The said current account has a debit balance of ₹1,37,500. Apart from this, total cash and bank balance as on 1.4.12 is ₹85,00,000.

Following transactions took place during the year 2012-13:
(1) Salary paid out of own fund is ₹65,00,000.
(2) Salary to the research associates of a Government sponsored research scheme is ₹4,00,000, paid out of unrestricted government grant.
(3) Cost of renovation of the administrative building borne out of the Institute's own fund is ₹4,75,000. The renovation work was completed on 21st November, 2012 which was also the date of payment. Book value of the building was ₹38,00,000 on 1.4.12. The rate of depreciation is 5% p.a. calculated at full year's rate if the asset exists for a period exceeding 6 months, and at half-year's rate in other cases. The same principle is followed by the Institute in all cases of depreciation.

(4) Tuition fees were received ₹85,00,000.
(5) Scholarships and awards of ₹1,43,000 were given on 9th December, 2012.
(6) A laboratory building was under construction for the last two years. Balance of capital work-in-progress on 1.4.12 was ₹28,00,000. The work has been completed on 25th May, 2012. Final payment was made earlier on 29.4.2012. Total expenditure comes to ₹37,00,000. Rate of depreciation on the laboratory building is 5%. The entire expenditure will be spent from the restricted government (capital) Grant on certain conditions attached by the government. The Institute follows the principles of AS 12 in the case of use of revenue and capital grant. Since certain conditionality will apply over a period of time, it is decided that deferred income method will be followed.

Show the following Ledger accounts:
(i) Restricted Government Grant (capital) A/c.
(ii) Unrestricted Government Grant (revenue) A/c.
(iii) Current A/c of Endowment and Scholarship.
(iv) Cash and Bank A/c.

Solution:

(a) **Restricted Government Grant (Capital) Account**

Dr. *Cr.*

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

Unrestricted Government Grant (Revenue) Account

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

Current Account of Endowment and Scholarship Account

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

Cash and Bank Account

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

Question No.30 (b)

Describe the process of election of Public Accounts Committee.

Answer:

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

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

Question No.30 (c)

State the objectives & scope of Indian Government Accounting Standard 4 "General purpose Financial Statements of Government".

Answer:

Objectives

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

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

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

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

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

Scope

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

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

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

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