Final
Group IV
Paper 17 : CORPORATE FINANCIAL REPORTING
(SYLLABUS – 2016)

Objectives

1. Multiple Choice Questions:

(i) Dido Ltd. deals in three products α , β and θ, which are neither similar nor interchangeable. At the time of closing of its account for the year 2015-16 the historical cost and net realizable value of the items of closing stock are determined as below:

Items	Historical Cost (₹ in Lakhs)	Net realizable value (₹ in Lakhs)
α	65	56
β	40	46
θ	28	23

What will be the value of closing stock?
A. ₹119 Lakhs
B. ₹125 Lakhs
C. ₹133 Lakhs
D. None of these

Answer:

A — ₹119 Lakhs.

Computation of value of closing stock

Lower of Historical Cost and Net Realisable Value will be considered	₹
α	56
β	40
θ	23
Value of Closing Stock	**119**

(ii) M. Chandra Ltd. has provided the following information:
Depreciation as per accounting records ₹ 12,00,000, Depreciation as per income tax records ₹ 30,00,000. Unamortized preliminary expenses as per income tax records ₹ 1,80,000, Tax rate 40%. There is adequate evidence of future profit sufficiency. As per AS 22 Deferred Tax Asset/ Liability to be recognized will be
A. ₹ 7,20,000 (DTA)
B. ₹ 6,48,000 (DTL)
C. ₹ 72,000 (Net DTL)
D. None of these

Answer:

B — ₹6,48,000(Net DTL).

Deferred tax liability = 40% (30,00,000 – 12,00,000)	= ₹7,20,000
Deferred tax asset = 40% of 1,80,000	= ₹72,000
Net Deferred tax liability	= ₹6,48,000

(iii) V Ltd. acquired 2,000 equity shares of D Ltd. on April, 01,2016 for a price of ₹ 3,00,000. D Ltd. made a net profit of ₹ 80,000 during the year 2016-17. The Share Capital of D Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the share of V Ltd. in the pre-acquisition profit of D Ltd. is ₹ 56,000, the amount of Goodwill/Capital Reserve to be shown in the Consolidated Balance Sheet as on March 31, 2013 is —
A. ₹ 4,000 (Goodwill)
B. ₹ 4,000 (Capital Reserve)
C. ₹ 44,000 (Goodwill)
D. ₹ 56,000 (Goodwill)

Answer:

C — ₹ 44,000 (Goodwill).

Cost of investments	₹ 3,00,000
Less: Share of capital profit	₹ 56,000
	2,44,000
Face value of shares	₹2,00,000
Cost of control-Goodwill	₹44,000

(iv) PRAKASH LTD. declares the following information:
Exchange Rate (₹/US$)

Purchased goods on 12.3.2016 of US $ 1,00,000	**60.60**
Exchange rate as on 31.3.2016	**61.00**
Date of actual payment is 12.4.2016	**61.50**

What will be the gain/loss to be booked in the financial year 2013-14?
A. ₹ 90,000 (loss)
B. ₹ 40,000 (loss)
C. ₹ 50,000 (loss)
D. ₹ 1,30,000 (loss)

Answer:

C — ₹50,000 (loss).

As per AS-11, exchange difference on settlement of monitory items should be transferred to Profit & Loss A/c. Here loss to be debited to Profit & Loss A/C as: ₹ (1, 00,000 x 61.50) - (1, 00,000 x 61.00) = ₹50,000.

(v)During 2016, Avishkar Ltd. incurred costs to develop and produce a routine, low-risk computer software product, as follows:

Completion of detailed program design	**₹23,000**

Cost incurred for coding and testing to establish technological feasibility	**₹20,000**
Other coding costs after establishing technological feasibility	**₹39,000**
Other testing costs after establishing technological feasibility	**₹31,000**

What amount should be capitalized as software cost?
A. ₹43,000
B. ₹70,000
C. ₹23,000
D. ₹14,000

Answer:

B — ₹70,000.

Costs incurred after establishing technological feasibility should be capitalized i.e. (₹39,000+₹31,000)=₹70,000 is to capilised and costs incurred before establishing technological feasibility is to be expensed as and when it is incurred.

(vi) Miss Dumpty purchased 2,000 shares in M Ltd. at ₹ 600 per share in 2014. There was a rights issue in 2016 at one share for every two held at price of ₹150 per share. If Miss Dumpty subscribed to the rights, what would be carrying cost of 3,000 shares as per AS-13.
A. ₹ 12,00,000
B. ₹ 13,50,000
C. ₹ 14,00,000
D. Data insufficient

Answer:

B — ₹ 13,50,000.

Cost of original holding (Purchase) (1,000 x 600)	= ₹12,00,000
Amount paid for Rights (500 x 150)	= ₹1,50,000
Total carrying cost of 1500 shares:	**₹13,50,000**

(vii) ANKITA LTD. has three segments with their assets inclusive of Deferred Tax Assets as shown below:

Segment	Total Assets (₹ in lakh)	Deferred Tax Assets (₹ in lakh)
M	20	10
N	60	8
P	120	6

Reportable segments as per AS-17 are
A. M, N and P
B. M and N only
C. M and P only
D. P and N only

Answer:

D — P and N are reportable segments.
According to AS-17 "Segment Reporting", segment Assets do not include income tax assets.
Therefore, the revised total assets are ₹ 176 lakh [200 lakh - (10+8+6)]
Segment M holds total assets of ₹ 10 lakh (20-10)

Segment N holds total assets of ₹ 52 lakh (60-8)
Segment P holds total assets of ₹ 114 lakh (120-6)
Thus P and N hold more than 10% of total assets and hence P and N are reportable segments.

(viii) On January 2, 2016 E Ltd. bought a trademark from M Ltd. for ₹ 20,00,000. E Ltd. retained an independent consultant, who estimated the trademark's remaining life to be 20 years. Its unamortised cost on accounting records was ₹17,60,000. E Ltd. decided to amortize the trademark over the maximum period allowed. In E Ltd. December 31, 2016 balance sheet, what amount should be reported as expenses to be amortised this regard?

A. ₹ 17,60,000
B. ₹ 88,000
C. ₹ 1,00,000
D. ₹ 2,00,000.

Answer:

D — ₹2,00,000.

As per AS-26 intangible assets should be measured initially at cost therefore, E Ltd. should amortize the trademark at its cost of ₹ 20,00,000. The unamortised cost on the seller's books (₹17,60,000) is irrelevant to the buyer. Although the trademark has a remaining useful life of 20 years, intangible assets are generally amortized over a maximum period of 10 years per AS-26. Therefore, the 2016 amortization expense and accumulated amortization is 2,00,000 (₹ 20,00,000 ÷ 10 years).

(ix) A&B Ltd. obtained a Loan from a bank for ₹ 240 lakhs on 30.04.2014. It was utilized for : Construction of a shed ₹ 120 lakhs, Purchase of a machinery ₹ 80 lakhs, Working Capital ₹ 40 lakhs, Construction of shed was completed in March 2016. The machinery was installed on the same date. Delivery truck was not received. Total interest charged by the bank for the year ended 31.03.2016 was ₹ 36 lakhs. As per AS 16, Interest to be debited to Profit & Loss Account will be :

A. ₹ 36 lakhs
B. ₹ 18 lakhs
C. ₹ 9 lakhs
D. None of these

Answer:

B — ₹18 lakhs

Qualifying Asset as per AS-16 = ₹ 120 lakhs (construction of a shed)
Borrowing cost to be capitalized = 36 × 120/240 = ₹ 18 lakhs
Interest to be debited to Profit or Loss Account = ₹ (36 – 18) lakhs = ₹ 18 lakhs

(x) Super Profit of ABC Ltd. (Computed) : ₹18,00,000
Normal rate of return : 12%
Present value of annuity of ₹1 for 4 years @ 12% : 3.0374
Vathe of goodwill is —

A. ₹54,67,320
B. ₹2,16,000
C. ₹18,00,000
D. ₹5,92,612

Answer:

A — ₹54,67,320

Value of goodwill = Super profit × P.V of Annuity of ₹ 1for 4 years @ 12% = ₹ 18,00,000 × 3.0374 = ₹ 54,67,320.

(xi) MR Ltd. acquire 40% of TS Ltd.'s shares on April 2, 2015, the price paid was ₹1,40,000. TS Ltd.'s Shareholder equity shares are as follows:

	₹
Equity Shares (Paid up) **Share premium** **Retained Earning**	**50,000** **1,50,000** **50,000**
	2,50,000

Further TS Ltd. reported a net income of ₹ 30,000 and paid dividends of ₹10,000. MR Ltd. has subsidiary on 31-03-2016. Calculate the amount at which the investment in TS Ltd. should be shown in the consolidated Balance Sheet of MR Ltd. as on 31.03.2016.

A. ₹1,08,000
B. ₹40,000
C. ₹1,48,000
D. ₹1,40,000

Answer:

C — ₹1,48,000

As per AS – 23 when the investor company prepares the consolidated Balance Sheet, the investment in associate i.e., TS Ltd. shall be carried by equity method and goodwill and capital reserve to be identified and disclosed.

Extract of Consolidated Balance Sheet of MR Ltd. as on 31.03.2016

		₹
Investment in TS Ltd.		
Associates	1,08,000	
Goodwill (Identified)	40,000	1,58,000

Value of the investment as per equity method ₹1,40,000 + 40% (₹30,000) – 40% (₹10,000)=₹1,48,000

Goodwill Identified = (₹1,40,000 – 40% of ₹2,50,000) = ₹40,000.

(xii) At the time of absorption of B Ltd. by A Ltd., trade receivable of both companies shown in their Balance Sheets were ₹ 35 Lakhs and ₹ 18 Lakhs. On that date trade payable of B Ltd. includes payable to A Ltd. ₹ 4.5 Lakhs. After absorption, the amount of trade receivables will be shown in the A Ltd.'s Balance Sheet as

A. ₹35 Lakhs

- **B. ₹ 53 Lakhs**
- **C. ₹ 48.50 Lakhs**
- **D. ₹ 44 Lakhs**

Answer:

C — ₹ 48.50 Lakhs

₹ 35 Lakhs + ₹ 18 Lakhs – ₹ 4.50 Lakhs = ₹ 48.50 Lakhs.

(xiii) Ind AS 7 is related to (no explanation is required) —
- **A. Inventories**
- **B. Statement of Cash Flow**
- **C. Construction Contract**
- **D. Property, Plant and Equipment**

Answer:

B — Statement of Cash Flow

(xiv) NUPUR LTD. has equity share capital of ` 30 lakhs consisting of fully paid equity shares of ` 10 each. Net profit for the year 2013-14 was ` 45 lakhs. It has also issued 27,000, 10% convertible Debentures of ` 50 each. Each Debenture is convertible into 5 equity shares. The applicable tax rate is 30%. Compute the diluted earnings.
- **A. ` 46,35,000**
- **B. ` 44,59,500**
- **C. ` 45,94,500**
- **D. ` 45,00,000**

Answer:

C — `45,94,500.

Interest on debenture @ 10% for the year = 27,000 × 50 ×10%
= `1,35,000
Tax on interest `40,500.
Diluted earnings = `(45,00,000 + 1,35,000 – 40,500) = ` 45,94,500.

(xv) Wealth Ltd. aquired 1,50,000 shares of Health Ltd. on August 1, 2016. The Equity Capital of Health Ltd. is ₹ 20 lakh of ₹ 10 per share. The machinery of Health Ltd. is revalued upwards by ₹ 4,00,000. The minority group interest shown in the Consolidated Balance Sheet as at March 31, 2017 was
- **A. ₹ 6,00,000**
- **B. ₹ 4,00,000**
- **C. ₹ 1,00,000**
- **D. None of A, B and C**

Answer: A — ₹ 6,00,000

No. of shares of Health Ltd. = ₹ 20,00,000/10 = 2,00,000

Minority interest = 200000 - 150000	= 50,000 = 25%	
Profit on revaluation of Machinery	= ₹ 4,00,000	
Share of Minority Group of Silver Ltd.	= 25% of ₹ 4,00,000	₹1,00,000
Equity Share Capital : (50000 × 10)		₹ 5,00,000
Total minority interest		₹ 6,00,000

Study Note 1 – Accounting Standards

2. (a) Ind AS 1 Presentation of Financial Statement

Current Assets:

An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
(b) it holds the asset primarily for the purpose of trading;
(c) it expects to realise the asset within twelve months after the reporting period; or
(d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading and the current portion of noncurrent financial assets.

Question 1:

An entity has placed certain deposits with varies parties. How the following should be classified in Current and Non-current Items?
(a) Electricity Deposit;
(b) Indirect Taxes deposit paid under dispute.

Answer:

(a) Electricity Deposit	When the connection is not required, at all points of time Electricity Deposit is recoverable on demand. Practically, electricity Connection is required as long as the entity exists. It means from the commercial perspective an entity does not expect to realize the Assets within 12 months from the end of reporting period. Hence, Electricity Deposit should be classified as **a Non-Current Asset.**

(b) Indirect Taxes deposit paid under dispute	In this type of cases classification depend on (a) The fact of case, and (b) The expectation of the entity to realize the same within 12 months. If the Entity expects these to be realized within 12 months, it should classify these items as Current, otherwise these should be classified as Non-Current.

(b) Ind AS 2 Inventories

- when **joint products** are produced or when there is a main product and a **by-product** and the costs of conversion of each product are not separately identifiable — they are allocated between the products on a rational and consistent basis.
- The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production.
- In case of by-products which are by their nature immaterial , then they are often measured at net realisable value and this value is **deducted from the cost** of the main product.

Question 2:

ZooZoo Ltd. Produces four joint products A,B, C and D from a joint process. It incurred ₹8,56,800. Allocate the Joint Costs with the following information:

Particulars	A	B	C	D
Quantity Produced (in'000s)	**10,000 kgs**	**12,000 kgs**	**14,000 kgs**	**16,000 kgs**
Sales Price per kg	**₹13**	**₹17**	**₹19**	**₹22**
Stock Quantity at the end of year	**1,625 kgs**	**400 kgs**	**Nil**	**1,550 kgs**

Also determine the value of Closing Stock in respect of the above products.

Answer:

As per Ind AS – 2, costs of Joint Products should be apportioned on a rational and consistent basis. The Sales Value at Split Off Point may be used for apportionment in the given case.

Particulars	A	B	C	D
1. Production Quantity	10,000 kg	12,000 kg	14,000 kg	16,000 kg
2. Sale price per kg	₹13	₹17	₹19	₹22
3. Total Sale Vale (1×2)	₹1,30,000	₹2,04,000	₹2,66,000	₹3,52,000
4. Joint Costs apportioned (based on Sale Value) (bases on 3)	₹1,17,000	₹1,83,600	₹2,39,400	₹3,16,800
5. Average Joint Costs per kg (4÷1)	₹11.70	₹15.30	₹17.10	₹19.80
6. Closing Stock Quantity (given)	1,625 kg	400 kg	Nil	1,550 kg
7. Value of Closing Stock (5×6)	₹12,675	₹4,080	Nil	₹20,460

Note: It is presumed that the NRV of the products as at the Balance Sheet date, are higher than the respective costs.

(c) Ind AS 7 Statement of Cash Flows

Cash comprises cash on hand and demand deposits.
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Cash flows are inflows and outflows of cash and cash equivalents.

Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Question 3:

An entity has Opening Bank Balance in Foreign Currency aggregating to USD 200 (equivalent to ₹14,000). The Entity also reported a Profit before Tax which included ₹200 on account of Exchange Gain on the Bank Balance in Foreign Currency. What would be the closing Cash and Cash Equivalents as per the Balance Sheet (assuming no other transaction)?

Answer:

Particulars	₹	₹
A. Cash Flows from Operating Activities		
Net Profit before taxation	200	
Adjustments for: Unrealised Exchange Gain	(200)	NIL
B. Cash Flows from Investing Activities		NIL
C. Cash Flows from Financing Activities		NIL
D. Net increase/(Decrease) in Cash & Cash Equivalents (A+B+C)		NIL
E. Cash & Cash Equivalents at the beginning of the period		14,000
F. Cash & Cash Equivalents at the end of the period (D+E)		14,000

Particulars	₹
Cash and Cash Equivalents as per Statement of Cash Flows	14,000
Add: Unrealised Gain on Cash and Cash Equivalents	200
Cash and Cash Equivalents as per the Balance Sheet	14,200

(d) Ind AS 10 Events after the Reporting Period

An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

An example of a non-adjusting event after the reporting period is a decline in fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure.

Question 4:

As at 31st March, Cost of Investments is ₹1,50,000. (Market Value ₹1,80,000) Its value declines to ₹80,000 on 25th April. How should the entity consider the above in its Financial Statements?

Answer:

Decline in fair value of investments does not normally relate to the condition of the Investments at the end of the reporting period, but reflects circumstances that have arisen subsequently.

So, an entity does not –
(a) Adjust the amounts recognized in its Financial Statements for the Investments, or
(b) Update the amounts disclosed for the investments as at the end of the reporting period.

The entity may need to give Additional Disclosure.

3. (a) Amrita Ltd. sold goods for ₹180 lakhs to Malika Ltd. During financial year ended 31.03.2016. The Managing Director of Amrita Ltd. Own 100% of Malika Ltd. The sales were made to Malika Ltd. at normal selling prices followed by Amrita Ltd. The Chief Accountant of Amrita Ltd. contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per accounting standard. Is the Chief Accountant correct?

Answer:

No, the Chief Accountant is not correct. As per AS – 18 " Related Party Disclosure", the name of related party relationship, the nature of transaction has to be disclosed irrespective of the fact that the sale were made at normal selling price or arms – length price.
In this case, Amrita Ltd. Sold goods for ₹180 lakhs to Malika Ltd. During the year ended 31.03.2016 as the transaction falls under related party transaction, the disclosure is necessary as per AS-18, in spite of the fact that the sales were made at normal selling price.

(b) Raw material was purchased at ₹150 per kg. Price of raw material is on the decline. The finished goods in which the raw material is incorporated are expected to be sold at below cost. 10,000 kgs. of raw material is in stock at the year end. Replacement cost is ₹120 per kg. How will you value the inventory?

Answer:

As per AS 2 on valuation of inventories, material and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished product will exceed net realizable value, the materials are written down to net realizable value. In such case, the replacement cost of the material may be the best available measure of their net realizable value.

(c) At the end of the financial year ending on 31st December, 2016, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

	Probability	Loss (₹)
In respect of five cases (Win)	**100%**	**–**
Next ten cases (Win)	**60%**	**–**
Lose (Low damages)	**30%**	**1,20,000**
Lose (High damages)	**10%**	**2,00,000**
Remaining five cases		
Win	**50%**	**–**
Lose (Low damages)	**30%**	**1,00,000**
Lose (High damages)	**20%**	**2,10,000**

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof.

Answer:

According to AS 29 'Provisions, Contingent Liabilities and Contingent Assets', contingent liability should be disclosed in the financial statements if following conditions are satisfied:

(i) There is a present obligation arising out of past events but not recognized as provision.

(ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

(iii) The possibility of an outflow of resources embodying economic benefits is also remote.

(iv) The amount of the obligation cannot be measured with sufficient reliability to be recognized as provision.

In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next ten cases is 60% and for remaining five cases is 50%. As per AS 29, we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is not remote rather there is reasonable possibility of loss, therefore disclosure by way of note should be made. For the purpose of the disclosure of contingent liability by way of note, amount may be calculated as under:

Expected loss in next ten cases = 30% of ₹ 1,20,000 + 10% of ₹ 2,00,000

= ₹ 36,000 + ₹ 20,000 = ₹ 56,000

Expected loss in remaining five cases = 30% of ₹ 1,00,000 + 20% of ₹ 2,10,000

= ₹ 30,000 + ₹ 42,000 =₹ 72,000

To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of ₹ 9,20,000 (₹ 56,000 × 10 + ₹ 72,000 × 5) as contingent liability.

4. (a) Venus Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2015 at ₹ 1,000 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) Give journal entries for adjustment of impairment loss.
(iii) Show, how impairment loss will be shown in the Balance Sheet.

Answer:

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

Thus, Impairment loss = Carrying 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

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(ii)	**Particulars**	**Debit Amount (₹ in lakhs)**	**Credit Amount (₹ in lakhs)**
(a)	Impairment loss A/c Dr. To Asset 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**
Asset less depreciation	1000
Less: Impairment loss	200
	800

(b) A company entered into an agreement to sell its immovable property included in the Balance Sheet at ₹10 lakhs to another company for ₹40 lakhs. The agreement to sell was concluded on 31.01.2016 and the sale deed was registered on 30.04.2016. How this will be treated in Balance Sheet as on 31.03.2016.

Answer:

As per AS 4 Assets and liabilities should be adjusted for events occurring after the balance sheet date which provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date. In the present case sale of immovable property was concluded before approval by the Board. This is clearly an event occurring after the balance sheet date. Agreement to sell was entered into before the balance sheet date. Registration of the sale deed simply provides additional information relating to the conditions existing at the balance sheet date. So adjustments to assets are necessary and Asset will be derecognized in the Balance Sheet as on 31.03.2016.

5. (a) State how you will deal with the following matter in the accounts of MCQ Ltd. for the year ended 31st March 2016 with reference to Accounting Standard:
" The company finds that the stock sheets of 31.03.2015 did not include two pages containing details of inventory worth ₹21.75 lakhs".

Answer:

As per AS 5 an item of expenses or income arises in current period as a result of omission or commission in the preparation of financial statements of one or more prior period is prior period item.

In this case stock sheet of 31.03.2015 did not include two pages containing details of inventory worth ₹21.75 lakhs which is the omission and this omission was detected in current period i.e. 31.03.2016. Therefore, it is a prior period item,

Entry to be passed is as under:

Opening inventory A/c	Dr.	₹21.75	
To, Prior Period Income A/c			₹21.75

(b) Aveer Ltd. wants to re-classify its Investment in accordance with AS-13.Decide on the treatment to be given in each of the following cases:

(i) A portion of Current Investments purchased for ₹40 lakhs to be reclassified as long-term Investments, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹50 lakhs.
(ii) Another portion of Current Investments purchased for ₹30 lakhs has to be reclassified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was ₹13 lakhs.
(iii) Certain Long-term Investments no longer considered for holding purposes have to be re-classified as Current Investments. The original cost of theses was ₹36 lakhs but they had been written down to ₹24 lakhs to recognize permanent decline as per AS 13.

Answer:

As per AS 13 'Accounting for Investments' where investments are reclassified from current to long term, transfers are made at the lower of cost and fair value at the date of transfer.

In the first case, the market value of the investment is ₹50 lakhs, which is higher than its cost ₹40 lakhs. Therefore, the transfer to long term investments should be carried at cost ₹40 lakhs.

In the second case, the market value of the investment is ₹13 lakhs, which is lower than its cost ₹30 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value ₹13 lakhs. The loss of ₹17 lakhs should be charged to profit and loss account.

Where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

In the third case, the book value of the investments is ₹24 lakhs, which is lower than its cost ₹36 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹24 lakhs.

6. (a) Mitra Ltd. imported a machine on 04.01.2009 for Euros 12,000, on deferred payment basis, payment in six equal annual instilments at every financial year end, commencing from 31.03.2009 onwards. Use AS – 11 provisions and determine the exchange differences carrying amounts of the liability as the end of each financial year, if the following exchange rates are given. One Euro equals Indian Rupees on —

04.01.2009	31.03.2009	31.03.2010	31.03.2011	31.03.2012	31.03.2013	31.03.2014
₹50.4872	₹45.5208	₹41.8463	₹41.0175	₹42.6400	₹51.4400	₹53.1000

Answer:

A. Computation of Carrying Amounts of Liability

Financial Year ending	EURO Amount due	Closing Rate	Carrying Amount in ₹
31st March 2009	10,000	45.5208	4,52,208
31st March 2010	8,000	41.8463	3,34,770
31st March 2011	6,000	41.0175	2.46,105
31st March 2012	4,000	42.6400	1,70,560
31st March 2013	2,000	51.4400	1,02,880
31st March 2014	Nil	53.1000	Nil

B. Computation of Exchange Differences

Financial Year ending	Due to settlement	Due to Reporting
31st March 2009	2,000 × (50.4872 – 45.5208) = 9,933 Gain	10,000 × (50.4872 - 45.5208) = 49,664 Gain
31st March 2010	2,000 × (45.5208 – 41.8463) = 7,349 Gain	8,000 × (45.5208 – 41.8463) = 29,396 Gain
31st March 2011	2,000 × (41.8463 – 41.0175) = 1,658 Gain	6,000 × (41.8463 – 41.0175) = 4,973 Gain
31st March 2012	2,000 × (41.0175 – 42.6400) = 3,245 Loss	4,000 × (41.0175 – 42.6400) = 6,490 Loss
31st March 2013	2,000 × (42.6400 – 51.4400) = 17,600 Loss	2,000 × (42.6400 – 51.4400) = 17,600 Loss
31st March 2014	2,000 × (51.4400 – 53.1000) = 3,320 Loss	Nil

(b) XYZ Ltd. purchased goods on credit from ABC Ltd. for ₹250 Crores for export. The export order was cancelled. XYZ Ltd. decided to sell the same goods in the local market with a price discount. ABC Ltd. was requested to offer a price discount of 15 %. The directors of ABC Ltd. want to adjust the sales figure to the extent of the discount requested by XYZ Ltd. Comment.

Answer:

As per AS 9 trade discounts and volume rebates are not encompassed within the definition of revenue. Trade discounts and volume rebates given should be deducted in determining the revenue.

However, the price discount of 15 % in the instant case, is not the discount given during the ordinary course of the trade. Hence, it cannot be treated in the nature of discount eligible for deduction from sales price, the better alternative is to treat the amount as bad debt, therefore the contentions of directors of XYZ Ltd. are not correct.

7. Prasad Ltd. had the following borrowing during a year in respect of capital expansion.

Plant	Cost of Asset	Remarks
Plant A	**100 Lakhs**	**No specific Borrowings**
Plant B	**125 Lakhs**	**Bank loan of ₹ 65 Lakhs at 10%**
Plant C	**175 Lakhs**	**9% Debenture of ₹ 125 Lakhs were issued**

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (i) ₹ 100 lakhs at 10% from Corporation Bank and (ii) ₹ 110 lakhs at 11.5% from State Bank of India, to meet its capital expansion requirements. Determine the borrowing costs to be capitalized in each of the above plants, as per AS-16.

Answer :

A. Computation of Actual Borrowing Costs incurred during the year:

Source	Loan Amount ₹ in Lakhs	Interest Rate	Interest Amount ₹ in Lakhs
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State Bank of India	110.00	11.5%	12.65
Total	400.00		40.40
Specific Borrowing included in above	190.00		17.75

B. Weighted Average Capitalization Rate for General Borrowings:

$$= \frac{\text{Total Interest - Interest on Specific Borrowing}}{\text{Total Borrowing - Specific Borrowing}} = \frac{(40.40-17.75)}{(400-190)} = 22.65 \div 210 = 10.79\%$$

C. Capitalization of Borrowing Costs under AS-16 will be as under:

Plant	Borrowing	Loan Amount ₹ in lakhs	Interest rate	Interest amount ₹ in lakhs	Cost of Asset	
					₹ in Lakhs	₹ in Lakhs
A	General	100	10.79%	10.79		110.79
B	Specific	65	10.00%	6.50	71.50	
	General	60	10.79%	6.47	66.47	137.97
C	Specific	125	9.00%	11.25	136.25	
	General	50	10.79%	5.39	55.39	191.64
	Total	400		40.40		440.40

Note: Amount of borrowing costs capitalized should not exceed the actual interest cost.

8. (a) Assume a ₹2,50,000 contract that requires 3 years to complete and incurs a total cost of ₹2,02,500. The following data pertain to the construction period:

	Year I	Year II	Year III
Cumulative costs incurred to date	75,000	1,80,000	2,02,500
Estimated cost yet to be incurred at year end	1,50,000	20,000	-
Progressive billing made during the year	50,000	1,85,000	15,000
Collection of billings	37,500	1,50,000	62,500

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS – 7.

Answer :

Particulars	Year I	Year II	Year III
Initial amount of Revenue agreed in contract	2,50,000	2,50,000	2,50,000
Variation	-	-	-
Total Contract Revenue (A)	2,50,000	2,50,000	2,50,000
Contract Cost Incurred	75,000	1,80,000	2,02,500
Contract cost yet to be incurred to complete	1,50,000	20,000	-
Total Estimated Contract Cost (B)	2,25,000	2,00,000	2,02,500
Estimated Profit (A-B)	25,000	50,000	47,500

Stage of Completion $\frac{₹75{,}000}{₹2{,}25{,}000}\times 100;\ \frac{₹1{,}80{,}000}{₹2{,}00{,}000}\times 100;\ \frac{₹2{,}02{,}500}{₹2{,}02{,}500}\times 100$

=33⅓% **=90%** **=100%**

Revenue, Expense and Profit recognized in Profit and Loss Statement

Year I	Upto the reporting date	Recognised in Prior Year	Recognised in Current Year
Revenue (2,50,000 × 33⅓%)	83,333	-	83,333
Cost incurred	75,000	-	75,000
Profits	8,333	-	8,333
Year II			
Revenue (2,50,000 × 90%)	2,25,000	83,333	1,41,667
Cost incurred	1,80,000	75,000	1,05,000
Profits	45,000	8,333	36,667

Year III			
Contract Revenue Earned	2,50,000	2,25,000	25,000
Cost incurred	2,02,500	1,80,000	22,500
	47,500	45,000	2,500

Contract Disclosure (AS-7)

	Year I	Year II	Year III
1. Contract revenue recognised	83,333	2,25,000	2,50,000
2. Contract expenses recognised	75,000	1,80,000	2,02,500
3. Recognised Profit (Loss)	8,333	45,000	47,500
4. Contract cost incurred	75,000	1,80,000	2,02,500
5. Contract cost that relates to future activity recognised as an asset	NIL	NIL	NIL
6. Progress Billing	50,000	2,35,000	2,50,000
7. Unbilled contract revenue	33,333	NIL	NIL
8. Advances	37,500	1,50,000	62,500
9. Contract cost incurred and recognised Profit (Less recognised Loss)	83,333	2,25,000	2,50,000
10. Gross amount due from customer	33,333	NIL	NIL
11. Gross amount due to customer	NIL	10,000	NIL
12. Retention	12,500	47,500	NIL

(b) Best Ltd. has initiated a lease for three years in respect of an equipment costing ₹ 1,50,000 with expected useful life of 4 years. The asset would revert to Best Limited under the lease agreement. The other information available in respect of lease agreement is:

(i) The unguaranteed residual value of the equipment after the expiry of the lease term is estimated at ₹20,000.
(ii) The implicit rate of interest is 10%.
(iii) The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of asset.

Ascertain in the hands of Best Ltd.

(i) The annual lease payment.
(ii) The unearned finance income.
(iii) The segregation of finance income, and also,
(iv) Show how necessary items will appear in its profit and loss account and balance sheet for the various years.

Answer:

(i) Calculation of Annual Lease Payment

	₹
Cost of the equipment	1,50,000
Unguaranteed Residual Value	20,000
PV of residual value for 3 years @ 10% (₹ 20,000 x 0.751)	15,020
Fair value to be recovered from Lease Payment (₹1,50,000 – ₹15,020)	1,34,980
PV Factor for 3 years @ 10%	2.487
Annual Lease Payment (₹ 1,34,980/ PV Factor for 3 years @ 10% i.e. 2.487)	54,275
(ii) Unearned Financial Income	
Total lease payments [₹ 54,275 x 3]	1,62,825
Add: Residual value	20,000
Gross Investments	1,82,825
Less: Present value of Investments (₹ 1,34,980 + ₹ 15,020)	1,50,000
Unearned Financial Income	32,825

(iii) Segregation of Finance Income

Year	Lease Rentals ₹	Finance Charges @ 10% on outstanding amount of the year ₹	Repayment ₹	Outstanding Amount ₹
0	-	-	-	1,50,000
I	54,275	15,000	39,275	1,10,725
II	54,275	11,073	43,202	67,523
III	74,275	6,752	67,523	--
	1,82,825	**32,825**	**1,50,000**	

(iv) Profit and Loss Account (Extracts) Credit side ₹

I Year	By Finance Income	15,000
II year	By Finance Income	11,073
III year	By Finance Income	6,752

Balance Sheet (Extracts)

Assets side	₹	₹
I year Lease Receivable	1,50,000	
Less: Amount Received	39,275	1,10,725

II year Lease Receivable	1,10,725	
Less: Received	43,202	67,523
III year :Lease Amount Receivable	67,523	
Less: Amount received	47,523	
Residual value	20,000	NIL

Study Note 2 – Accounting of Business Combinations and Restructuring

9. The following are the Balance Sheets of Andrew Ltd. and Barry Ltd., as at 31.12.2017:

Andrew Ltd.

Liabilities		Assets	
Share Capital		Fixed assets	3,400
3,00,000 Equity shares of ₹10 each	3,000	Stock (pledged with secured Loan creditors)	18,400
10,000 Preference shares of ₹10 each	1,000	Other Current assets	3,600
		Profit and Loss account	16,600
General reserve	400		
Secured loans (secured against Pledge of stocks)	16,000		
Unsecured loans	8,600		
Current liabilities	13,000		
	42,000		42,000

Barry Ltd.

Liabilities		Assets	
Share Capital		Fixed assets	6,800
10,00,000 Equity shares of ₹10 each	1,0000	Current assets	9,600
General reserve	2,800		
Secured loans	8,000		
Current liabilities	4,600		
	16,400		16,400

Both the companies go into liquidation and Charlie 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 Charlie Ltd. The realizable value of all Current assets are 80% of book values in case of Andrew Ltd. and 70% for Barry Ltd. Fixed assets are taken over at book value.

(b) The break up of Current liabilities is as follows:

	Andrew Ltd.	Barry Ltd.
	₹	₹
Statutory liabilities (including ₹ 22 lakhs in case of Andrew Ltd. in case of a claim not having been Admitted shown as contingent liability)	**72,00,000**	**10,00,000**
Liabilities to employees	**30,00,000**	**18,00,000**

The balance of Current liability is miscellaneous creditors.

(c) Secured loans include ₹16,00,000 accrued interest in case of Barry Ltd.

(d) 2,00,000 equity shares of ₹10 each are allotted by Charlie Ltd. at par against cash payment of entire face value to the shareholders of Andrew Ltd. and Barry Ltd. in the ratio of shares held by them in Andrew Ltd. and Barry Ltd.

(e) Preference shareholders are issued Equity shares worth ₹2,00,000 in lieu of present holdings.

(f) Secured loan creditors agree to continue the balance amount of their loans to Charlie Ltd. after adjusting value of pledged security in case of Andrew Ltd. and after waiving 50% of interest due in the case of Barry Ltd.

(g) Unsecured loans are taken over by Charlie Ltd. at 25% of Loan amounts.

(h) Employees are issued fully paid Equity shares in Charlie Ltd. in full settlement of their dues.

(i) Statutory liabilities are taken over by Charlie Ltd. at full values and miscellaneous creditors are taken over at 80% of book value.

Show the opening Balance Sheet of Charlie Ltd. Working should be part of the answer.

Answer:

Balance sheet of Charlie Ltd. as at 31st December, 2017

Liabilities	₹	**Assets**	₹
Share Capital		Goodwill (W.N.4)	9,470
Authorised		Other Fixed Assets (3,400+6,800)	10,200
Shares of ₹10 each		Current Assets (2,880+6,720)	9,600
Issued, subscribed & Paid up:		Cash at Bank	2,000
7,00,000 equity shares of ₹10 Each, fully paid up (W.N.5) (of the above 5,00,000 shares Have been issued for consideration of than cash)	7,000		
Secured loans (1,280+7,200)	8,480		
Unsecured Loans (25% of 8,600)	2,150		
Current Liabilities (7,200 + 1,000 +4,000 + 1,440)	13,640		
	31,270		31,270

Working Notes:

1. Value of miscellaneous creditors taken over by Charlie Ltd.

	Andrew Ltd.	Barry Ltd.
		(in ₹ '000s)

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

2. Value of total liabilities taken over by Charlie Ltd.

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

3. Assets taken over by Charlie Ltd.

	Andrew Ltd.	Barry Ltd.
	₹	₹
Fixed Assets (Assumed on book value basis)	3,400	6,800
Current Assets 80% and 70% respectively of book value	2,880	6,720
	6,280	13,520

4. Goodwill / Capital Reserve on amalgamation

Liabilities taken over (W.N. 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	(2,080)
		Goodwill	Capital Reserve
	Not Goodwill	9,470	

5. Equity shares issued by Charlie Ltd.

Number

(i) For Cash 200000

For consideration other than cash

(ii)	In Discharge of Liabilities to Employees	4,80,000	
(iii)	To Preference shareholders	20,000	5,00,000
			7,00,000
	Value of shares	₹ 10 × 7,00,000 = ₹ 70 Lakhs	

10. The Balance Sheet of X Ltd. before reconstruction is:

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

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

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

a. The Equity Shareholders have agreed that their ₹ 100 shares should be reduced to ₹5 by cancellation of ₹ 95 per share. They have also agreed to subscribe in each for the six new Equity Shares of ₹ 5 each for two Equity Share held.

b. The Preference Shareholders have agreed to cancel the arrears of dividends and to accept for each ₹50 share, 4 new 5 per cent Preference Shares of ₹10 each, plus 3 new Equity Shares of ₹ 5 each, all credited as fully paid.

c. Lenders to the Company of ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹10 each and 6,000 new equity share of ₹ 5 each.

d. The Directors have agreed to subscribe in cash for 20,000, new Equity Shares of ₹ 5 each in addition to any shares to be subscribed by them under (a) above.

e. Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the Company.

f. The equity Share capital cancelled is to be applied:

i. to write off the preliminary expenses;

ii. to write off the debit balance in the Profit and Loss A/c ; and
iii. to write off ₹ 35,000 from the value of Plant.

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

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

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

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
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, (after reconstruction)					
Ref No.	**Particulars**		**Note No.**	**Current Year**	**Previous Year**
				(₹)	(₹)
	I.	**Equity and Liabilities**			
	1	**Shareholders' funds**			
		(a) Share capital	1	10,60,000	
		(b) Reserves and surplus	2	-	
		(c) Money received against share warrants			
	2	**Share application money pending allotment**			
	3	**Non-current liabilities**			
		(a) Long-term borrowings			
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			

		(d) Long-term provisions			
	4	**Current Liabilities**			
		(a) Short-term borrowings	3	2,23,000	
		(b) Trade payables	4	2,07,000	
		(c) Other current liabilities	5	35,000	
		(d) Short-term provisions			
		Total		15,25,000	
	II.	**Assets**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	6	6,33,000	
		(ii) Intangible assets	7	1,51,500	
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments			
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	**Current assets**			
		(a) Current investments			
		(b) inventories	8	4,00,000	
		(c) trade receivables	9	3,28,000	
		(d) Cash and cash equivalents	10	12,500	
		(e) Short-term loans and advances			
		(f) Other current assets			
		Total		15,25,000	

		(₹)
Note 1. Share Capital	**Current Year**	**Previous Year**
Authorised Share Capital		

60,000 5% Preference Shares of ₹ 10 each	6,00,000	
1,50,000 Equity shares of ₹ 5 each	7,50,000	
	13,50,000	
Issued, subscribed and paid-up		
92,000 Equity shares of ₹ 5 each 60,000 5% Preference Shares of ₹ 10 each	4,60,000 6,00,000	
Total	10,60,000	

FOR EQUITY SHARE :-	**Current Year**		**Previous Year**	
	Nos.	**Amount (₹)**	**Nos.**	**Amount (₹)**
Opening Balance	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 :-	**Current Year**		**Previous Year**	
	Nos.	**Amount (₹)**	**Nos.**	**Amount (₹)**
Opening Balance	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	**Current Year**	**Previous Year**
Profit and Loss A/c	(4,40,000)	
Less: Written off	4,40,000	
Total	0.00	

Note 3. Short term borrowings	Current Year	Previous Year
Loan	5,73,000	
Less: Reduced	3,50,000	
Total	2,23,000	

Note 4. Trade Payables	Current Year	Previous Year
Sundry Creditors	2,07,000	
Total	2,07,000	

Note 5. Other Current Liabilities	Current Year	Previous Year
Other Liabilities	35,000	
Total	35,000	

Note 6. Tangible Assets	**Current Year**	**Previous Year**
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	**Current Year**	**Previous Year**
Trade Mark at Goodwill at cost	3,18,000	
Less: Reduction	1,66,500	
Total	1,51,500	
8. Inventories	**Current Year**	**Previous Year**
Inventories	4,00,000	
Total	4,00,000	

9. Trade receivables	Current Year	Previous Year
Debtors	3,28,000	
Total	3,28,000	
10. Cash & Cash Equivalents	**Current Year**	**Previous Year**
Bank	12,500	
Total	12500	
Note: Loan is assumed to be of less than 12 months. Hence, treated as short term borrowings (ignoring		
	Current Year	**Previous Year**
Preliminary Expenses	11,000	
Less: Reduced	11,000	
Total	NIL	

11. A Ltd. and M Ltd. decide to amalgamate and to form a new company AM Ltd. The following are their balance sheets as at 31.3.2016:

	A Ltd. (₹)	M Ltd. (₹)
Equity and Liabilities		
(1)Shareholders' funds		
(a)Share Capital (₹ 100) each	**10,00,000**	**6,00,000**
(b) Reserves and Surplus		
General Reserve	**1,00,000**	**50,000**
Investment Allowance Reserve	**40,000**	**30,000**
Non-Current Liabilities		
12% Debentures (₹100 each)	**3,00,000**	**1,00,000**
Current Liabilities		
Trade payables	**60,000**	**20,000**
Total	**15,00,000**	**8,00,000**
Assets		
Non-current Assets		
Fixed Assets	**7,50,000**	**2,00,000**
Non-current investments		
1,500 Shares in M	**3,50,000**	**—**
4,000 Shares in A	**—**	**5,00,000**
Current Assets	**4,00,000**	**1,00,000**
Total	**15,00,000**	**8,00,000**

Calculate the amount of purchase consideration for A Ltd. and M Ltd. and draw up the balance sheet of AM Ltd. after considering the following:

(i) Assume amalgamation is in the nature of purchase.
(ii) Fixed assets of A Ltd. are to be reduced by ₹ 50,000 and that of M Ltd. are to be taken at ₹ 3,00,000.
(iii) 12% debentureholders of A Ltd. and M Ltd. are discharged by AM Ltd. by issuing such number of its 15% debentures of ₹ 100 each so as to maintain the same amount of interest.
(iv) Shares of AM Ltd. are of ₹ 100 each.
Also show, how the investment allowance reserve will be treated in the Financial Statement assuming the Reserve will be maintained for 3 years.

Answer:

Calculation of Purchase consideration

Value of Net Assets of A Ltd. and M Ltd. as on 31st March, 2014

		A Ltd. (₹)		**M Ltd. (₹)**
Assets taken over:				
Fixed Assets	7,00,000		3,00,000	
Current Assets	4,00,000	11,00,000	1,00,000	4,00,000
Less: Liabilities taken over:				
Debentures (WN)	2,40,000		80,000	
Trade payables	60,000	(3,00,000)	20,000	(1,00,000)
		8,00,000		3,00,000

Value of Shares of A Ltd. and M Ltd.

A Ltd. holds 1,500 shares in M Ltd. i.e. 1/4th of the shares of M Ltd.
The value of shares of A Ltd. is ₹ 8,00,000 plus 1/4 of the value of the shares of M Ltd.
M Ltd. holds 4,000 shares in A Ltd. i.e. 2/5th of the shares of A Ltd.
Similarly, the value of shares of M Ltd. is ₹ 3,00,000 plus 2/5 of the value of shares of A Ltd.
Let 'a' denote the value of shares of A Ltd. and 'm' denote the value of shares of M Ltd. then
$a = 8,00,000 + 1/4\ m$; and
$m = 3,00,000 + 2/5\ a$.
Substituting the value of m,
$a = 8,00,000 + 1/4\ (3,00,000 + 2/5\ a)$
$a = 8,00,000 + 75,000 + 1/10\ a$
$9/10\ a = 8,75,000$
$a = 9,72,222$
$m = 3,00,000 + 2/5\ (9,72,222)$
$m = 6,88,889$

Amount of Purchase Consideration

	A Ltd. ₹	M Ltd. ₹

Total value of shares (as determined above)	9,72,222	6,88,889
Less: Internal investments:		
2/5 for shares held by M Ltd.	(3,88,889)	----
1/4 for shares held by A Ltd.	----	(1,72,222)
Amount due to outsiders	5,83,333	5,16,667

Purchase Consideration will be satisfied by AM Ltd. as follows:

	A Ltd. ₹	M Ltd. ₹
In shares (of ₹ 100 each)	5,83,300	5,16,600
In cash	33	67

Net Amount of Goodwill/Capital Reserve

	₹	₹
Total Purchase Consideration		
A Ltd.	5,83,333	
M Ltd.	5,16,667	11,00,000
Less: Net Assets taken over		
A Ltd.	8,00,000	
M Ltd.	3,00,000	(11,00,000)
		Nil

(Alternatively, the calculations may be made separately for both the companies)

Balance Sheet of AM Ltd.
as at 31st March, 2016

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
(1)Shareholder's Funds		
(a) Share Capital	1	10,99,900
(b) Reserves and Surplus	2	70,000
(2) Non-Current Liabilities		
Long-term borrowings	3	3,20,000
(3) Current Liabilities		
Trade payables		80,000
Total		15,69,900
II. Assets		
(1) Non-current assets		
(a) Fixed assets	4	10,00,000
(b) Other non-current assets	5	70,000
(2) Current assets		4,99,900
Total		15,69,900

Notes to Accounts

		(₹)	(₹)

1.	Share Capital 10,999 shares of ₹ 100 each (All the above shares are allotted as fully paid-up for consideration other than cash)		10,99,900
2.	Reserves and surplus Investment Allowance Reserve		70,000
3.	Long Term Borrowings 15% Debentures (W.N.)		3,20,000
4.	Other non-current assets Amalgamation Adjustment Account		70,000
5.	Current assets [4,00,000 + 1,00,000] Less. Purchase consideration paid in cash ₹ (33+67)	5,00,000 (100)	4,99,900

Working Note:

Calculation of Debentures to be issued

	A Ltd.	M Ltd.
12% Debentures	3,00,000	1,00,000
Interest on Debentures @ 12 % (a)	36,000	12,000
AM Ltd. Debentures rate of interest (b)	15%	15%
Debenture Value to earn above calculated interest (a / b)	2,40,000	80,000

12. Techno Ltd. has 2 divisions Laptops and Mobiles.

Division Laptops has been making constant profits while division Mobiles has been invariably suffering losses.

On 31st March 2016 the division-wise draft Balance Sheet was: (₹ in crores)

		Laptops	Mobiles	Total
Fixed assets cost		**250**	**500**	**750**
Depreciation		**(225)**	**(400)**	**(625)**
Net Assets	**(A)**	**25**	**100**	**125**
Current assets:		**200**	**500**	**700**
Less: Current liabilities		**(25)**	**(400)**	**(425)**
	(B)	**175**	**100**	**275**
Total (A+B)		**200**	**200**	**400**
Financed by:				
Loan funds		**-**	**300**	**300**
Capital: Equity ₹10 each		**25**	**-**	**25**
Surplus		**175**	**(100)**	**75**
		200	**200**	**400**

Division Mobiles along with its assets and liabilities was sold for ₹50 crores to Turnaround Ltd. a new company, who allotted 1 crore equity shares of ₹10 each at a premium of ₹40 per share to the members of Techno Ltd. in full settlement of the consideration, in proportion to their shareholding in the company.

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

(i) Pass journal entries in the books of Techno Ltd.

(ii) Prepare the Balance Sheet of Techno Ltd. after the entries in (i).

(iii) Prepare the Balance Sheet of Turnaround Ltd.

Though in the question the balance sheet is not prepared as per Revised Schedule VI the answer should be as per Revised Schedule VI.

Answer:

Journal of Techno Ltd. (₹ in crores)

		Dr. ₹	Cr. ₹
(1)	Turnaround Ltd. Dr.	50	
	Loan Funds Dr.	300	
	Current Liabilities Dr.	400	
	Provision for Depreciation Dr.	400	
	To Fixed Assets		500
	To Current Assets		500
	To Capital Reserve		150
	(Being division Mobiles along with its assets and liabilities sold to Turnaround Ltd. for ₹ 40 crores)		
	Capital Reserve Dr.	50	
(2)	To Turnaround Ltd.		50
	(Being allotment of 1 crore equity shares of ₹10 each at a premium of ₹40 per share to the members of Techno Ltd. in full settlement of the consideration)		

Notes:

Techno Ltd,
Balance Sheet after reconstruction

		Note No.		
I.	**Equity and liabilities**			
	(1) **Shareholders' funds**			
	(a) Share Capital		25	
	(b) Reserves and surplus	1	175	200
	(2) **Current Liabilities**			25
	Total			225
II.	**Assets**			
	(1) **Non-current assets**			
	(a) Fixed assets			25
	(2) **Current assets**			200
	Total			225

Notes to Accounts

		(₹ in crores)
1.	Reserves and Surplus	75
	Add: Capital Reserve on reconstruction	100
		175

Note to Accounts: Consequent on transfer of Division Mobiles to newly incorporated company Turnaround Ltd., the members of the company have been allotted 1 crore equity shares of ₹10 each at a premium of ₹15 per share of Turnaround Ltd., in full settlement of the consideration in proportion to their shareholding in the company.

Balance Sheet of Turnaround Ltd.

		Note No.		
1.	**Equity and liabilities**			
	(1) **Shareholders' funds**			
	(a) Share Capital	1	10	
	(b) Reserves and surplus:			
	Securities Premium		40	50
	(2) **Non-current liabilities**			
	Long term borrowings			300
	(3) **Current liabilities**			400
	Total			750
	Assets			
II.	**(1) Non-current assets**			
	Fixed assets		100	
	(i) Tangible assets			
	(ii) Intangible assets	2	150	
				250
	(2) Current assets			500
	Total			750

Notes to Accounts

		(₹ in crores)
1.	**Share Capital:**	
	Issued and Paid-up capital	
	1 crore Equity shares of ₹ 10 each fully paid up	10
	(All the above shares have been issued for consideration other than cash, to the members of Techno Ltd. on take over of Division Mobiles from Techno Ltd.)	
2.	**Intangibles Assets:**	
	Goodwill (WN 1)	150

Working Note

1. Calculation of Goodwill/Capital Reserve for Turnaround Ltd.

Assets taken over

Non Current Assets	100
Current Assets	500
Total Assets(A)	600
Loan Funds	300
Current Liabilities	400
	700

Total Liabilities (B)	(100)
Net Assets C= (A-B)	50
Purchase Consideration (given) D	150
Goodwill (D-C)	

13. The summarized Balance sheets of Aman Ltd. and its subsidiary Ayan Ltd. as at 31.3.2015 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 1.4.2015.

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.

Answer:

Name of the Company: Aman Ltd.					
Balance Sheet as at 1.04.2015					
Ref No.	**Particulars**		**Note No.**	**As at 1st April, 2015**	**As at 1st April,2014**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	53,34,660	
		(b) Reserves and surplus	2	89,64,320	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		(a) Long-term borrowings	3	22,50,000	
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c) Other current liabilities	4	31,50,000	
		(d) Short-term provisions			
		Total		1,96,98,980	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(e) Tangible assets	5	76,20,000	
		8. Intangible assets			
		9. Capital work-in-progress			

		10. Intangible assets under development			
		(b) Non-current investments			
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	Current assets			
		(a) Current investments			
		(b) Inventories	6	54,75,000	
		(c) Trade receivables	7	39,00,000	
		(d) Cash and cash equivalents	8	27,03,980	
		(e) Short-term loans and advances			
		(f) Other current assets			
		Total		1,96,98,980	

	(₹)	
Note 1. Share Capital	**As at 1st April, 2015**	**As at 1st April,2014**
Authorised, Issued, Subscribed and paid up:- 5,33,466 Equity Shares of ₹ 10 (of which 33,466 shares of ₹ 10 each issued for consideration other than cash)	53,34,660	
Total	53,34,660	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 1st April, 2015**		**As at 1st April, 2014**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.14	5,00,000	50,00,000	NIL	NIL
Add: Fresh Issue (Include Bonus shares, Right shares, split shares, shares issued other than cash)	33,466	3,34,660	NIL	NIL
	5,33,466	53,34,660	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	5,33,466	53,34,660	NIL	NIL

Note 2. Reserves and Surplus	As at 1st April, 2015	As at 1st April, 2014
General Reserve	50,00,000	
Capital Reserve	13,20,000	
Profit and Loss A/c (20,00,000 - 25,000)	19,75,000	
Securities Premium (33,466 × 20)	6,69,320	
Total	89,64,320	

Note 3. Long-term borrowings	As at 1st April, 2015	As at 1st April, 2014
Secured Loans (20,00,000 +2,50,000)	22,50,000	
	22,50,000	

Note 4. Other Current Liabilities	As at 1st April, 2015	As at 1st April, 2014
Current Liabilities (32,50,000 – Mutual Debt. 1,00,000)	31,50,000	
Total	31,50,000	

Note 5. Tangible assets	As at 1st April, 2015	As at 1st April, 2014
Fixed Assets (78,00,000 – 1,80,000)	76,20,000	
Total	76,20,000	

Note 6. Inventories	As at 1st April, 2015	As at 1st April, 2014
Inventories (30,00,000 + 25,00,000 – Unrealised Profit 25,000)	54,75,000	
Total	54,75,000	

Note 7. Trade receivables	As at 1st April, 2015	As at 1st April, 2014
Sundry Debtors (40,00,000 – Mutual debts 1,00,000)	39,00,000	
Total	39,00,000	

Note 8. Cash and cash equivalent	As at 1st April, 2015	As at 1st April, 2014
Cash at Bank	27,03,980	

Total	27,03,980	

Working Notes:

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

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

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

v. Discharge of purchase consideration by Aman Ltd.

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

$[50\% \text{ of } (24-3.92)=10.04 Lakhs]$			
Cash for fractional shares $=0.6666\times30$	----	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.		50,00,000
Less: 10% Reduction in the value of Fixed Assets $(\frac{10}{100}\times18{,}00{,}000)$		1,80,000
		48,20,000
Less: Secured Loan	₹2,50,000	
Current Liabilities	₹2,50,000	5,00,000
Net Assets		43,20,000
Less: Purchase consideration (outside shareholders)		24,00,000
		19,20,000
Less: Investment in Ayan Ltd. as per Balance Sheet of Aman Ltd.		6,00,000
		13,20,000

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

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

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

14. A Limited and B Limited were amalgamated on and from 31st March, 2012. A new company D Limited was formed to takeover the business of the existing companies. The summarised Balance Sheet of A Limited and B Limited (before menger) as on 31st March, 2012 are given below:

(₹ in Lakhs)

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Share capital:			**Fixed assets**	**1,200**	**1,000**
Equity Shares of ₹ 100 each	**1,000**	**800**	**Current assets, Loans and Advances**	**880**	**565**

15% Preference Share Capital of ₹ 100 each	**400**	**300**			
Reserve and Surplus:					
Revaluation Reserve	**100**	**80**			
General Reserve	**200**	**150**			
P & L Account	**80**	**60**			
Secured Loan:					
12% Debentures of ₹ 100 each	**96**	**80**			
Current Liabilities and Provisions	**204**	**95**			
	2,080	**1,565**		**2,080**	**1,565**

Other Information :

1. **12% Debenture holders of A Ltd. and B Ltd. are discharged by D Limited by issuing adequate number of 16% Debentures of ₹ 100 each to ensure that they continue to receive the same amount of interest.**
2. **Preference shareholders of A Ltd. and B Ltd. have received same number of 15% Preference share of ₹ 100 each of D Limited.**
3. **D Ltd. has issued 1.5 equity shares for each equity share of A Ltd. and 1 equity share each equity share of B Ltd. The face value of shares issued by D Ltd. is ₹ 100 each.**

Required:

(i) Calculate the Purchase Consideration
(ii) Give the journal entries in the books of D Ltd.

Answer:

WN # 1 : *Calculation of purchase consideration:*

	Purchase consideration	**A Ltd.**	**B Ltd.**
i.	No. of equity shares	10,00,000	8,00,000
	Exchange Ratio	1:1.5	1:1
	No. of equity shares to be issued	15,00,000	8,00,000
	Equity Shares capital	₹ 1,500 Lakhs	₹ 800 Lakhs
ii.	No. of preference shares	4,00,000	3,00,000
	Exchange Ratio	1:1	1:1
	No. of preference share to be issued	4,00,000	3,00,000
	Preference Share Capital	₹ 400 Lakhs	₹ 300 Lakhs

Journal Entries in the books of D Ltd.

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

Particulars			A Ltd. Debit ₹	A Ltd. Credit ₹	B Ltd. Debit ₹	B Ltd. Credit ₹
a.	For Business Purchase					
	Business Purchase A/c	Dr.	1,900		1,100	
	To Liquidator of Selling Co. A/c			1,900		1,100
b.	Incorporation of Assets and Liabilities taken over:					
	Fixed Assets A/c	Dr.	1,200		1,000	
	Current Assets A/c	Dr.	880		565	
	Profit and Loss A/c	Dr.	220			
	To Current Liabilities A/c			204		95
	To 12% Debentures A/c			96		80
	To Revaluation Reserve A/c			100		80
	To General Reserve A/c WN # 2			—		150
	To Profit and Loss A/c			—		60
	To Business Purchase A/c			1,900		1,100
c.	Discharge of Purchase Consideration					
	Liquidator of Selling Co. A/c	Dr.	1,900		1,100	
	To Equity Share Capital A/c			1,500		800
	To Preference Share Capital A/c			400		300
d.	Discharge of Debentures:					
	12% Debentures A/c	Dr.	96		80	
	To 16% Debentures A/c			72		60
	To Profit & Loss A/c (WN # 3)			24		20

WN # 2 : Reserves to be adjusted on the Amalgamation:

(in Lakhs)

	Particulars		*A Ltd.* ₹	*B Ltd.* ₹
(i)	Purchase consideration payable		1,900	1,100
(ii)	Total paid up Share capital			
	(a) Equity Share capital	1,000		
	(b) Preference Share capital	400	1,400	1,100

(iii)	Excess purchase consideration	500	Nil
(iv)	Adjustment against reserves of transferee company:		
	(a) General reserve	(200)	
	(b) Profit & Loss A/c Balance	(80)	
	(c) Profit & Loss A/c debit balance	(220)	
(v)	Reserves of transferor company to be incorporated		
	(a) Revaluation Reserve	100	80
	(b) General Reserve	—	150
	(c) Profit & Loss A/c	—	60

WN # 3 : *Settlement of Debentures:*

(in Lakhs)

	Particulars	*A Ltd.* ₹	*B Ltd.* ₹
(i)	Value of 12% Debentures	96	80
(ii)	Interest Payable	11.52	9.6
(iii)	16% Debentures to be issued	72	60
	$\frac{11.52}{16}\times100$ $\frac{9.6}{16}\times100$		
(iv)	Amount to be credited to Profit & Loss A/c (i)-(iii)	24	20

Study Note 3 – Group Financial Statements

15. On 31st March, 2015 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, 2016 the 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**
30 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, 2016 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, 2016.

(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, 2015 CA Ltd. declared and distributed dividend @ 10% for the year ended 31st March, 2015. 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, 2016.

Answer:

Consolidated Balance Sheet of BA Ltd. and its subsidiaries CA Ltd. and DA Ltd. as at 31st March, 2016

₹ In Lakhs

Ref No.	Particulars		Note No.	As at 31st March,2016	As at 31st March,2015
	1	**EQUITY AND LIABILITIES**			
		(a) Share capital	1	1,08,000	
		(b) Reserves and surplus	2	1,73,600	
		(c) Money received against share warrants			
	2	**Minority Interest (W.N.2)**		21,948	
	3	**Share application money pending allotment**			
	4	**Non-current liabilities**			
		(a) Long-term borrowings	3	4,800	
		(b)Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	5	**Current Liabilities**			
		(a) Short-term borrowings			
		(b) Trade payables	4	71,100	
		(c)Other current liabilities			
		(d) Short-term provisions			
		Total (1+2+3+4+5)		**3,79,448**	
	II	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	2,26,800	
		(ii) Intangible assets	6	984	
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments			

		(c)Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	**Current assets**			
		(a)Current investments			
		(b) inventories	7	83,840	
		(c) trade receivables	8	47,160	
		(d) Cash and cash equivalents	9	20,664	
		(e)Short-term loans and advances			
		(f) Other current assets			
		Total (1+2)		**3,79,448**	

₹ In lakhs

Note 1. Share Capital	**As at 31st March,2016**	**As at 31st March,2015**
Authorized, Issued, Subscribed and fully paid-up Share capital:-		
5400 Lakhs Equity share of ₹10 each	1,08,000	
	1,08,000	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	**As at 31st March,2016**		**As at 31st March,2015**	
	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,2016**	**As at 31st March,2015**
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,2016**	**As at 31st March,2015**
9.5% Debentures	4,800	
Total	4,800	

Note 4. Trade Payables	**As at 31st March,2016**	**As at 31st March,2015**
Sundry Creditors (56,400+10,800+3,720)	70,920	
Bills Payable	180	
Total	71,100	

Note 5. Tangible Assets	**As at 31st March,2016**	**As at 31st March,2015**
Machinery	1,94,400	
Furniture & Fixture	32,400	
Total	2,26,800	

Note 6.Intangible assets	**As at 31st March,2016**	**As at 31st March,2015**
Goodwill (WN.3)	984	
Total	984	

Note 7. Inventories	**As at 31st March,2016**	**As at 31st March,2015**
Stock	84,000	
Less: unrealized profit	160	
Total	83,840	

Note 8.Trade Receivables	As at 31st March,2016	As at 31st March,2015
Debtors (more than six months considered good) – (36,000+5,400+5,160)	46,560	
Bills receivables	1,020	
Less: mutual debts(WN.5)	420	
Total	47,160	

Note 9. Cash and cash equivalents	As at 31st March,2016	As at 31st March,2015
Cash and bank	20,604	
Cash-in-transit	60	
Total	20,664	

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	**Profit / Loss**

		expenses	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		
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

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

= ₹ 160 lakhs

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

16. As on 30th June, 2016 the draft balance sheets of the companies showed the following position:

	Amar Ltd. ₹	Akbar Ltd. ₹	Antony Ltd. ₹
Fixed assets	**1,35,000**	**60,000**	**70,000**
Investments at Cost	**1,60,000**	**1,50,000**	**10,000**
	2,95,000	**2,10,000**	**80,000**
Current assets:			
Stock	**55,240**	**36,840**	**61,760**
Debtors	**1,10,070**	**69,120**	**93,880**
Balances at Bank	**1,31,290**	**16,540**	**52,610**
	2,96,600	**1,22,500**	**2,08,250**

Less: Current Liabilities			
Creditors	**1,12,060**	**73,130**	**78,190**
Taxation	**30,000**	**--**	**22,000**
Proposed dividend	**1,00,000**	**60,000**	**40,000**
	2,42,060	**1,33,130**	**1,40,190**
Net current assets / (liabilities)	**54,540**	**(10,630)**	**68,060**
	3,49,540	**1,99,370**	**1,48,060**

Financed by:

Issued ordinary shares of ₹ 10 each	**2,00,000**	**1,50,000**	**80,000**
Capital Reserve	**50,000**	**--**	**23,000**
Revenue Reserve	**99,540**	**49,370**	**45,060**
	3,49,540	**1,99,370**	**1,48,060**

You also obtain the following information:
(i) Akbar Ltd. acquired 6,800 shares in Antony Ltd. at ₹ 22 per share in 2013 when the balance on capital reserve was ₹ 15,000 and on revenue reserve ₹ 30,500 consolidated.
(ii) Amar Ltd. purchased 8,000 shares in Akbar Ltd. in 2012 when the balance on the revenue reserve was ₹ 40,000 . Amar Ltd. purchased a further 4,000 shares in Akbar Ltd. in 2014 when the balance on the revenue reserve was ₹45,000. Amar Ltd. held no other investments on 30th June,2016.
(iii) Proposed dividends from subsidiary companies are included in the figure for debtors in the accounts of the parent companies.
Prepare the Consolidated Balance Sheet of Amar Ltd. and its subsidiaries in vertical form as on 30th June,2016 , together with the consolidation schedules.

Answer:

Amar Ltd.
Consolidated Balance Sheet as on 30th June,2016

	₹	₹	₹
Goodwill		49,592	
Fixed assets ₹(1,35,000+60,000+70,000)		2,65,000	
Investment at cost [W.N 5]		10,400	3,24,992
Current Assets:			
Stock	1,53,840		
Debtors [W.N 4]	1,91,070		
Balance at Bank	2,00,440	5,45,350	
Current liabilities:			
Creditors	2,63,380		
Taxation	52,000		
Proposed Dividends:			
Holding Company	1,00,000		
Minority Shareholders	18,000	4,33,380	1,11,970
			4,36,962
Financed by:			
Issued ordinary shares of ₹ 10 each		2,00,000	
Capital Reserve (50,000+ 5,440)		55,440	
Revenue reserve (99,540+ 16,064)		1,15,604	3,71,044
Minority interest			65,918
			4,36,962

Working Notes:

Analysis of Profit

W.N 1

Antony Ltd.	**Capital Profit ₹**	**Capital Reserve ₹**	**Revenue Reserve ₹**
Capital Reserve in 2013 Increase in Capital Reserve Revenue Reserve in 2013 Increase in Revenue Reserve	15,000 -- 30,500 --	-- 8,000 -- --	-- -- -- 14,560
	45,500	**8,000**	**14,560**
Minority Interest 15%	6,825	1,200	2,184
Share of Akbar Ltd.	38,675	6,800	12,376

W.N 2

Akbar Ltd.	**Capital Profit ₹**	**Capital Reserve ₹**	**Revenue Reserve ₹**
Revenue Reserve in 2013 Increase in Reserve in 2013 Share in Antony Ltd. Minority interest (20%)	40,000 -- 40,000 8,000	-- -- 6,800 6,800 1,360	-- 9,370 12,376 21,746 4,349
	32,000	**5,440**	**17,397**
Less: [5,000 X 4/15] for second acquisition treated as capital	1,333		1,333
	33,333		**16,064**

W.N 3

Cost of Control/ Goodwill		₹	₹
Cost of Investment in Antony Cost of Investment in Akbar		1,49,600 1,60,000	 3,09,600
Paid up value of shares: Capital Profits: 	In Antony In Akbar In Antony (25,925+12,750) In Akbar	68,000 1,20,000 38,675 33,333	 2,60,008
Goodwill			**49,592**

W.N 4 Minority Interest

	(20%) Akbar Ltd. ₹	**(15%) Antony Ltd. ₹**
Capital Revenue Reserve Capital Profit 	30,000 1,360 4,349 8,000	12,000 1,200 2,184 6,825

	43,709	**22,209**

W.N 5 Investment

	₹	₹
Akbar Ltd. Less: Cost of Antony Ltd.	1,50,000 1,49,600	
 Antony Ltd.	400 10,000	
		10,400

W.N 6 Debtors

Amar Ltd.	₹1,10,070		
Less: Dividend from Akbar Ltd.	₹ 48,000	₹62,070	
Akbar Ltd.	₹69,120		
Less: Dividend From Antony Ltd.	₹34,000	₹35,120	
Antony Ltd.		₹ 93,880	₹ 1,91,070

17. The draft Balance Sheet of three companies W,H,O, as at 31.03.2016 is as under:

(₹ in thousand)

Assets	**W**	**H**	**O**
Fixed assets	**697**	**648**	**349**
Investments			
1,60,000 shares in H	**562**	**-**	**-**
80,000 shares in O	**184**	**-**	**-**
Cash at bank	**101**	**95**	**80**
Trade receivables	**386**	**321**	**251**
Inventory	**495**	**389**	**287**
	2,425	**1,453**	**967**
Liabilities			
Share Capital (Nominal value ₹1 per share)	**600**	**200**	**200**
Reserves	**1,050**	**850**	**478**
Trade payables	**375**	**253**	**189**
Debentures	**400**	**150**	**100**
	2,425	**1,453**	**967**

You are given the following information:

(a) W purchased the shares in H on 31.10.2011 when the balance in reserves was ₹500 thousands.

(b) The shares in O were purchased on 11.05.2011 when the balance in reserves was ₹242 thousands.

(c) The following dividend have been declared but not accounted for before the accounting year end:

W - ₹65 thousands
H - ₹30 thousands
O - ₹15 thousands

(d) Included in inventory figure of O is inventory valued at ₹20 thousands which had been purchased from W at cost plus 25%.

(e) Goodwill in respect of the acquisition of H has been fully written off.

(f) On 31.03.2016 H made bonus issue of one share for every share held. This had not been accounted in the Balance Sheet as on 31.03.2016.

(g) Included in trade payables of W is ₹18 thousands to O, which is included in trade receivables of O.

Prepare Consolidated Balance Sheet of W as at 31.03.2016.

Answer:

Consolidated Balance Sheet of W and its subsidiary H
As on 31st March,2016
(As per Schedule III of the Companies Act,2013)

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital		600.00
(b) Reserves & Surplus (W.N. 4)		1,355.80
2. Minority's interest (W.N.3)		204.00
3. Non-Current Liabilities		
(a) Debentures	**1**	550.00
4. Current Liabilities		
(a) Trade Payables	**2**	628.00
(b) Proposed Divided (W.N.6)		71.00
		3,408.80
II. Assets		
1. Non-Current Assets		
(a) Tangible Fixed Assets	**3**	1,345.00
(b) Investments in Associates	**4**	270.80
2. Current Assets		
(a) Trade Receivables	**5**	707.00
(b) Inventories	**6**	884.00
(c) Cash and Cash Equivalents	**7**	196.00
(d) Dividend Receivable from O		6.00
		3,408.80

Notes to Accounts:

Particulars	Amount (₹)	Amount (₹)
1. Debentures ₹(400 +150)		550.00
2. Trade Payables (3750+253)		628.00
3. Fixed Assets (697+648)		1,345.00
4. Investment in Associate (W.N.5) (Including Goodwill 7.20)	184.00	
Add: Accumulated Reserves	86.80	270.80
5. Trade Receivables (386+321)		707.00
6. Inventories (495+389)		884.00
7. Cash and Cash Equivalents - Cash at Bank (101+95)		196.00

Working Notes:

1. **Analysis of Profits of H**

Particulars	Pre-acquisition Profits	Post acquisition Profits
Reserves on the date of acquisition	500	350
Less: Bonus issue	200	-
	300	350
Less: Dividend declared on 31.03.2014	-	30
	300	320
Minority interest (20%)	60	64
W's Share (80%)	240	258

2. **Cost of Control/Goodwill**

Particulars	Amount (₹)	Amount (₹)
Amount paid for investment		562
Less: Paid up value of shares including bonus (80% of ₹400)	320	
Shares in pre-acquisition profit of H	240	560
Goodwill		**2**

3. **Minority Interest**

Particulars	Amount (₹)
Paid up value of share including bonus issue (400 × 20%)	80
Share in pre-acquisition profit of H	60
Share in post acquisition profit of H	84
	204

4. **Consolidated Reserves**

Particulars	Amount (₹)	Amount (₹)
Balance as per W's Balance Sheet		1,050.00
Add: Share in post acquisition profits of H		256.00
Dividend from H		24.00
Share of Profit from Associate O	86.80	
Add: Dividend from O	6.00	92.80
		1,422.800
Less: Dividend payable	65.00	
Goodwill written off	2.00	67.00
		1,355.80

5. **Investment in Associate O as on 31.03.2016 (As per AS 23)**

Particulars	Amount (₹)	Amount(₹)
Amount paid for investment		184.00
Less: Paid up value of shares	80.00	
Share in pre-acquisition reserves (40% of 242)	96.8	176.80
Goodwill (Identified at the time of purchase)		7.20
Initial Cost		184.00
Add: Increase in equity reserves [40% of (478-15-242)]	88.40	
Less: unrealized profit	(1.60)	86.80

Investment in Associate O as on 31.03.2016		270.80
Share of Profit from Associate O (270.80-184+6)		**92.80**

6. Proposed Dividend

Particulars	Amount (₹)
W	65
Minority Interest (30-24)	6
	71

18. Following are the balances in the Balance Sheet of Blue Ltd. and Green Ltd.

i. As on 31.03.2016 Equity Share Capital (₹10): Blue Ltd. ₹80,000; Green Ltd. ₹1,00,000.

ii. As on 31.03.2016 shares of Green Ltd. held by Blue Ltd. is ₹99,000.

iii. Profit and Loss A/c balances as on 31.03.2016 of Blue Ltd. is ₹22,000 and Green Ltd. is ₹30,000.

iv. Net Profit during 2015-16 included in above were: Blue Ltd. ₹18,000; Green Ltd. ₹9,000.

v. Both the companies have proposed a dividend of 10% which is yet to be recorded.

vi. On 01.04.2015, Blue Ltd. was formed and on the same day it acquired 4,000 shares of Green Ltd. at ₹55,000.

vii. On 31.07.2015, 10% dividend was received from Green Ltd. and also bonus shares at 1:4 was received. The dividend was credited to P&L A/c.

viii. On 31.08.2015 Blue Ltd. purchased another 3,000 shares of Green Ltd. at ₹44,000.

Analyse the profit .

Answer:

Company Status	Date of Acquisition
Holding Co.– Blue Ltd. Subsidiary Co.– Green Ltd.	Lot 1 4,000 Shares = 01.04.15 Bonus 1,000 Shares 31.07.15 Lot 2 3,000 Shares = 31.08.15

Period	No. of Shares	Status
Before 01.04.15	All shares acquired i.e. 80%	Pre-acquisition
01.04.15 to 31.08.15	Shares acquired on 31.08.15 i.e. 30%	Pre-acquisition
01.04.15 to 31.08.15	Shares acquired before 31.08.15 i.e. 40%	Post acquisition
After 31.08.15	All shares acquired i.e. 80%	Post acquisition

Holding Status:

Holding Company = 80%

Minority Interest = 20%

Date of Consolidation = 31.03.2016

Analysis of Profit & Loss Account of Green Ltd.

P&L balance on 31.03.2016	₹ 30,000
Less: Proposed Dividend for	
FY 2015-16 (₹ 1,00,000×10)**(Note 1)**	(₹10,000)
Correct Profit	**₹ 20,000**

Balance as on 01.04.2015

Balance as on 31.03.2016	₹30,000
Less: Net Profit during 2015-16	(₹9,000)
Less: 2015-16 Dividend	(₹1,000)
Capital Profit	**₹20,000**

Profit from 01.04.15 to 31.03.16

Profit during 2015-16	₹9,000
Less: Dividend for 2015-16	(₹9,000)
Revenue Profit	**NIL**

Note :

1. Dividend declared and paid by Green Ltd. is ₹10,000 (₹1,00,000 × 10%).

Dividend for 2015-16

Dividend for 2015-16 **₹10,000**

Out of Profit as at 01.04.2015 ₹1,000

Out of Profit for FY 15-16 ₹9,000

01.04.15 to 31.08.15 (5 Months) ₹3,750

01.09.15 to 31.03.16 (7 Months) ₹5,250

Consolidation of Balances

Particulars	Total ₹	Minority Interest ₹	Pre- Acquisition ₹	Post Acquisition
Green Ltd. (Holding 80%, Minority 20%)				P&L A/c ₹
Equity Capital	1,00,000	20,000	80,000	
Profit and Loss A/c	20,000	4,000	16,000	
Proposed Dividend	10,000	2,000	1,925 (Note 1)	6,075 (Note 2)
Minority Interest		26,000		
Total [Cr.]			97,925	
Cost of Investment [Dr.]			(99,000)	
Parent's Balance				10,000

For consolidated Balance Sheet			**1,075 Goodwill**	**16,075**

Note:

1. **Pre-acquisition : [80 % × ₹1,000 = ₹800] + [30% × ₹3,750] = ₹1,925.**
2. **Post acquisition: [50% × 3,750 = ₹1,875] + [80% × ₹5,250] = ₹6,075.**

19. The summarised Balance Sheet of Apple Ltd., Orange Ltd. and Banana Ltd. as on 31st March, 2016 are given below: **(₹ in, 000)**

Liabilities	Apple Ltd.	Orange Ltd.	Banana Ltd.	Assets	Apple Ltd.	Orange Ltd.	Banana Ltd.
Share Capital: Equity Shares of ₹ 10 each fully paid up	300	200	120	Fixed Assets	140	240	206
Reserves	100	80	60	Investment (at cost): Shares in Orange Ltd. Shares in Banana Ltd.	 180 80	 100	
Profit & Loss A/c	120	100	80	Stock-in-trade	80	60	40
Sundry Creditors	60	70	50	Sundry Debtors	40	50	60
Apple Ltd.	—	20	16	Due from:			
				Orange Ltd.	24		
				Banana Ltd.	16		
				Cash in Hand	20	20	20
Total	580	470	326	Total	580	470	326

Additional information:

(i) Apple Ltd., held 16,000 shares of Orange Ltd. and 3,600 shares of Banana Ltd.
(ii) Orange Ltd. held 7,200 shares of Banana Ltd.
(iii) All investments were made on 1st July, 2015
(iv) The following were the balances on 1st July, 2015:

	Orange Ltd.	Banana Ltd.
Reserves	50,000	30,000
Profit & Loss A/c	40,000	50,000

(v) Orange Ltd. invoiced goods to Apple Ltd. for ₹ 8,000 at a cost plus 25% in December, 2015. The closing stock of Apple Ltd. includes such goods valued at ₹ 10,000.
(vi) Apple Ltd. proposed dividend at 15%.

Prepare the consolidated Balance Sheet as on 31st March, 2016.

Answer:

Consolidated Balance Sheet of Apple Ltd. and its Subsidiaries Orange Ltd. and Banana Ltd. as on 31st March 2016

Particulars	Note No	₹
I. EQUITY AND LIABILITIES		

(1) Shareholder's Funds		
(a) Share Capital		3,00,000
(b) Reserves and Surplus	1	3,44,200
(2) Share application money pending allotment		
(3)Minority Interest	2	1,08,800
(4) Non-current liabilities		
(5)Current Liabilities		
(a)Trade Payables	3	1,80,000
(b)Other current liabilities	4	45,000
Total		9,78,000
II. ASSETS		
(1) Non-current assets		
(a) Fixed assets	5	5,86,000
(2) Current assets		
(a) Inventories	6	1,78,000
(b) Trade receivables	7	1,50,000
(c) Cash and cash equivalents	8	64,000
Total		9,78,000

[Relevant Notes]

1.	Reserve and Surplus	₹	₹
	Capital Reserve (WN – 3)	52,000	
	Other Reserves (WN – 6)	1,47,400	
	Profit and Loss A/c (WN – 5)	1,44,800	3,44,200
2	Minority interest		
	Orange Ltd.	82,800	
	Banana Ltd.	26,000	1,08,800
3.	Trade Payables		
	Apple Ltd.	60,000	
	Orange Ltd.	70,000	
	Banana Ltd.	50,000	1,80,000
4	Other current Liabilities		
	Proposed Dividend		45,000
5	Fixed Assets		
	Apple Ltd.	1,40,000	
	Orange Ltd.	2,40,000	
	Banana Ltd.	2,06,000	5,86,000
6	Inventories		
	Apple Ltd 80,000 Less: Unrealised profit 2,000	78,000	
	Orange Ltd	60,000	
	Banana Ltd	40,000	1,78,000
7	Trade Receivables		
	Apple Ltd.	40,000	
	Orange Ltd.	50,000	
	Banana Ltd.	60,000	1,50,000
8	Cash and cash equivalents		

	Cash in hand			
	Apple Ltd.	20,000		
	Orange Ltd.	20,000		
	Banana Ltd.	20,000	60,000	
	Cash in Transit		4,000	64,000

Working Notes:

Shareholding Pattern:

	Number of shares	% of holding
In Orange Ltd.		
Apple Ltd.	16,000	80%
Minority Interest	4,000	20%
In Banana Ltd.		
Apple Ltd.	3,600	30%
Orange Ltd.	7,200	60%
Minority Interest	1,200	10%

1. Analysis of profit of Banana Ltd.

	Pre-acquisition	Post acquisition	
	Capital Reserve	Revenue Reserve	Revenue Profit
Reserve as on 1.7.2015 Profit and Loss A/c on 01.07.2015	30,000 50,000	- -	- -
Increase in Reserves	-	30,000	-
Increase in Profit	-	-	30,000
	80,000	30,000	30,000
Less: Minority Interest (10%)	8,000	3,000	3,000
	72,000	27,000	27,000
Share of Apple Ltd	24,000	9,000	9,000
Share of Orange Ltd	48,000	18,000	18,000

2. Analysis of profit of Orange Ltd.

	Pre-acquisition	Post acquisition	
	Capital Reserve	Revenue Reserve	Revenue Profit
Reserve as on 1.7.2015 Profit and Loss A/c on 1.7.2015	50,000 40,000	- -	- -
Increase in Reserves	-	30,000	-
Increase in Profit	-	-	60,000
	90,000	30,000	60,000
Share in profit of Banana Ltd. (post acquisition)	-	18,000	18,000
	90,000	48,000	78,000
Less: Minority Interest (20%)	18,000	9,600	15,600
Share of Apple Ltd.	72,000	38,400	62,400

3. Cost of control

		₹	₹
Investment in Orange Ltd			1,80,000
Investment in Banana Ltd By Orange Ltd By Apple Ltd	 1,00,000 80,000		 1,80,000
			3,60,000
Less: Paid value of shares			
In Orange Ltd.	1,60,000		
In Banana Ltd.	1,08,000	2,68,000	
Capital Profit of Apple Ltd			
In Orange Ltd	72,000		
In Banana Ltd.	24,000	96,000	
Capital Profit of Orange Ltd in Banana Banana Ltd.		48,000	4,12,000
Capital Reserve			52,000

4. Minority Interest

	Orange Ltd (₹)	Banana Ltd (₹)
Share Capital	40,000	12,000
Capital Profit	18,000	8,000
Revenue Reserve	9,600	3,000
Revenue Profit	15,600	3,000
	83,200	26,000
Less: Unrealised profit on stock 20% of (₹ 10,000 x 25/125)	400	-
	82,800	26,000

5. Profit and Loss A/c - Apple Ltd.

	₹
Balance as per separate Balance Sheet	1,20,000
Less: Proposed dividend	45,000
	75,000
Add: Share of Orange Ltd	62,400
Share of Banana Ltd	9,000
	1,46,400
Less: Unrealised profit on Stock (10,000 x 25/125 x 80%)	1,600
	1,44,800

6. Other Reserve-Apple Ltd.

	₹
Balance as per separate Balance Sheet	1,00,000
Share of Orange Ltd.	38,400
Share of Banana Ltd.	9,000
	1,47,400

7. Cash in transit

	₹
Due to Apple Ltd. from Orange Ltd.	24,000
Less: Due by Orange Ltd.	20,000
	4,000

20. Mathi Ltd acquired 8,000 Shares of ₹100 each in Nidhi Ltd on 30.09.2014. The summarized Balance Sheets of the two Companies as on 31.03.2015 were as follows –

(₹'000)

EQUITY AND LIABILITIES	Mathi	Nidhi
(1)Shareholders' Funds:		
(a)Share Capital (₹ 100)	3,000	1,000
(b)Reserves & Surplus		
-Capital Reserve	---	550
-General Reserve	300	50
-Profit & Loss A/c	382	180
(2)Non-Current Liabilities:		
-Long Term Borrowings		
(Loan from Nidhi Ltd)	21	---
(3)Current Liabilities:		
Trade Payables		
-Sundry Creditors	179	70
-Bills Payable	---	17
(incl. ₹ 5,000 to Mathi Ltd)		
Total	3,882	1,867
ASSETS		
(1)Non-Current Assets:		
(a)Fixed Assets	1,500	1,447
(b)Non-Current Investments		
-Investments in Nidhi Ltd	1,700	---
(2)Current Assets:		
(a)Inventories	400	200
(b)Trade Receivables		
-Debtors	250	180
-Bills Receivable	12	---
(incl. ₹ 5,000 to Nidhi Ltd)		
(c)Cash & Cash Equivalents	20	20
(d)Short Term Loans & Adv.		
-Loan to Mathi Ltd	---	20
Total	3,882	1867

Contingent Liability (Mathi Ltd.): Bills discounted of ₹ 6,000.

Additional information:

(i) Nidhi Ltd made a Bonus issue on 31.03.2015 of one share for every two shares held, reducing the Capital Reserve equivalently, but the accounting effect to this has not been given in the above Balance Sheet.

(ii) Interest receivable for the year (₹1,000) in respect of the loan due by Mathi Ltd. to Nidhi Ltd had not been credited in the accounts of Nidhi Ltd.
(iii) The credit balance in Profit & Loss Account of Nidhi Ltd. on 01.04.2014 was ₹21,000.
(iv) The Directors decided on the date of the acquisition that the Fixed Assets of Nidhi Ltd were overvalued and should be written down by ₹50,000. Consequential adjustments on depreciation are to be ignored.

Prepare the Consolidated Balance Sheet as at 31.03.2015, showing your workings.

Answer:

A. Basic Information

Company Status	Dates	Holding Status
Holding Company = Mathi Ltd	Acquisition: 30.09.2014	Holding Company = 80%
Subsidiary = Nidhi Ltd	Consolidation: 31.03.2015	Minority Interest = 20%

B. Analysis of Reserves and Surplus of Nidhi Ltd.

(a) Capital Reserve

Balance as on date of Consolidation	₹ 5,50,000	Remarks
Less: Bonus Issue (₹10,00,000 x ½)	₹ 5,00,000	The entire balance is considered as **Capital Profit**
Corrected Balance	**₹ 50,000**	

(b) Revaluation of Assets: Loss (₹50,000) = Capital Profit

(c) General Reserve

Balance as per B/s ₹50,000

As on 01.04.14 (Date of previous B/s)	01.04.09 to 31.03.15 (upto Consolidation)
₹50,000.	₹ NIL (balancing figure)
Assumed that entire balance is available	Revenue Reserve

(d) Profit and Loss Account

Balance as on date of Consolidation	₹ 1,80,000
Add: Interest on Loan to Mathi (Given)	₹ 1,000
Corrected Balance	**₹ 1,81,000**

Balance on 01.04.14
(Date of previous B/s)
₹ 21,000

Profit for 2014 – 15 (Balancing Figure) ₹ 1,60,000

Upto date of acquisition 01.04.14 to 30.09.14 ₹1,60,000 x 6/12	Acquisition to Consolidation 30.09.2014 to 31.03.2013 ₹1,60,000 x 6/12
Capital Profit ₹ 80,000	Revenue Profit ₹ 80,000

Total Capital Profits: 21,000 + 80,000 = ₹ 1,01,000, Total Revenue Profits: ₹ 80,000.

C. Consolidation of Balances

Particulars	Total	Minority Interest	Pre-Acquisition	Post Acquisition	
Nidhi Ltd (Holding 80%, Minority 20%)				Gen. Res.	P&L A/c
Equity Capital [₹ 10,00,000 + Bonus Shares ₹ 5,00,000]	15,00,000	3,00,000	12,00,000		
General Reserves	50,000	10,000	40,000		
Profit and Loss A/c	1,81,000	36,200	80,800		64,000
Capital Reserve	50,000	10,000	40,000		
Loss on Revaluation of Assets	(50,000)	(10,000)	(40,000)		
Minority Interest		3,46,200			
Total [Cr]			13,20,800		64,000
Cost of Investment [Dr.]			(17,00,000)		
Parent's Balances				3,00,000	3,82,000
For Consolidated Balance Sheet		3,46,200	(3,79,200) (Goodwill)	3,00,000	4,46,000

D. Consolidated Balance Sheet of Mathi Ltd and its Subsidiary Nidhi Ltd as at 31.03.15

	Particulars	Note	This Year	Prev. Yr.
I	EQUITY AND LIABILITIES			
(1)	Shareholders' Funds:			
	(a) Share Capital	1	30,00,000	
	(b) Reserves & Surplus	2	7,46,000	
(2)	Minority Interest		3,46,200	
(3)	Current Liabilities: Trade Payables	3	2,61,000	
	Total		43,53,200	
II	ASSETS			
(1)	Non-current Assets			
	Fixed Assets: (i) Tangible Assets (15,50,000+14,47,000-Revaln 50,000)		28,97,000	
	(ii) Intangible Assets – Goodwill on Consolidation		3,79,200	
(2)	Current Assets			
	(a) Inventories = 4,00,000 + 2,00,000		6,00,000	
	(b) Trade Receivables	4	4,37,000	
	(c) Cash & Cash Equivalents = 20,000 + 20,000		40,000	
	Total		43,53,200	

Contingent Liability for Bills Discounted ₹ 6,000.

Notes to the Balance Sheet

Note 1: Share Capital

Particulars	This Year	Prev. Yr.
Authorized: ……………Equity Shares of ₹ 100 each		
Issued, Subscribed & Paid Up: 30,000 Equity Shares of ₹ 100 each.	30,00,000	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Yr.
(a) Other Reserves - General Reserve	3,00,000	
(b) Surplus (Balance in P&L A/c)	4,46,000	

Total	7,46,000	

Note 3: Trade Payables

Particulars	This Year	Prev. Yr.
(a) Sundry Creditors	2,49,000	
(b) Bills Payable	12,000	
Total	2,61,000	

Note 4: Trade Receivables

Particulars	This Year	Prev. Yr.
(a) Sundry Debtors (2,50,000 + 1,80,000)	4,30,000	
(b) Bills Receivable (12,000 – 5,000 Mutual Owings)	7,000	
Total	4,37,000	

Note: Fixed Assets have been revalued for the purpose of consolidation, and the depreciation on the Revaluation Loss has been ignored as it is specifically stated in the question.

Study Note 4 – Recent Trends in Financial Reporting

21. (a) List the benefits of Triple Bottom Line Reporting.

Answer:

The benefits emerging from triple bottom line reporting are discussed hereunder:

- **Enhancement of reputation and brand:** Corporate reputation is a function of the way in which a company is perceived by its stakeholders. Effective communication with stakeholders on one or more of the environmental, social, and economic dimensions can play an important role in managing stakeholder perceptions and, in doing so, protect and enhance corporate reputation.
- **Securing a social license to operate:** A 'license to operate' is not a piece of paper, but informal community and stakeholder support for an organisation's operations. Business is increasingly recognising the link between ongoing business success and its 'license to operate', especially in the resources sector. Communication with stakeholders is often critical to securing and maintaining a 'license to operate'. Communities and stakeholders generally, are likely to be more supportive of companies that communicate openly and honestly about their management and performance in relation to environmental, social and economic factors.
- **Attraction and retention of high caliber employees:** Existing and prospective employees have expectations about corporate environmental, social and economic behaviour, and include such factors in their decisions regarding working for an organisation. The publication of TBL-related information can play a role in positioning an employer as an 'employer of choice' which can enhance employee loyalty, reduce staff turnover and increase a company's ability to attract high quality employees.
- **Improved access to investor market:** A growing number of investors are including environmental and social factors within their decision-making processes. The growth in socially responsible investment and shareholder activism is evidence of this. Responding to investor requirements through the publication of TBL-related information is a way of ensuring that the company is aligning its communication with this stakeholder group, and therefore enhancing its attractiveness to this segment of the investment market.

- **Establish position as a preferred supplier:** Obtaining a differentiated position in the market place is one way to establish the status of preferred supplier. Effectively communicating with stakeholder groups on environmental, social and economic issues is central to obtaining a differentiated position in the market place.
- **Reduced risk profile:** There is an expanding body of evidence to suggest that performance in respect of economic, social and environmental factors has the capacity to affect the views of market participants about a company's exposure to, and management of risk. TBL reporting enables a company to demonstrate its commitment to effectively managing such factors and to communicate its performance in these areas. A communication policy that addresses these issues can play an important role in the company's overall risk management strategy.
- **Identification of potential cost savings:** TBL reporting often involves the collection, collation and analysis of data on resource and materials usage, and the assessment of business processes. For example, this can enable a company to better identify opportunities for cost savings through more efficient use of resources and materials.
- **Increased scope for innovation:** The development of innovative products and services can be facilitated through the alignment of R&D activity with the expectations of stakeholders. The process of publishing TBL reporting provides a medium by which companies can engage with stakeholders and understand their priorities and concerns.
- **Aligning stakeholder needs with management focus:** External reporting of information focuses management attention on not only the integrity of the data but also the continuous improvement of the indicator being reported.
- **Creation of sound basis for stakeholder dialogue:** Publication of TBL reporting provides a powerful platform for engaging in dialogue with stakeholders. Understanding stakeholder requirements and alignment of business performance with such requirements is fundamental to business success. TBL reporting demonstrates to stakeholders the company's commitment to managing all of its impacts, and, in doing so, establishes a sound basis for stakeholder dialogue to take place.

  In addition to the benefits obtained through superior relationships with key stakeholder groups, the decision to be publicly accountable for environmental and social performance is often recognised as a powerful driver of internal behavioural change. The availability of relevant information on economic, environmental and social performance that previously may not have been collected and evaluated in a readily understood manner may enable executives to identify and focus attention on specific aspects of corporate performance where improvement is required.

(b) Discuss the prerequisites of implementation of TBL Reporting.

Answer:

TBL reporting would be of little relevance to the reporting company or its stakeholders if it is not aligned to the company's overall business strategy. A decision to move to full TBL reporting should not be taken lightly. It must have senior management endorsement and commitment, as it may have major resource implications, and a halfhearted approach is likely to be worse than not adopting it all.

Strategy for implementation

Critical issues for consideration in the development and implementation of TBL reporting include:

- clear definition of the role of TBL reporting in driving strategic business objectives;
- establishment of the resource and cost requirements;
- awareness of associated legal implications; and

- understanding the risks involved in publishing TBL information.

Key Challenges for Implementation

The key challenges for implementation of TBL reporting framework are:
- Awareness of relevant issues associated with TBL reporting;
- Understanding stakeholder requirements;
- Aligning TBL reporting with objectives and risks; and
- Determining and measuring performance indicators.

Study Note 5 – Valuation, Accounting and Reporting of Financial Instruments and others

22. (a) Find out the average capital employed of Magical Ltd. From its Balance Sheet (Draft) as at 31st March,2016:

Liabilities	₹ in Lakhs	Assets	₹ in Lakhs
Share Capital:		Fixed Assets:	
Equity Shares of ₹10 each	50.00	Land and buildings	25.00
9% Pref. Shares fully paid up	10.00	Plant and machinery	80.25
Reserve and Surplus:		Furniture and Fixture	5.50
General reserve	12.00	Vehicles	5.00
Profit and Loss	20.00	Investments	10.00
Secured loans		Current Assets:	
16% Debentures	5.00	Stock	6.75
16% Term loan	18.00	Sundry debtors	4.90
Cash credit	13.30	Cash and Bank	10.40
Current Liabilities and Provisions:		Preliminary Expenses	0.50
Sundry creditors	2.70		
Provision for taxation	6.40	Proposed Dividend on Equity Shares	10.00
Preference Shares	0.90		
	148.30		148.30

Non-trade investments were 20% of the total investments.
Balance as on 01.04.2015 to the following accounts were:
Profit and loss Account ₹8.70 lakhs
General reserve ₹6.50 lakhs.

Answer:

Calculation of Average Capital Employed

Particulars		Amount ₹
Fixed Assets:		
Land & Building		25.00
Plant & Machinery		80.25
Vehicles		5.50
Investments (80% of ₹10)		5.00

Current Assets		8.00
Debtors		4.90
Stock		6.75
Cash & Bank		10.40
		145.80
Less: Secured Loans		
16% Debentures	5.50	
16% Term Loan	18.00	
Cash Credit	13.30	
Current Liabilities & Provisions		
Sundry Creditors	2.70	
Provision for tax	6.40	(45.40)
Closing Capital Employed		100.40
Less: ½ of Rectified Profit [1/2 of 27.70]	13.85	
Average Capital Employed		86.55
Calculation of rectified profit		
Increase in general Reserve (12 – 6.50)	5.50	
Increase in Profit and Loss (20 – 8.70)	11.30	
Add: Proposed Dividend	10.90	
Rectified Profit	27.70	

(b) The Balance Sheet of Jupiter Ltd. as on 31st March, 2016 is as under:

(₹ in Lakhs)

Liabilities	₹	Assets	₹
Equity Shares ₹10 each	**3,000**	**Goodwill**	**744**
Reserves (including provision for taxation of ₹300 lakhs)	**1,000**	**Premises and Land at cost**	**400**
5% Debentures	**2,000**	**Plant and Machinery**	**3,000**
Secured Loans	**200**	**Motor Vehicles (purchased on 1.10.15)**	**40**
Sundry Creditors	**300**	**Raw materials at cost**	**920**
Profit & Loss A/c		**Work-in-progress at cost**	**130**
Balance from previous B/S ₹32		**Finished Goods at cost**	**180**
Profit for the year		**Book Debts**	**400**
(After taxation) ₹1100	**1,132**	**Investment (meant for replacement of Plant and Machinery)**	**1,600**
		Cash at Bank and Cash in hand	**192**
		Discount on Debentures	**10**
		Underwriting Commission	**16**
	7,632		**7,632**

The resale value of Premises and Land is ₹1,200 lakhs and that of Plant and Machinery is ₹2,400 lakhs. Depreciation @ 20% is applicable to Motor Vehicles. Applicable depreciation on Premises and Land is 2%, and that on Plant and Machinery is 10%. Market value of the Investments is ₹1,500 lakhs. 10% of book debts is bad. In a similar company the market value of equity shares of the same denomination is ₹25 per share and in such company dividend is consistently paid during last 5 years @ 20%. Contrary to this, Jupiter Ltd. is having a marked upward or downward trend in the case of dividend payment.

Past 5 years' profits of the company were as under:	
2010-11	₹67 lakhs
2011-12	(-) ₹1,305 lakhs (loss)
2012-13	₹469 lakhs
2013-14	₹546 lakhs
2014-15	₹405 lakhs

The unusual negative profitability of the company during 2011-12 was due to the lock out in the major manufacturing unit of the company which happened in the beginning of the second quarter of the year 2010-11 and continued till the last quarter of 2010-11.Value the Goodwill of the Company on the basis of 4 years' purchase of the Super Profit. (Necessary assumption for adjustment of the Company's inconsistency in regard to the dividend payment, may be made by the examinee).

Answer:

Calculation of capital employed		
Present value of assets:	**₹ (in lakhs)**	**₹ (in lakhs)**
Premises and land	1,200	
Plant and machinery	2,400	
Motor vehicles (book value less depreciation for ½ year)	36	
Raw materials	920	
Work-in-progress	130	
Finished goods	180	
Book debts (400 x 90%)	360	
Investments	1,500	
Cash at bank and in hand	192	
		6,918
Less: Liabilities:		
Provision for taxation	300	
5% Debentures	2,000	
Secured loans	200	
Sundry creditors	300	2,800
Total capital employed on 31.3.16		4,118

2. Profit available for shareholders for the year 2015-16		**₹ (in Lakhs)**
Profit for the year as per Balance Sheet		1,100
Less: Depreciation to be considered		
Premises and land	24*	
Plant & machinery	240*	
Motor vehicles	4	268
		832
Less: Bad debts		40
Profit for the year 15 -16		792

3. Average capital employed	₹ (in Lakhs)
Total capital employed Less: ½ of profit for the current year [Refer point 2]	4,118 396
Average capital employed	3,722

* Depreciation on premises and land and plant and machinery have been provided on the basis of assumption that the same has not been provided for earlier

4. Average profit to determine Future Maintainable Profits	₹ (in lakhs)
Profit for the year 2015 -16 Profit for the year 2014-15 Profit for the year 2013-14 Profit for the year 2012-13	792 405 546 469
2212 / 4	553

5. Calculation of General Expectation:
Jupiter Ltd. pays ₹2 as dividend (20%) for each share of ₹10.
Market value of equity shares of the same denomination is ₹25 which fetches dividend of 20%.
Therefore, share of ₹10 (Face value of shares of Jupiter Ltd.) is expected to fetch (20/25)x10 = 8% return.
Since Jupiter Ltd. is not having a stable record in payment of dividend, in its case the expectation may be assumed to be slightly higher, say 10%

6. Calculation of super profit	₹ (in Lakhs)
Future maintainable profit [See point 4] Normal profit (10% of average capital employed as computed in point 3)	553.00 372.20
Super Profit	180.80

7. Valuation of Goodwill	₹ (in Lakhs)
Goodwill at 4 years' purchase of Super Profit	723.20

Notes:
(1) It is evident from the Balance Sheet that depreciation was not charged to Profit & Loss Account.
(2) It is assumed that provision for taxation already made is sufficient.
(3) While considering past profits for determining average profit, the years 2010-11 and 2011-12 have been left out, as during these years normal business was hampered.

23. (a) From the following information, calculate the value of a share if you want to
(i) Buy a small lot of Shares;
(ii) Buy a controlling interest in the Company

Year	Profit (₹)	Capital Employed (₹)	Dividend %
2013	27,50,000	1,71,87,500	12
2014	80,00,000	4,00,00,000	15
2015	1,10,00,000	5,00,00,000	18
2016	1,25,00,000	5,00,00,000	20

The market Expectation is 12%.

Answer:

(i) Buy a small lot of Shares

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

Year	Rate of Dividend	Weight	Product
2013	12	1	12
2014	15	2	30
2015	18	3	54
2016	20	4	80
		10	**176**

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

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

$$\frac{\text{Average dividend rate}}{\text{Market expectation rate}} \times 100 = \frac{17.6}{12} \times 100 = ₹146.67 \text{ per share}$$

(ii) Buy a controlling interest in the Company

If the purpose of valuation is to provide data base to aid a decision of buying controlling interest in the company, total profit will be relevant to determine the value of shares as the shareholders have capacity to influence the decision of distribution of profit. As the profit is rising, weighted average will be more appropriate for calculation of average profit/ yield.

Year	Yield % (Profit/ capital employed) X 100	Weight	Product
2013	16	1	16
2014	20	2	40
2015	22	3	66
2016	25	4	100
		10	**222**

Average yield = $\frac{222}{10} = 22.2\%$

If controlling interest in the company is being taken over, then the value per share will be

$$= \frac{\text{Average yield rate}}{\text{Market expectation rate}} \times 100 = \frac{22.2}{12} \times 100 = ₹185 \text{ per share}$$

(b) Mr.Dey buys a stock option of PQR Co. Ltd. in July, 2015 with a strike price on 30.07.2015 of ₹ 250 to be expired on 30.08.2015. 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:

Date	Particulars	Debit ₹	Credit ₹
	At the time of inception		
2014. July	Stock option premium A/c Dr. To Bank A/c (Being premium paid to buy a stock option)	2,000	 2,000
	Deposit for margin money A/c Dr. To Bank A/c (Being margin money paid on stock option)	12,000	 12,000
	At the time of settlement		
August	**(i) Option is settled by delivery of the asset** Shares of PQR Ltd. A/c Dr. To Deposit for margin money A/c To Bank A/c (Being option exercised and shares acquired, ₹ 12,000 margin money adjusted and the balance amount was paid)	 25,000	 12,000 13,000
	Profit and loss A/c Dr. To Stock option premium A/c (Being the premium transferred to profit and loss account on exercise of option)	2,000	 2,000
	(ii) Option is settled in cash Profit and loss A/c Dr. To Stock option premium A/c (Being the premium transferred to profit and loss account)	 2,000	 2,000
	Bank A/c (₹ 100 ×10) Dr. To Profit and loss A/c (Being profit on exercise of option)	1,000	 1,000
	Bank A/c Dr. To Deposit for margin money A/c (Being margin on equity stock option received back on exercise of option)	12,000	 12,000

Study Note 6 – Share Based Payment

24. (a) Nice Ltd. grants 180 share options to each of its 690 employees. Each grant contains condition on the employees working for Nice Ltd. over the next 4 years. On November,2016 Nice Ltd. has estimated that the fair value of option is ₹15. It has also estimated that 30% of employees will leave during four periods and forfeit their rights to the share option. If the above expectations are correct, what amount of expenses to be recognized during vesting period?

Answer:

Expense to be recognize during 4 years' vesting period

Year	Calculation	Expense for the period ₹	Cumulative expenses ₹
1	690 employees × 180 options × 70% × ₹15 × ¼	3,26,025	3,26,025
2	[690 employees × 180 options × 70% × ₹15 × 2/4 years] - ₹3,26,025	3,26,025	6,52,050
3	[690 employees × 180 options × 70% × ₹15 × 3/4	3,26,025	9,78,075

	years] - ₹6,52,050		
4	[690 employees × 180 options × 70% × ₹15 × 4/4 years] - ₹9,78,075	3,26,025	13,04,100

(b) Softy Ltd. announced a Stock Appreciation Right (SAR) on 01.04.2013 for each of its employees. The scheme gives the employees the right to claim cash payment equivalent to an excess of market price of company shares on exercise date over the exercise price of ₹125 per share in respect of 100 shares, subject to a condition of continuous employment of 3 years. The SAR is exercisable after 31.03.2016 but before 30.06.2016.
The fair value of SAR was ₹21 in 2013-14, ₹23 2014-15 and ₹24 in 2015-16. In 2013-14 the company estimated that 2% of its employees shall leave the company annually. This was revised to 3% in 2014-15. Actually 15 employees left the company in 2013-14, 10 left in 2014-15 and 8 left in 2015-16. The SAR therefore actually vested in 492 employees on 30.06.2016; when SAR was exercised the intrinsic value was ₹25 per share.
Show the provision for SAR account by fair value method. Is this provision a liability or equity?

Answer:

Provision for SARs Account in the books of Softy Ltd.

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
Year 2013-14	To Balance c/d	3,45,891	2013-14	By Employees' Compensation A/c	3,45,891
		3,45,891			3,45,891
2014-15	To Balance c/d	7,35,785	2014-15	By Balance b/d	3,45,891
				By Employees' Compensation A/c	3,89,894
		7,35,785			7,35,785
2015-16	To Balance c/d	11,80,800	2015-16	By Balance b/d	7,35,785
				By Employees' Compensation A/c	4,45,015
		11,80,800			11,80,800
	To Bank A/c	12,30,000		By Balance b/d	11,80,800
				By Employees' Compensation A/c	49,200
		12,30,000			12,30,000

Note: The Provision for Stock Appreciation Right (SARs) is a liability. Therefore SARs are settled through cash payment equivalent to an excess of market price of company's shares over the exercise price on exercise date.

Working Notes:

Year 2013-14

Number of employees to whom SARs were announced (492+15+10+8) = 525 employees
Number of SARs expected to vest = (525 × 0.98 × 0.98 × 0.98) × 100 = 49,413 SARs expected to lies years 2013-14 and 2014-15. It can also be worked out by rounding off the number of employees.
Fair value of SARs = 49,413 SARs × 21 = 10,37,673
Vesting period = 3 years

Value of SARs recognized as expense in year 2013-14 = 10,37,673/3 years = 3,45,891.

Year 2014-15

Number of SARs expected to vest
= [(525-15)×0.97×0.97]×100= 47,986 SARs
Fair value of SARs = 47,986 SARs × `23 = `11,03,678
Vesting period = 3 years
Number of years expired = 2 years
Cumulative value of SARs to be recognized as expense
= `11,03,678/3 × 2 = `7,35,785
Value of SARs recognized as expense in year 2014-15
= `7,35,785 - `3,45,891 = `3,89,894

Year 2015-16

Fair value of SARs = `24
SARs actually vested = 492 employees × 100 = 49,200 SARs
Fair value = 49,200 SARs × `24 = `11,80,800
Cumulative value of SARs to be recognized = `11,80,800
Value of SARs to be recognized as an expense in = `11,80,800 - `7,35,785
= `4,45,015

Year 2016-17

Cash payment of SARs = 49,200 SARs × `25 = `12,30,000
Value of SARs to be recognized as an expense in 2016-17
= `12,30,000 - `11,80,800 = `49,200

Study Note 7 – Reporting through XBRL (Extended Business Reporting Language)

25. (a) Discuss the meaning of XBRL.

Answer:

XBRL is a language for the electronic communication of business and financial data which is revolutionising the business reporting around the world. The term XBRL includes four terminologies – Extensible, Business, Reporting and Language. These terms are briefly discussed hereunder:

(a) Extensible: This term implies that the user can extend the application of a particular business data beyond its original intended purpose. The major advantage in it is that the extended use can be determined even by the users and not just the ones who merely prepare the business data. This is achieved by adding tags which are both human and machine readable – describing what the data is.
(b) Business: This platform is relevant to any type of business transaction. It is to be noted that XBRL focus is on describing the financial statements for all kinds of entities.
(c) Reporting: The intention behind promoting the use of XBRL is to have all companies report their financial statements in a consolidated manner using the specified formats.
(d) Language: XBRL is based on 'eXtensible Markup Language' (XML). It is one of a family of "XML" languages which is becoming a standard means of communicating information between businesses and on the internet. It prescribes the manner in which the data can

be "marked-up" or "tagged" to make it more meaningful to human readers as well as to computers-based system.

(b) Discuss the features of XBRL.

Answer:

Features of XBRL:

1. Clear Definitions XBRL allows the creation of reusable, authoritative definitions, called taxonomies, which capture the meaning contained in all of the reporting terms used in a business report, as well as the relationships between all of the terms. Taxonomies are developed by regulators, accounting standards setters, government agencies and other groups that need to clearly define information that needs to be reported upon. XBRL doesn't limit what kind of information is defined: it's a language that can be used and extended as needed.
2. Testable Business Rules XBRL allows the creation of business rules that constrain what can be reported. Business rules can be logical or mathematical, or both. These business rules can be used to:
   - Prevent poor quality information being sent to a regulator or third party, by being run by the preparer while the report is in draft stage.
   - Prevent poor quality information being accepted by a regulator or third party, by being run at the point that the information is being received. Business reports that fail critical rules can be sent back to the preparer for review and resubmission.
   - Identifying or highlighting questionable information, allowing prompt follow up, correction or explanation.
   - Creation of ratios, aggregations and other kinds of value-added information, based on the fundamental data provided.
3. Multi-lingual Support XBRL allows concept definitions to be prepared in as many languages as necessary. Translations of definitions can also be added by third parties. This means that it's possible to display a range of reports in a different language to the one that they were prepared in, without any additional work. The XBRL community makes extensive use of this capability as it can automatically open up reports to different communities.
4. Strong Software Support XBRL is supported by a very wide range of software from vendors large and small, allowing a very wide range of stakeholders to work with the standard

Study Note 8 – Government Accounting

26. Discuss the general principles of Government Accounting.

Answer:

The general principles of government accounting are highlighted hereunder:

1. Classification of expenditures: The Government Expenditures are classified under Sectors, major heads, minor heads, sub-heads and detailed heads of account. 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. Based on budget: government accounting is based on the annual budget of the government. 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; and
(b) whether it can and should increase or decrease taxation accordingly.

3. End products of government accounting: 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.

4. 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.

5. Cash basis of accounting: 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 (C&AG),the transactions in government accounts shall represents the actual cash receipt and disbursement during a financial year.

6. Form of Accounts: The accounts of Government are kept in three parts namely, Consolidated Fund, Contingency Fund and Public Account.

27. (a) List the roles of Public Accounts Committee.

Answer:

Role of Public Accounts Committee (P.A.C)

1. **Role regarding examination of the C&AG report:** The chief function of P.A.C. is to examine the audit report of Comptroller and Auditor General (C&AG) after it is laid in the Parliament. C&AG assist the Committee during the course of investigation.
2. **Role regarding unauthorized expenditures or excess expenditures:** In examining the report of the Comptroller and Auditor General of India (C&AG), the committee has to satisfy itself that:
   - the expenditures made by the government, were authorized by the Parliament; and
   - the expenditures under any head has not crossed the limits of parliamentary authorization.

   It is to be noted that, every expenditure made by the government must be sanctioned by the Parliament. Thus, it is the role of the committee to bring to the notice of the Parliament instances of unauthorized expenditures or expenditures beyond sanctioned limits.
3. **Role regarding spending of money by ministries:** The committee not only ensures that ministries spend money in accordance with parliamentary grants, it also brings to the notice of the Parliament instances of extravagance, loss, in fructuous expenditure and lack of financial integrity in public services. However, the committee cannot question the polices of the government. It only concerns itself with the execution of policy on its financial aspects.
4. **Scrutinizing the audit reports of public corporations:** A new dimension has been added to the function of the P.A.C. by entrusting it with the responsibility of scrutinizing the audit report of public corporations.

5. **Scrutinising the working process of ministries and public corporations:** In examining the accounts and audits of the ministries and public corporations, the Committee gets the opportunity to scrutinize the process of their working. It points out the weakness and shortcomings of the administration of ministries and public corporations Criticisms of the P.A.C. draw national attention. This keeps the ministries and public corporations sensitive to the criticisms of the P.A.C. Thus, it is wrong to suppose that the P.A.C. is only an instrument of financial control, it is as well an instrument of administrative control.

(b) Write a note on Responsibilities of GASAB

Answer:

GASAB, inter alia, has the following responsibilities:

1. To formulate 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 nature and purpose of information contained in the financial reports

28. Write a note on ‘ Disclosure Requirement as per IGAS 1’

Answer:

Disclosure requirements as per IGAS 1

The Financial Statements of the Union Government, the State Governments and the Union Territory Governments (with legislature) shall disclose the following:

- maximum amount for which Guarantees have been given during the year, additions and deletions (other than invoked during the year) as well as Guarantees outstanding at the beginning and end of the year;
- amount of Guarantees invoked and discharged or not discharged during the year;
- details of Guarantee commission or fee and its realisation; and
- other material details.

The Financial Statements of the Union Government, the State Governments and the Governments of Union Territories (with legislature) shall disclose in the notes the following details concerning class or sector of Guarantees:

- limit, if any, fixed within which the Government may give Guarantee;
- whether Guarantee Redemption or Reserve Fund exists and its details including disclosure of balance available in the Fund at the beginning of the year, any payments made and balance at the end of the year;
- details of subsisting external foreign currency guarantees in terms of Indian rupees on the date of Financial Statements;

- details concerning Automatic Debit Mechanism and Structured Payment Arrangement, if any;
- whether the budget documents of the Government contain details of Guarantees:
- details of the tracking unit or designated authority for Guarantees in the Government; and
- other material details.

29. (a) Discuss the objectives and scope of IGAS 2.

Answer:

Objective: The objectives of this Standard are:

- 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.
- 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 such as Grants-in-aid 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.

(b) Write a note on IGFRS 2: Property, Plant and Equipment

Answer:

IGFRS 2: Property, Plant and Equipment This standard has prescribed the accounting treatment for property, plant and equipment (PPE) so that users of financial statements can obtain information regarding an entity's investment in its property, plant and equipment and any changes in such investment. The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them. In addition, this standard aims at categorising assets according to their nature and also aims to provide for depreciation of assets, taking into account their usage over the life of the assets. The Accounting Standard is essentially an adaptation to Indian requirements of International Public Sector Accounting Standard (EPSAS 17) issued by IFAC on Property, Plant and Equipment. It also envisaged to provide guidance to pilot studies and the eventual development of a common reporting framework under accrual basis for the Union and the States. The IGFRS are subject to revision by GASAB based on experiences with pilot studies.

Short Note

30. Write Short note on the following:

(a) Scope of Ind AS 2 Inventories

Answer:

Ind AS 2 Inventories is applicable to all inventories except:

i. Financial Instruments
ii. Biological Assets related to agricultural activity and agricultural produce at the point of harvest ; and
iii. Work-in-progress arising under construction contracts including directly related service contracts

Ind AS 2 does not apply to the measurement of inventories held by:

(a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change.

(b) commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

(b) Users of Financial Statements and their Information Needs

Answer:

Users of Financial Statements and their Information Needs:

1. Investors	Information need of the group primarily relates to decision making of buy, hold or sale of the entity's share. Also dividend paying ability of the entity is a matter of interest.
2. Employees	Need to know about the stability and continued profitability of the employer which would ensure payment of remuneration, employee opportunities and retirement benefits.
3. Lenders	Interested in debt servicing ability
4. Suppliers and other trade creditors	Interested in information about the entity's ability in the short run to pay their dues. Of course, they are interested in long run viability of the entity, if it is the major customer.
5. Customers	Seek information about the continuation of the entity in particular if the entity is the major supplier.
6. Government and their agencies	They have manifold interests like taxation, contribution of the entity in the employment generation and economic activities of the nation and also the infrastructural facilities to be provided to serve the need of the entity commensurate with its contribution to the society.
7. Public	Mostly interested in employment generation and societal contribution.

(c) Myths regarding XBRL

Answer:

Myths regarding XBRL

(a) XBRL is not a set of Accounting Standards: It needs to be clearly understood that XBRL does not represent a set of accounting standards, which remain the prerogative of the regulatory standards bodies. XBRL is merely a platform on which reporting standards content will reside and be represented.

(b) XBRL is not a chart of accounts: It is not a detailed universal chart of accounts. Formulation of a company's chart of accounts is an exercise conducted by its management with regard to its specific business intricacies. XBRL can facilitate the implementation of such structures through its ability to transport data between disparate software applications that might be used within an organizations operational structures.

(c) XBRL is not a GAAP translator: It does not provide a mechanism for facilitating a drilldown of existing GAAP information into lower levels of information that would be necessary for translating financial statements from one GAAP to another. The business-reporting document contains the same GAAP information, be it in an XBRL format or an MS word or PDF format.

(d) XBRL is not a proprietary technology: XBRL is freely licensed and available to the public.

(e) XBRL is not a Transaction Protocol: XBRL deals with business reporting information, not with data capture at the transaction level. It is designated to address issues related to generation and usage of information contained within business reports and begin at the accounting classification level.

(d) Objectives of Government Accounting

Answer:

Objectives of Government Accounting

The objectives of government accounting are the financial administration of the activities of the government to promote maximisation of welfare in the form of various services. The specific objectives can be stated as under:

1. To record financial transactions of revenues and expenditure relating to the government organizations.
2. To provide reliable financial data and information about the operation of public fund.
3. To record the expenditures as per the appropriate Act, Rules, and legal provisions as set by the government.
4. To avoid the excess expenditures beyond the limit of the budget approved by the government.
5. To help in the preparation of various financial statements and reports.
6. To facilitate the auditing by the concerned government department.

7. To prevent misappropriation of government properties by maintaining the systematic records of cash and store items.
8. To facilitate for estimating the annual budget by providing historical financial data of government and expenditures.

(e) Cash and Cash Equivalent

Answer:

Cash and Cash Equivalent

Cash means cash in hand and balance of foreign currency. Cash equivalent implies bank balance and other risk-free short term investments, and advances which are readily encashable. Cash equivalent means short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. An investment of short maturity, say three months or less from the date of acquisition is generally considered as cash equivalent. Equity investments are not considered as cash equivalent because of high market risk. Investments in call money market, money market mutual funds, repo transactions, badla transactions, etc., are usually classified as cash equivalents.

(f) Financial Reporting vis-À-vis Triple Bottom Line Reporting

Answer:

Financial Reporting vis-À-vis Triple Bottom Line Reporting

Origin: The origination of financial reporting precedes that of Triple bottom line reporting, the latter being just a few decades old.

Nature: It is mandatory for corporates to prepare and present their financial reports; while preparation of full TBL reports including social and environmental dimension is voluntary in nature.

Scope: Triple bottom line reporting is broader in scope than financial reporting, as the former includes the reporting of social and environmental performances in addition to the financial performance of an organisation.

Contents: The information contained within a TBL report is of a different nature to that included in a financial report. Thus, TBL reporting enables environmental and social risks that have the capacity to materially affect long-term financial performance to be identified and, therefore, taken into consideration when preparing financial reports.

(g) Purpose of Share Valuation

Answer:

The shares of a company are required to valued for various purposes. Some of the most important purposes include the following:

1. For selling shares of a shareholder to a purchaser (which are not quoted in the stock exchange)
2. For acquiring a block of shares which may or may not give the holder thereof a controlling interest in the company.
3. To shares by employees of the company where the retention of such shares is limited to the period of their employment.
4. To formulate schemes of merger and acquisition.
5. To acquire interest of dissenting shareholders under a scheme of reconstruction.
6. For granting loans on the basis of security of shares
7. To compensate shareholders on the acquisition of their shares by the government under a scheme of nationalization.
8. For conversion of securities, say preference shares into equity shares.
9. To advance a loan on the security of shares.
10. To resolve a deadlock in the management of a company on the basis of the controlling block of shares given to either of the parties.

(h) Super Profit Method of Goodwill Valuation

Answer:

Super Profit Method of Goodwill Valuation:

- As per this method, the value of goodwill depends on the extra (i.e. super) profit earning capacity of an entity.
- Such 'Super Profit' refers to the excess profit earned by the entity over the normal profit that should be earned by a similar firm in the industry.
- Mathematically, Super Profit = Average Future Maintainable Profit – Normal Profit i.e. Super Profit = Average Future Maintainable Profit – (Average Capital Employed × Normal rate of return)
- Finally, the value of goodwill is determined by multiplying the Super Profit, so calculated, by certain 'Number of Years' Purchase'.
- ∴ Value of Goodwill = Super Profit × No. of Years' Purchase

(i) Types of Share Based Payment Plans

Answer:

Types of Share Based Payment Plans

Share-based payment plans generally take three forms i.e. Employee Stock Option Plans (ESOP), Employee Stock Purchase Plans (ESPP) and Stock Appreciation Rights (SAR). These are being defined as follows:

- Employee Stock Option Plan (ESOP): It is a contract that gives the employees of an enterprise the right, but not obligation, for a specified period to purchase or subscribe to the specified number shares of the enterprise at a fixed or determinable price, called the exercise price.

- Employee Stock Purchase Plan (ESPP): Under Employees' Stock Purchase Plans (ESPP), employees are given an option to subscribe to shares of employer in a public issue or otherwise. The exercise price is set at a specified rate of discount on the issue price/ market price on the date of exercise.
- Stock Appreciation Rights (SAR): These are the rights that entitle the employees to receive cash or shares for an amount equivalent to the excess of market price on exercise date over a stated price.

(j) Finance Lease

Answer:

Finance Lease

– It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the Lessee by the Lessor but not the legal ownership.
In following situations, the lease transactions are called Finance Lease.

- The lessee will get the ownership of leased asset at the end of the lease term.
- The lessee has an option to buy the leased asset at the end of term at price, which is lower than its expected fair value at the date on which option will be exercised.
- The lease term covers the major part of the life of asset.
- At the beginning of lease term, present value of minimum lease rental covers substantially the initial fair value of the leased asset.
- The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.