

FINAL EXAMINATION

December 2015

P-18(CFR)

Syllabus 2012

Corporate Financial Reporting

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Answer all the questions.

All workings must form part of your answer.

Assumptions, if any, must be clearly indicated.

Section A

1. (a) M/s. Eagle Ltd. gives you the following information as on 31.03.2015:

- (i) The Company has charged depreciation of ₹ 6,45,600 in its books of accounts, while as per income-tax computation, the depreciation available to the company is ₹ 7,64,100.
- (ii) The expense of ₹ 6,85,500 has been charged to profit and loss account which are disallowed under the Income-tax Act.
- (iii) The Company has debited share issue expenses of ₹ 5,46,400, which will be available for deduction under the Income-tax Act for the next year.
- (iv) The Company has made provision for doubtful debts for ₹ 45,600 during the year.
- (v) The Company has made donation of ₹ 3,00,000, which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income-tax law.

You are required to compute the deferred tax assets and deferred tax liability as on 31.03.2015. The tax rate applicable is 30%.

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(b) Calculate the diluted earnings per share from the following information:

Net profit for the current year (after tax)	₹ 86,50,000
No. of equity shares outstanding	25,00,000
No. of 10% convertible debentures of ₹ 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expenses for the current year	₹ 5,00,000
Tax relating to interest expenses	30%

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Please Turn Over

Section B

Answer Question No. 2(a) which is compulsory (carrying 5 marks) and answer any two (carrying 10 marks each) from the remaining sub-questions.

2. (a) Describe the conditions which must be fulfilled for an amalgamation in the nature of merger. 5
(b) Following is the Extract of Balance Sheets of A Ltd. and B Ltd. as on 31.03.2015:

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
	₹	₹		₹	₹
Share Capital:			Goodwill	25,000	20,000
Equity Share capital of ₹ 10 each fully paid	10,00,000	4,00,000	Plant and Machinery	12,00,000	4,00,000
General Reserve	6,50,000	1,50,000	Inventories	4,00,000	1,50,000
Profit and Loss Account	2,55,000	40,000	Debtors	3,50,000	40,000
Trade Payables	1,45,000	25,000	Cash at Bank	1,75,000	20,000
Provisions	1,00,000	15,000			
	21,50,000	6,30,000		21,50,000	6,30,000

The two companies have decided to amalgamate and for this purpose, a new company C Ltd. is formed. Terms of amalgamation are as under:

- (1) C Ltd. to issue fully paid shares (Face Value : ₹ 10) to the shareholders of A Ltd. and B Ltd., at a price of ₹ 10.00 and ₹ 5.00 above the intrinsic value of the shares respectively.
- (2) Fixed assets of both the companies are to be revalued at 10% above book value. B Ltd.'s Stock-in-trade as on 31.03.2015 includes stock of ₹ 50,000 purchased from A Ltd. at a profit of 25% on cost price.
- (3) Goodwill shown in the books of A Ltd. and B Ltd. was considered to be worthless.
- (4) A Ltd. had declared dividend of 10% on 31.03.2015 which has still not been paid.
- (5) The scheme of amalgamation was not supported by 100 shareholders of A Ltd. and they had to be paid ₹ 5.00 per share above intrinsic value as consideration in cash, which was borne by C Ltd.
- (6) All the assets of both the companies are taken over at the revalued amounts and liabilities have been paid in full by C Ltd.

You are required to Calculate:

- (i) Intrinsic value of shares of A Ltd. and B Ltd.
- (ii) Purchase Consideration paid by C Ltd.
- (iii) Value of Goodwill which will appear in the Balance Sheet of C Ltd.

(c) Star Ltd. has the following capital structure on 31st March, 2015:

Particulars	₹ in Crores
1. Equity share Capital (shares of ₹ 10 each)	300
2. Reserve & Surplus:	
General Reserve	270
Security Premium	100
Profit & Loss Account	50
Export Reserve (statutory reserve)	80
3. Loan Fund	800

On recommendation of the Board of Directors, the shareholders have approved vide special resolution at their meeting on 10th April, 2015, a proposal to buy back maximum permissible equity shares considering the huge cash surplus.

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

- Advise the company on maximum number of shares that can be bought back and record journal entries for the same, assuming the buy-back has been completed in full, within next three months.
- If borrowed funds were ₹ 1200 lakhs and ₹ 1500 lakhs respectively, would your answer change? Show workings.

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(d) X Ltd. and Y Ltd. decide to amalgamate and to form a new company XY Ltd. The following are their Balance Sheets as at 31.03.2015:

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
	₹	₹		₹	₹
Share Capital (₹ 100 each)	15,00,000	8,00,000	Fixed Assets	9,50,000	2,00,000
General Reserve	2,00,000	50,000	Investments:		
12% Debentures	2,00,000	1,00,000	2000 Shares in Y Ltd.	4,50,000	
Sundry Creditors	1,00,000	50,000	6000 Shares in X Ltd.		7,00,000
			Current Assets	6,00,000	1,00,000
	20,00,000	10,00,000		20,00,000	10,00,000

The following information is provided:

- Fixed assets of X Ltd. and Y Ltd. are to be taken at ₹ 10,00,000 and ₹ 4,00,000 respectively.
- 12% Debenture holders of X Ltd. and Y Ltd. are discharged by XY Ltd. by issuing such numbers of its 15% debentures of ₹ 100 each, so as to maintain the same amount of interest.
- Share of XY Ltd. are of ₹ 100 each.
- Assume amalgamation is in the nature of purchase.

You are required to:

- Calculate the amount of Purchase Consideration for X Ltd. and Y Ltd.
- Draw up the Balance Sheet of XY Ltd. (Notes to Accounts are not required). 6+4=10

Section C

Answer Question No. 3(a) which is compulsory (carrying 10 marks) and also answer any one (carrying 15 marks) from the remaining sub-questions.

3. (a) P Ltd. acquired 5,000 shares of Q Ltd. at ₹ 48 per share-cum-dividend constituting 62.50% holding in the later. Immediately after purchase, Q Ltd. declared and distributed a dividend at ₹ 4 per share, which P Ltd. credited in its Profit and Loss Account.

One year later, Q Ltd. declared a bonus of one fully paid Equity Share of ₹ 10 each for every five shares held. Later on, Q Ltd. proposed to raise funds and made a right issue of 1 share for 5 shares hold at ₹ 36 per share. P Ltd. exercised its right.

After sometime, at its AGM, Q Ltd. has decided to split its Equity Shares of ₹ 10 into Two Equity shares of ₹ 5 each. The necessary resolutions were passed and share certificates issued to all its existing shareholders.

To increase its stake in Q Ltd. to 90%, P Ltd. acquired sufficient number of shares at ₹ 30 each.

Ascertain the cost of control as on 31st December, if P Ltd.'s share in Capital profits of Q Ltd. (duly adjusted for purchase in lots) as on that date was ₹ 3,15,000. 10

- (b) Football Ltd. acquired 52,500 shares of Hockey Ltd. for ₹ 6,00,000 on 31st March, 2014. The Balance Sheet of Hockey Ltd. on that date was under:

Liabilities	₹	Assets	₹
75,000 equity shares of ₹ 10 each fully paid	7,50,000	Fixed Assets	5,25,000
Pre-incorporation profit	15,000	Current Assets	3,22,500
Profit and Loss Account	30,000		
Creditors	52,500		
	8,47,500		8,47,500

Balance Sheets of both the companies as on 31st March, 2015 were as follows:

(in ₹)

Liabilities	Football Ltd.	Hockey Ltd.	Assets	Football Ltd.	Hockey Ltd.
Equity Shares of ₹ 10 each fully paid (before bonus issue)	22,50,000	7,50,000	Fixed Assets	39,60,000	11,55,000
Securities Premium	4,50,000	–	Investment: 52,500 shares in Hockey Ltd. (at cost)	6,00,000	–
Pre-incorporation profit	–	15,000	Current Assets	22,05,000	8,77,500
General Reserve	30,00,000	9,52,500			
Profit and Loss Account	7,87,500	2,10,000			
Creditors	2,77,500	1,05,000			
	67,65,000	20,32,500		67,65,000	20,32,500

Directors of Hockey Ltd. made bonus issue on 31.03.2015 in the ratio of one equity share of ₹ 10 each fully paid for every two equity shares held on that date. This bonus share issue was out of post-acquisition profits by using General Reserve.

Calculate (i) cost of control/Capital Reserve (ii) Minority Interest (iii) Consolidated Profit and Loss Account (a) before issue of bonus shares (b) immediately after issue of bonus shares.

Also, prepare a Consolidated Balance Sheet after the bonus issue, as on 31st March, 2015. 15

- (c) PB Ltd. owns 80% of R Ltd, 40% of S Ltd. and 40% of T Ltd. S Ltd. is jointly controlled entity and T Ltd. is an Associate. Balance Sheets of Four Companies as on 31st March, 2015 are given below:

(Amount in ₹ Lakhs)

	PB Ltd.	R Ltd.	S Ltd.	T Ltd.
(i) <i>Equity & Liabilities:</i>				
Shareholders' Funds				
Share Capital-Equity (₹ 1 each)	1,200	480	960	960
Reserves and Surplus-				
Retained Earnings	4,800	4,080	4,320	4,320
<i>Current Liabilities:</i>				
Trade Payables-Creditors	240	360	300	300
Total	6,240	4,920	5,580	5,580
(ii) <i>Assets:</i>				
<i>Non-Current Assets:</i>				
Fixed Assets	1,200	960	1,680	1,200
<i>Non-Current Investments:</i>				
Investment in R	960	—	—	—
Investment in S	720	—	—	—
Investment in T	720	—	—	—
<i>Current Assets:</i>	2,640	3,960	3,900	4,380
Total	6,240	4,920	5,580	5,580

PB Ltd. acquired shares in R Ltd. many years ago, when retained earnings of R Ltd. were ₹ 624 lakh. PB Ltd. acquired its shares in S Ltd. at the beginning of the year, when retained earnings of S Ltd. were ₹ 480 lakh. PB Ltd. acquired its shares in T Ltd. on 01.04.2014, when retained earnings of T Ltd. were ₹ 480 lakh.

The balance of Goodwill relating to R Ltd. had been written off three years ago.

The value of Goodwill in S Ltd. remains unchanged.

Required:

Prepare the Consolidated Balance Sheet of PB Ltd. as on 31st March, 2015 as per AS-21, AS-23 and AS-27.

Section D

Answer Question No. 4(a) which is compulsory (carrying 5 marks) and answer any two (carrying 10 marks each) from the remaining sub-questions.

4. (a) Discuss in brief the concept of Triple Bottom Line Reporting (TBLR). 5

(b) (i) ADMAS LTD., a Registered Dealer, purchased a Machinery for ₹ 72,70,000 inclusive of State VAT of ₹ 2,70,000 on 1st June, 2014. As per the State VAT Laws, the Input VAT on Capital Goods is adjustable in 36 equal monthly installments beginning from 1st July of the year. The dealer charges 15% p. a. depreciation on the Machinery. During the year 2014-15, the dealer has set-off a sum of ₹ 20,000 from the VAT Credit Receivable on Capital Goods, against VAT payable on the Sales made by him.

Required:

Show the Journal Entries describing VAT Credit Treatment in the Books of ADMAS LTD. 5

(ii) Mega Ltd. issued 4,00,000, 6% Convertible Debentures of ₹ 10 each on 1st April, 2011. The debentures are due for redemption on 31st March, 2015 at a premium of 10%, convertible into equity shares to the extent of 50% and the balance to be settled in cash to the debenture holders. The Interest rate on equivalent debentures without conversion rights was 10%. You are required to separate the debt and equity components at the time of the issue and show the accounting entry in the company's books at initial recognition.

The following Present Values of ₹ 1 at 6% and at 10% are supplied to you.

Interest Rate	Year 1	Year 2	Year 3	Year 4
6%	0.94	0.89	0.84	0.79
10%	0.91	0.83	0.75	0.68

(c) Happy Ltd. granted on 1st April, 2012, 60,000 Employees stock options at ₹ 30, when the market price was ₹ 60. These options will vest at the end of year 1, if the earning of Happy Ltd. is more than 14% or it will vest at the end of the year 2, if the average earning of two years is more than 11% or lastly it will vest at the end of third year, if the average earning of 3 years will be 8% or more. 2,000 unvested options lapsed on 31st March, 2013. 1500 unvested options lapsed on 31st March, 2014 and finally 1000 unvested options lapsed on 31st March, 2015.

The earnings of Happy Ltd. was as follows:

Year ended on	Earning in %
31.03.2013	12%
31.03.2014	9%
31.03.2015	5%

Employees exercised for 55,000 stock options which vested in them at the first opportunity and the balance options were lapsed.

Pass necessary journal entries and show the necessary working.

(d) Vintage Ltd. has provided the following information:

	(₹ in lakhs)
Equity Share Capital (₹ 10 each)	500
10% Preference Share Capital (₹ 10 each)	400
Reserve and Surplus	210
15% Debentures	1400
10% Non-trade Investments (Nominal Value ₹ 200 lakhs)	280
Land and Building held as Investment	20
Advance given for Purchase of Plant	10
Capital Work in Progress	30
Underwriting Commission (Not written off)	10
Earning per share (₹)	14
Tax Rate	30%
Beta Factor	1.50
Market rate of return	16.50%
Risk Free Rate	9.50%

Note: Advance given for Purchase of Plant and Capital Work-in-progress are to be treated as operating item.

Calculate Economic Value Added (EVA) by the Company.

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Section E

Answer any three sub-questions (carrying 5 marks each).

5. (a) Discuss the purpose of constitution of Government Accounting Standards Advisory Board (GASAB) by Comptroller and Auditor General of India. 5
- (b) Enumerate the sources of Government Revenue. 5
- (c) Briefly describe the role of Public Accounts Committee. 5
- (d) Explain the objectives of Indian Government Accounting Standard (IGAS)-4 on "General Purpose Financial Statements of Government". 5