

FINAL EXAMINATION

JUNE 2014

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.

1. Answer any two of the following:

5×2=10

- (a) Lal National Ltd. is developing a new production process. During the financial year 31st March, 2013, the total expenditure incurred on this process was ₹ 75 lakhs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was ₹ 28 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2014 was ₹ 140 lakhs. As at 31st March, 2014, the recoverable amount of know-how embodied in the process is estimated to be ₹ 125 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to work out: (Ignoring depreciation for this purpose)

- What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2013?
 - What is the carrying amount of the intangible asset as at 31st March, 2013?
 - What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2014?
 - What is the carrying amount of the intangible asset as at 31st March, 2014?
- (b) Calculate the actual return on plan assets from the following information available from a company's defined benefit pension plans for a particular year.

Fair market value of plan assets (beginning of year)	₹ 20,00,000
Fair market value of plan assets (end of year)	₹ 28,50,000
Employer's contribution	₹ 7,00,000
Benefit paid	₹ 5,00,000

- (c) ABC Ltd. had reported a net profit of ₹ 60,00,000 for the year ended 31st March, 2014 on which date the company is having 20,00,000 equity shares of ₹ 10 each outstanding. The average fair value of one equity share during the year 2013-14 is ₹ 25. The details of exercisable option are given below:

Weighted average number of shares under stock option scheme during the year 2013-14 = 4,00,000.

Exercise price for shares under stock option during the year ended 31st March, 2014 = ₹ 20.

Calculate (i) Basic EPS and (ii) Diluted EPS.

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2. (a) A Ltd. owned 80% of B Ltd, 35% of C Ltd. and 30% of D Ltd. C Ltd. is jointly controlled entity and D Ltd. is an associate. Balance Sheet of all four companies as on 31.03.2014 are:

(₹ in lakhs)				
Particulars	A Ltd.	B Ltd.	C Ltd.	D Ltd.
<i>Liabilities</i>				
Equity share of ₹ 1/- each fully paid-up	1,500	600	1,200	1,200
Retained Earnings	6,000	5,100	5,400	5,400
Creditors	300	450	380	375
Total	7,800	6,150	6,980	6,975
<i>Assets</i>				
Fixed Assets	1,500	1,200	2,100	1,500
Investment in B Ltd.	1,200			
Investment in C Ltd.	900			
Investment in D Ltd.	900			
Current Assets	3,300	4,950	4,880	5,475
Total	7,800	6,150	6,980	6,975

A Ltd. acquired shares in

- (i) B Ltd. many years ago, when the company had retained earnings of ₹ 780 lakhs.
- (ii) C Ltd. at the beginning of the year, when the company had retained earnings of ₹ 600 lakhs.
- (iii) D Ltd. on 01.04.2013, when the company had retained earnings of ₹ 600 lakhs.

The balance of goodwill relating to B Ltd. had been written off three years ago. The value of goodwill in C Ltd. remains unchanged.

Prepare the Consolidated Balance Sheet of A Ltd. as on 31.03.2014 as per AS-21, AS-23 and AS-27.

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OR

- (b) AB Ltd. has 2 divisions—A and B. Division A has been making constant profit, while Division B has been suffering losses. The Division wise Balance Sheet as on 31st March, 2014 are as follows:

	(₹ in lakhs)		
	Division A	Division B	Total
<i>Fixed assets: cost (Tangible)</i>	500	1000	1500
<i>Less: Depreciation</i>	450	800	1250
Written Down Value (i)	50	200	250
<i>Current Assets:</i>	400	1000	1400
<i>Less: Current Liabilities</i>	50	800	850
Net Current Assets (ii)	350	200	550
Total (i) + (ii)	400	400	800
<i>Financed by:</i>			
Loan	—	600	600
Capital : Equity Shares of ₹ 10 each	50	—	50
Reserves and Surplus	350	(200)	150
Total	400	400	800

Division B along with its assets and liabilities was sold for ₹ 50 lakhs to X Ltd., a new company which issued 2 lakhs equity shares of ₹ 10 each at a premium of ₹ 15 per share to the members of B Division in full settlement of the consideration in proportion to their shareholding in the company. Assuming that there are no other transactions,

You are required to:

- Show journal entries in the books of AB Ltd.
- Prepare the Balance Sheet of AB Ltd. after the entries made in (i) above.
- Show journal entries in the books of X Ltd.
- Prepare the balance Sheet of X Ltd.

In both the cases, Balance Sheets to be prepared in the Revised Scheduled VI format.

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3. (a) M Ltd. is a holding company and N Ltd. and O Ltd. are subsidiaries of M Ltd. Their Balance Sheet as on 31.12.2013 are given below:

(Amount in ₹)

Liabilities	M Ltd.	N Ltd.	O Ltd.	Assets	M Ltd.	N Ltd.	O Ltd.
Share Capital	6,00,000	6,00,000	3,60,000	Fixed Assets	1,20,000	3,60,000	2,58,000
Reserves	2,88,000	60,000	54,000	Investments:			
Profit & Loss Account	96,000	72,000	54,000	Shares in N Ltd.	5,70,000		
Sundry Creditors	42,000	30,000		Shares in O Ltd.	78,000	3,18,000	
O Ltd. Balance	18,000			Stock in Trade	72,000		
M Ltd. Balance		42,000		Sundry Debtors	1,56,000	1,26,000	1,92,000
				N Ltd. Balance	48,000		
				M Ltd. Balance			18,000
Total	10,44,000	8,04,000	4,68,000	Total	10,44,000	8,04,000	4,68,000

The following particulars are given:

- The share capital of all companies is divided into shares of ₹ 10 each.
- M Ltd. held 48,000 shares of N Ltd. and 6,000 shares of O Ltd.
- N Ltd. held 24,000 shares of O Ltd.
- All these investments were made on 30.06.2013.
- On 31.12.2012, the position was as shown below:

(Amount in ₹)

	N Ltd.	O Ltd.
Reserve	48,000	45,000
Profit & Loss Account	24,000	18,000
Sundry Creditors	30,000	6,000
Fixed Assets	3,60,000	2,58,000
Stock in trade	24,000	2,13,000
Sundry Debtors	2,88,000	1,98,000

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- (vi) The whole of stock in trade of N Ltd. as on 30.06.2013 (₹ 24,000) was later sold to M Ltd. for ₹ 26,400 and remained unsold by M Ltd. as on 31.12.2013.
- (vii) Cash in transit from N Ltd. to M Ltd. was ₹ 6,000 as at the close of the year.

You are required to prepare a Consolidated balance Sheet of M Ltd. and its subsidiaries N Ltd. and O Ltd. as at 31.12.2013.

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OR

- (b) The following are the Balance Sheet of A Ltd. and B Ltd. as on 31st March, 2014.

	A Ltd. (₹)	B Ltd. (₹)
<i>Liabilities</i>		
Share capital:		
Equity Share of ₹ 10 each	4,00,000	2,00,000
10% Preference Shares of ₹ 10 each	2,00,000	1,00,000
Reserve and Surplus	2,00,000	1,00,000
12% Debentures	3,00,000	2,00,000
Sundry creditors	1,50,000	1,60,000
Total	12,50,000	7,60,000
<i>Assets</i>		
Fixed Assets	6,00,000	3,00,000
Stock	2,00,000	1,00,000
Debtors	3,00,000	2,00,000
Cash at bank	80,000	90,000
Investments in:		
4000 equity shares of B Ltd.	70,000	—
5000 equity shares of A Ltd.	—	70,000
Total	12,50,000	7,60,000

Fixed Assets of A Ltd. and B Ltd. are to be revalued at 15% and 10% respectively above book values. Stock and debtors of B Ltd. are to be taken over by A Ltd. at 5% less than their book values. While both the companies have already paid preference dividends, they are yet to pay 10% equity dividends.

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

- 6 equity shares of ₹ 10 each will be issued by A Ltd. at par against 4 equity shares of B Ltd.
- 10% Preference Share of B Ltd. will be paid off at 10% discount by issue of 10% Preference Shares of ₹ 100 each of A Ltd. at par.
- ₹ 20,000 to be paid by A Ltd. to B Ltd. for liquidation expenses.
- 12% debenture holders of B Ltd. are to be paid off at 4% premium by 12% debentures in A Ltd. issued at a discount of 20%.

- Prepare: (i) a statement of Purchase consideration payable by A Ltd., and
(ii) a Balance Sheet of A Ltd. after its absorption of B Ltd.
(Schedules are not required)

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4. (a) The extracts of Trial Balance of Sukh Ltd. and Sari Ltd. as on 31.03.2014 are as under:

Particulars	Sukh Ltd.		Sari Ltd.	
	Debit (₹)	Credit (₹)	Debit (₹)	Credit (₹)
Equity Share Capital (in shares of ₹ 100/- each)		24,00,000		12,00,000
8% Preference Share Capital (in shares of ₹ 100/- each)		8,00,000		
10% Preference Share Capital (in shares of ₹ 100/- each)				4,00,000
Reserves		30,00,000		24,00,000
Current Liabilities		18,00,000		10,00,000
Fixed Assets	55,00,000		27,00,000	
Current Assets	25,00,000		23,00,000	
Total	80,00,000	80,00,000	50,00,000	50,00,000

- A. The following information is provided for the year 2013-14:

Particulars	Sukh Ltd.(₹)	Sari Ltd.(₹)
(a) Profit before tax	10,64,000	4,80,000
(b) Taxation	4,00,000	2,00,000
(c) Preference Dividend	64,000	40,000
(d) Equity Dividend	2,88,000	1,92,000

- B. The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.

- C. Sukh Ltd. proposes to absorb Sari Ltd. as on 31.03.2014. The terms of absorption are as under:

- Preference shareholders of Sari Ltd. will receive 8% preference shares of Sukh Ltd. sufficient to increase the income of preference shareholders of Sari Ltd. by 10%.
- The equity shareholders of Sari Ltd. will receive equity shares of Sukh Ltd. on the following basis:
 - The equity shares of Sari Ltd. will be valued by applying to the earning per share of Sari Ltd. 75% of price earnings ratio of Sukh Ltd. based on the results of 2013-14 of both the companies.
 - The market price of equity shares of Sukh Ltd. is ₹ 300/- per share.
 - The number of shares to be issued to the equity shareholders of Sari Ltd. will be based on the above market value.
 - In addition to equity shares, 8% preference shares of Sukh Ltd. will be issued to the equity shareholders of Sari Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2013-14.

- D. For the next two years, no increase in the rate of equity dividend is expected. You are required to calculate purchase consideration.

OR

(b) Gold Ltd. agreed to absorb Silver Ltd. on 31st March, 2014, whose Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
1,60,000 equity shares of ₹ 100 each fully paid up	1,60,00,000	Fixed Assets	1,40,00,000
Reserve and Surplus:		Current Assets, Loans & Advances:	
General Reserve	20,00,000	Stock in trade	20,00,000
Current Liabilities and Provisions:		Sundry Debtors	40,00,000
Sundry Creditors	20,00,000		
Total	2,00,00,000		2,00,00,000

The consideration was agreed to be paid as follows:

- A payment in cash of ₹ 50 per share in Silver Ltd. and
- The issue of shares of ₹ 100 each in Gold Ltd., on the basis of four equity shares (valued at ₹ 150 each) and two 9% cumulative preference shares (valued at ₹ 100 each) for every ten shares held in Silver Ltd.

It was agreed that Gold Ltd. will pay cash for fractional shares equivalent at agreed value of shares in Silver Ltd. i.e., ₹ 1,300 paid for ten shares of ₹ 1,000. The whole of Share capital consists of shareholdings in exact multiple of ten, except the following holdings:

	No. of Shares held
Anal	232
Bimal	152
Chinu	144
Debu	56
Other individuals	16 (eight members holding two shares each)
	<u>600</u>

Prepare a statement showing the purchase consideration receivable by above shareholders in shares and cash.

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- (a) Diamond Ltd. grants 50 stock options to each of its 1,000 employees on 1.4.2011 for ₹ 20, depending upon the employees at the time of vesting options. The market price of the share is ₹ 50. These options will vest at the end of year 1, if the earning of Diamond Ltd. is 16% or it will vest at the end of the year 2, if the average earning of two years is 13%, or lastly it will vest at the end of the third year, if the average earning of 3 years will be 10%. 2,500 unvested options lapsed on 31.03.2012. 2,000 unvested options lapsed on 31.03.2013 and finally 1,750 unvested options lapsed on 31.03.2014.

Following is earning of Diamond Ltd.:

Year ended on	Earning
31.03.2012	14%
31.03.2013	10%
31.03.2014	7%

850 employees exercised their vested options within a year and remaining options were un-exercised at the end of the contractual life. Pass journal entries with proper narrations for the above transactions.

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OR

- (b) (i) A mutual fund raised ₹ 100 lakhs on 1.04.2014, by issue of 10 lakhs units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakhs. The initial expenses amounted to ₹ 7 lakhs. During April 2014, the fund sold certain securities of cost ₹ 38 lakhs for ₹ 40 lakhs and purchased certain other securities for ₹ 28.20 lakhs. The fund management expenses for the month amounted to ₹ 4.50 lakhs, of which ₹ 0.25 lakhs was in arrears. The dividend earned was ₹ 1.286 lakhs. 70% of the realized earnings was distributed. The market value of the portfolio on 30.4.2014 was ₹ 103.714 lakhs. Determine the Net Asset Value (NAV) of mutual fund. 6
- (ii) While closing its books of account on 31st March 2014, a Non-Banking Finance Company has its advances classified as follows :

Particulars	₹ in Lakhs
Standard Assets	18,400
Sub-Standard Assets	1,580
Secured portion of doubtful debts:	
- up to one year	440
- one year to three years	80
- more than three years	40
Unsecured portion of doubtful debts	103
Loss Assets	52

Calculate the amount of provision, which must be made against the advances. 4

6. (a) (i) From the following information for Sun Ltd., prepare a Value Added Statement for the financial year 2013-14.

Particulars	₹ in lakhs
Turnover	2,400
Plant and machinery (net)	1,100
Depreciation on Plant and Machinery	275
Dividends on ordinary shares	150
Sundry Debtors	195
Sundry Creditors	130
Opening stock (raw material, WIP, finished goods)	160
Closing stock (raw material, WIP, finished goods)	200
Raw material purchased	775
Cash at bank	100
Printing and Stationery	25

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Particulars	₹ in lakhs
Auditor's remuneration	30
Retained earnings at the beginning of the year	990
Retained earnings at the closing of the year	290
Rent, Rates and Taxes	170
Other expenses	90
Ordinary share capital issued	1,800
Interest on borrowing	40
Income tax for the year	280
Wages and salaries	330
Employees State Insurance	40
PF Contribution	30

Also, calculate the value added per employee, average earning per employee and sales per employee on the basis that 105 employees work in Sun Ltd. 10

- (ii) Distinguish between Human Capital and Intellectual Capital 5

OR

- (b) (i) Batliboi Ltd. borrowed \$ 1,000 on 01.03.2009, when the spot rate per dollar was ₹ 45. The company covered its foreign exchange exposure immediately by forward purchase of \$ 1,000 at ₹ 45.30/\$ due on 30.4.2009. The exchange rate on 31.3.2009 was ₹ 45.50/\$. The spot exchange rate on 30.4.2009, when the loan was repaid was ₹ 45.60/\$.

Show the relevant Journal Entries in the books of Batliboi Ltd. 9

- (ii) Discuss in brief the concept of Triple Bottom Line Reporting (TBLR). 6

7. (a) (i) Write a short note on the Application of XBRL (Extensible Business Reporting Language) in India. 7

- (ii) Ashima furnishes the following information about all options at the Balance Sheet date. Determine the amount of provision to be made in her books of account.

Securities	L	K	J	(₹)
Details of Options Bought				
Premium Paid	20,000	10,000	10,000	
Premium prevailing on Balance Sheet date	30,000	5,000	8,000	
Details of Options Sold				
Premium received	10,000	30,000	10,000	
Premium prevailing on Balance Sheet date	25,000	20,000	15,000	3

OR

- (b) (i) From the following particulars of Basant Ltd., calculate EVA. 6

Equity Share Capital	₹ 10,00,000
Reserve & surplus	₹ 3,00,000
12% Preference share capital	₹ 2,00,000
10% Debenture	₹ 4,00,000
Non-trade Investment	₹ 4,00,000
Profit after tax	₹ 2,00,000
Rate of tax	40%
Risk free return	8%
Beta factor	1.2

Companies with beta factor of 1 in similar business have market rate of return of 15%.

- (ii) Examine the reporting requirements of Environmental Accounting. 4

8. (a) (i) Write short note on Indian Government Accounting Standard—1(IGAS-1) relating to guarantees given by the Government. 9
- (ii) Describe the process of election of Public Accounts Committee. 6

OR

- (b) (i) Write a note on function of the Committee on Public Undertaking. 5
- (ii) State the responsibilities of Government Accounting Standards Advisory Board. 5
- (iii) State the sources of Government revenue. 5