

**FINAL EXAMINATION**

June 2016

**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.**All workings must form part of your answer. Assumptions, if any, must be clearly indicated.*

Answer Question No. 1 (carrying 20 marks) which is compulsory and also answer any five (5) questions (carrying 16 marks each) from Q. No. 2 to Q. No. 8.

1. Answer any four questions (carrying 5 marks each) from the following:

4×5=20

- (a) The fair value of plan assets of Prantick Ltd. was ₹ 2,00,000 in respect of employee benefit pension plan as on 1st April, 2015. On 30th September, 2015, the plan paid out benefits of ₹ 38,000 and received inward contributions of ₹ 98,000. On 31st March, 2016, the fair value of plan assets was ₹ 3,00,000. On 1st April, 2015, the reporting company made the following estimates, based on market studies and prevailing prices:

	%
Interest and dividend income after tax payable by the fund	9.25
Realised gains on plan assets (after tax)	2.00
Fund Administrative costs	(1.00)
Expected rate of return	10.25

*Required:*

Calculate the Actual and Expected Returns on Plan Assets as on 31st March, 2016, as per AS-15.

- (b) Global Ltd. is showing an intangible asset at ₹ 90 lakhs as on 01-04-2015. This asset was acquired for ₹ 120 lakhs on 01-04-2012 and the same was available for use from that date. The company has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant accounting standard.
- (c) A Ltd. has acquired 80% share in B Ltd. for ₹ 30 lakhs. The net assets of B Ltd. on the day are ₹ 25 lakhs. During the year, A Ltd. sold the investment for ₹ 35 lakhs and net assets of B Ltd. on the date of disposal were ₹ 40 lakhs. Calculate the profit or loss on disposal of this investment to be recognised in the consolidated financial statements.
- (d) What are the functions of the Committee on Public Undertakings?

**Please Turn Over**

- (e) While closing its books of account on 31st March, 2016, a Non-Banking Finance Company has its advances classified as follows:

	₹ in lakhs
Standard assets	15,600
Sub-standard assets	1,250
Secured positions of doubtful debts	
— upto one year	350
— one year to three years	80
— more than three years	40
Unsecured portions of doubtful debts	85
Loss assets	47

Calculate the amount of provision, which must be made against the advances as per prudential norms.

2. Anu Ltd. and Minu Ltd. decided to amalgamate and to form a new company Amuin Ltd. The following are their summarized Balance Sheets as on March 31, 2016.

(Amount in ₹ Lakhs)

	Anu Ltd.	Minu Ltd.
<b>Equity and Liabilities:</b>		
1. Shareholders' funds:		
(a) Share Capital:		
Equity shares of ₹ 100/- each	1,760	1,650
12% Preference shares of ₹ 100 each	660	440
(b) Reserves and Surplus:		
Profit and Loss Account	110	66
General Reserve	374	330
Revaluation Reserve	330	220
Investment Allowance Reserve	110	110
2. Non-current Liabilities:		
10% Debentures (₹ 100 each)	132	66
3. Current Liabilities:		
Trade payables	924	418
<b>Total</b>	<b>4,400</b>	<b>3,300</b>
<b>Assets:</b>		
1. Non-current assets		
(a) Fixed Assets:		
Land and Building	1,210	880
Plant and Machinery	770	550
(b) Non-current Investments		
Investments	330	110
2. Current Assets:		
(a) Inventories	770	550
(b) Trade Receivables	660	770
(c) Cash and Cash equivalents	660	440
<b>Total</b>	<b>4,400</b>	<b>3,300</b>

**Additional Information :**

- (i) Amuin Ltd. will issue 5 equity shares for each equity share of Anu Ltd. and 4 equity shares for each equity share of Minu Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.
- (ii) 10% debenture holders of Anu Ltd. and Minu Ltd. are discharged by Amuin Ltd. issuing such numbers of its 15% Debentures of ₹ 100 each, so as to maintain the same amount of interest.
- (iii) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of Amuin Ltd. at a price of ₹ 150 per share (face value ₹ 100).
- (iv) Investment allowance reserve is to be maintained for 4 more years.

**Required:**

Prepare the Balance Sheet of Amuin Ltd. as on 1st April, 2016 as per Schedule-III of the Companies Act, 2013, after the amalgamation has been carried out on the basis of amalgamation in the nature of purchase. (Notes to Balance Sheet need not be given)

16

3. The following are Balance Sheets of Amtek Group of Companies as at March 31, 2016.

(Amount in ₹ lakhs)

	Amtek Ltd.	Bentek Ltd.	Pamu Ltd.
<b>Equity and Liabilities:</b>			
Shareholder's funds:			
Share Capital:			
Equity Shares of ₹ 10 each	2,500	1,000	500
Reserves and Surplus:			
General Reserve	500	250	150
Profit and Loss Account	1,000	500	250
Current Liabilities:			
Trade payables-creditors	1,500	1,000	500
<b>Total</b>	<b>5,500</b>	<b>2,750</b>	<b>1,400</b>
<b>Assets:</b>			
Non-current Assets:			
Fixed Assets	3,875	2,050	1,175
Others	125	-	75
Non-current Investments			
Investments:			
80,00,000 shares in Bentek Ltd.	1,000		
30,00,000 shares in Pamu Ltd.		450	
Current Assets	500	250	150
<b>Total</b>	<b>5,500</b>	<b>2,750</b>	<b>1,400</b>

**Notes:**

- (i) The investment in Bentek Ltd. was made on April 1, 2009 and that in Pamu Ltd. was made on April 1, 2011.

(ii) The Balances in Reserves and Profit & Loss Account on relevant dates are as under:

(Amount in ₹ lakhs)

Bentek Ltd.	April 1, 2009	April 1, 2011
General Reserve	100	110
Profit and Loss Account	300	340
Pamu Ltd.	April 1, 2009	April 1, 2011
General Reserve	40	50
Profit and Loss Account	85	100

(iii) Current assets of Pamu Ltd. includes inventories of ₹ 54 lakh which was invoiced by Amtek Ltd. at 20% above cost.

*Required:*

Prepare the consolidated Balance Sheet of Amtek Group as at March 31, 2016 as per requirement of Schedule-III. 16

4. (a) From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz (1971) model:

Particulars	Skilled	Unskilled
(i) Annual average earning of an employee till the retirement age.	₹ 60,000	₹ 40,000
(ii) Age of retirement	65 years	62 years
(iii) Discount rate	15%	15%
(iv) No. of employees in the group	30	40
(v) Average age	62 years	60 years

(b) Venus Ltd. has provided the following Profit and Loss Account for the year ended March 31, 2016:

(Amount in ₹ lakhs)

<b>Income:</b>		
Sales less returns and sales tax	1,530	
Miscellaneous income	70	1,600
<b>Expenditure:</b>		
Production and Operational expenses	1,030	
Administration expenses	50	
Interest and other charges	52	
Depreciation	32	
Provision for Taxes	164	1,328
Profit after taxes		272
General Reserve		92
Proposed Dividend		44
Retained profit		136
<b>Other Information:</b>		
(i) Production and Operational Expenses include:		
Consumption of Raw materials	662	
Consumption of Stores	46	
Salaries, Wages, etc.	84	
Cess and local taxes	20	
Other manufacturing expenses	218	
	1030	
(ii) Administration Expenses:		
Salaries and commission to Directors	16	
Other manufacturing expenses	34	
	50	
(iii) Interest and other charges:		
Interest on short term loan from Bank	12	
Interest on long term loan	22	
Interest on Debentures	18	
	52	

Required:

- (i) Prepare a VALUE ADDED Statement for the year ended March 31, 2016 and also show the Reconciliation between Value Added and Profit before Taxation.
- (ii) Calculate the value added per employee on the basis that 150 employees work in Venus Ltd.  $(4+3)+1=8$

Please Turn Over

5. (a) The Balance Sheet of Venture Ltd. as on 31.03.2016 is given below:

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹
1,00,000 Equity Shares of ₹10 each fully paid		10,00,000	Freehold Property	5,50,000
4,000, 8% Cumulative preference shares of ₹ 100 each fully paid		4,00,000	Plant and Machinery	2,00,000
6% Debentures (secured by freehold property)	4,00,000		Trade investments (at cost)	2,00,000
Arrear of interest	24,000	4,24,000		
Sundry Creditors		1,01,000	Sundry Debtors	4,50,000
Director's Loan		3,00,000	Stock in trade	3,00,000
			Deferred revenue expenditure	50,000
			Profit and Loss Account	4,75,000
		<b>22,25,000</b>		<b>22,25,000</b>

The court approved a scheme of internal reconstruction to take effect on 1st April, 2016 on the following terms:

- (i) Preference shares are to be written down to ₹ 75 each and equity shares to ₹ 2 each.
- (ii) Preference dividend in arrear for 4 years to be waived by 75% and for the balance, equity shares of ₹ 2 each to be allotted.
- (iii) Arrear of debenture interest to be paid in cash.
- (iv) Debenture Holders agreed to take one freehold property (book value ₹ 3,00,000) at a valuation of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.
- (v) Deferred revenue expenditure to be written off.
- (vi) Stock value to be written off by 80%.
- (vii) 40% of Sundry Debtors to be written off as bad debt.
- (viii) Remaining freehold property (after taken over by debenture holders) to be valued at ₹ 3,50,000.
- (ix) Investments are sold out at ₹ 2,50,000.
- (x) 80% of Director's Loan to be waived and for the balance, equity shares of ₹ 2 each to be issued.
- (xi) Company's contractual commitments amounting to ₹ 6,00,000 to be cancelled by paying penalty at 3% of contract value.
- (xii) Cost of reconstruction scheme is ₹ 25,000.

Show the Journal Entries (with narration) to be passed for giving effect to the above transactions.

- (b) Eagle Ltd. has acquired 51% in Sparrow Ltd. for ₹ 75.80 lakhs on April 1st, 2014. On date of the acquisition, Sparrow Ltd's Assets stood at ₹ 196 lakhs and Liabilities at ₹ 16 lakhs. The net assets position of Sparrow Ltd. as on 31st March, 2015 and 30th September, 2015 were ₹ 280 lakhs and ₹ 395 lakhs respectively, the increase resulting from profits earned during the period. On 01.10.2015, 25.5% holdings were sold for the ₹125 lakhs.

*Required:*

- (i) State the nature of the relationship between the two companies on the relevant dates.
  - (ii) Calculate the profit arising on part sale of investment.
  - (iii) Calculate the Carrying value of the portion unsold.
  - (iv) Calculate the Goodwill/Capital reserve that arises on change in nature of the investment. 6
6. (a) Merlin Ltd. grants 1,000 employees stock options on 01.04.2012 at ₹ 50, when the market price is ₹ 200. The vesting period is 3 years and the maximum exercise period is one year. 300 unvested options lapse on 01.05.2014. 600 options are exercised on 30.06.2015. 100 vested options lapse at the end of the exercise period.

*Required:*

Pass journal entries in the book of Merlin Ltd. giving suitable narrations. 8

- (b) A Ltd. has its financial year ended 31-03-2016, fifteen law suits outstanding, none of which has been settled by the time the accounts are approved by the directors. The directors have estimated the probable outcomes as below:

Result	Probability	Amount of Loss (₹)
For first ten cases:		
Win	0.5	--
Loss — low damages	0.3	80,000
Loss — high damages	0.2	1,00,000
For remaining five cases:		
Win	0.6	--
Loss — low damages	0.3	70,000
Loss — high damages	0.1	2,00,000

The directors believe that the outcome of each case is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss. 8

7. (a) From the following information of Pilot Ltd., compute the Economic Value Added (EVA):

(i)	Equity Share Capital	₹ 1,000 lakhs
(ii)	Reserves and Surplus	₹ 2,000 lakhs
(iii)	Long-term debt	₹ 200 lakhs
(iv)	Interest	₹ 20 lakhs
(v)	Tax rate	35%
(vi)	Risk free rate	10%
(vii)	Market rate of return	15%
(viii)	Beta factor	1.4
(ix)	Profit before interest and tax	₹ 1,000 lakhs

8

- (b) ABC Ltd. has three segments viz. A, B and C. The total assets of the company is ₹ 20 crores. The assets of each of the above segments are as under:

	₹ in crores
Segment A	2.10
Segment B	8.90
Segment C	9.00
	20.00

Assets of each segment include deferred tax assets of ₹ 0.60 crores in A, ₹ 0.50 crores in B and ₹ 0.40 crores in C.

The accountant of ABC Ltd. contends that all the segments are reportable segments. Comment. 8

8. (a) Discuss the role of Comptroller and Auditor General (CAG) in the context of Government Accounting in India. 8
- (b) Write a note on Indian Government Accounting Standard (IGAS)-5 relating to Loans and Advances made by the Governments. 8