FINAL EXAMINATION

December 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.

All workings must form part of your answer.

Assumptions, if any, must be clearly indicated.

SECTION A

1. (a) S. Ltd. is having a plant (asset) carrying amount of which is ₹ 100 lakhs as on 31st March, 2011. Its balance useful life is 3 years and residual value at the end of 3 years is ₹ 10 lakhs. Estimated future cash flow from using the plant in next 3 years are:

For the year ended on	Estimated cash flow (₹ in lakhs)
31.03.2012	40
31.03.2013	20
31.03.2014	20

Calculate "Value in use" for plant, if discount rate is 10%. Also calculate the recoverable amount, if net selling price of plant on 31st March, 2014 is ₹ 50,00,000, P.V. factor @ 10% for years 31.03.2012, 31.03.2013 and 31.03.2014 are 0·909, 0·826 and 0·751 respectively. 5

(b) X. Ltd. has leased equipment costing ₹ 4,98,70,200 over its useful life for a 3 year lease period on the following terms:

(i) The estimated unguaranteed residual value would be ₹ 2,00,000.

(ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.

(iii) Implicit interest rate is 10%.

Ascertain the annual lease payment and the unearned finance income.

P.V. factor @ 10% for years 1-3 are 0·909, 0·826 and 0·751 respectively. 5

Please Turn Over

SECTION B

Answer to 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) What are the objectives of buy-back of shares by a Limited Company? 5

(b) The following are the Balance Sheets of BEE Ltd. and DEE Ltd. as on 31.03.2014

	(₹ in lakhs)	
	BEE Ltd.	DEE Ltd.
Equity and Liabilities:		
Shareholders' Funds:		
Share Capital:		
Equity shares of ₹ 100 each fully paid	90,00,000	30,00,000
Reserves and Surplus:		
General Reserve	8,00,000	6,00,000
Profit and Loss A/c.	14,68,000	60,000
Non-Current Liabilities:		
14% debentures	—	18,00,000
Current Liabilities:		
Trade payables	12,00,000	5,40,000
Total	1,24,68,000	60,00,000
Assets:		
Non-Current Assets:		
Tangible Assets	60,00,000	3,00,000
Non-Current Investments (at cost):		
6,000 shares in DEE Ltd.	9,00,000	—
18,000 shares in BEE Ltd.	—	30,00,000
Current Assets:		
Inventories	28,80,000	12,60,000
Trade Receivables	17,40,000	9,00,000
Cash and Cash equivalents	9,48,000	5,40,000
Total	1,24,68,000	60,00,000

Inventories of BEE Ltd. include goods worth ₹ 6,00,000 purchased from DEE Ltd which made a profit of 20% on selling price. As on 31.03.2014, BEE Ltd. absorbs DEE Ltd. on the basis of the intrinsic value of the shares of both companies as on 31.03.2014. Before absorption, BEE Ltd. has declared a dividend of 12%. Dividend tax is 10%.

You are required to calculate:

(i) No. of shares to be issued to DEE Ltd.

(ii) Purchase consideration payable by BEE Ltd.

(iii) Capital Reserve/Goodwill which will appear in the Balance Sheet of BEE Ltd. 5+2+3=10

(c) X Ltd. and Y Ltd. were amalgamated on and from 1st April, 2014. A new company Z Ltd. was formed to take over the business of the existing companies. The summarised Balance Sheets of X Ltd. and Y Ltd. as on 31st March, 2014 are given below:

(₹ in lakhs)

Liabilities	X. Ltd.	Y Ltd.	*Assets*	X Ltd.	Y Ltd.
Share Capital:			*Fixed Assets:*		
Equity shares of ₹ 100 each	800	750	Land and Building	550	400
12% Preference shares of ₹ 100 each	300	200	Plant and Machinery	350	250
Reserve and surplus:			Investments	150	50
Revaluation Reserve	200	150			
General Reserve	170	150			
Profit and Loss Account	50	30	*Current Assets, Loans and Advances:*		
Secured Loans:					
10% Debentures (₹ 100 each)	60	30	Stock	350	250
Current Liabilities and Provisions:			Sundry Debtors	250	300
Sundry Creditors	270	120	Bills Receivables	50	50
Bills payables	150	70	Cash and Bank	300	200
Total	2,000	1,500	Total	2,000	1,500

Additional Information:

(1) 10% Debenture holders of X Ltd., and Y Ltd., are discharged by Z Ltd., issuing such number of its 15% Debentures of ₹ 100 each, so as to maintain the same amount of interest.

(2) Preference shareholders of the two companies are issued equivalent number 15% preference shares of Z Ltd., at a price of ₹ 150 per share (face value of ₹ 100).

(3) Z Ltd. will issue 5 equity shares for each equity share of X Ltd. and 4 equity shares for each equity share of Y Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹10 per share.

Prepare the Balance Sheet of Z Ltd. as on 1st April, 2014 in the revised Schedule VI format, after amalgamation has been carried out on the basis of amalgamation in the nature of purchase. 10

(d) KAY Ltd. and MINAT Ltd. had been carrying on business independently. They agree to amalgamate and form a new company INDUGA Ltd. with authorised share capital of ₹ 8,00,00,000 divided into 80,00,000 equity shares of ₹ 10 each.

On 31.03.2014, the respective Balance Sheets KAY Ltd. and MINAT Ltd. stood as under:

(₹ in lakhs)

Ref. No.	Particulars	Note No.	KAY Ltd.	MINAT Ltd.
I.	*Equity and Liabilities:*			
1.	Share holders' Funds			
	(a) Share Capital:		300	120
	Equity shares of ₹ 10 each			
	(b) Reserves and Surplus:			
	General Reserve		120	12
	Profit and Loss Account		60	18
2.	*Non-Current Liabilities:*			
	Long-term borrowings		—	—
3.	*Current Liabilities:*			
	Trade payables (Creditors)		60	30
	Other current Liabilities		—	—
	Total		540	180