Paper – 18: Corporate Financial Reporting

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Full Marks : 100 **Time allowed: 3 hours**

Question No 1 Which is compulsory and carries 20 Marks. Answer any five from the rest.

1. Answer any four questions from the following: [4×5= 20]

(a) M Ltd., has equity capital of ₹ 40,00,000 consisting of fully paid equity shares of ₹ 10 each. The net profit for the year 2013-14 was ₹ 60,00,000. It has also issued 36,000, 10% convertible debentures of ₹ 50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. Compute the diluted earnings.

Solution:

Computation of Diluted Earning:

Interest on Debentures @ 10% for the year	$36{,}000 \times ₹50 \times \frac{10}{100}$
	=₹1,80,000
Tax on interest @ 30%	= ₹54,000
Diluted Earnings (adjusted net profit)	= (₹60,00,000 + ₹1,80,000 - ₹54,000)
	= ₹61,26,000

(b) Cost of production of product A is given below:

Particular	₹
Raw material per unit	160
Wages per unit	50
Overhead per unit	50
	260

As on the balance sheet date the replacement cost of raw material is ₹ 110 per unit. There are 100 units of raw material on 31.03.2015.
Calculate the value of closing stock of raw materials in the following conditions:

(i) If finished product is sold at ₹ 275 units, what will be the value of closing stock of raw material?
(ii) If finished product is sold at ₹ 240 per unit, what will be the value of closing stock of raw material?

Solution:

(i) The realizable value of the product is more than the total cost of the product. The cost of raw material per unit is more than the replacement cost, hence, raw materials should be valued on actual cost.

Therefore, the value of raw materials: 100 units × ₹160 per unit = ₹16,000

(ii) The realizable value of the product is less than the total cost of the product. Though the cost of raw material per unit is more than the replacement cost, hence, raw materials should be valued on replacement cost.

Therefore, the value of raw materials: 100 units × ₹110 per unit = ₹11,000

(c) The following information is available for a concern . Compute EVA.

Debt capital 12%	**₹ 4,000 crores**	**Risk free rate**	**9%**
Equity capital	**₹ 1,000 crores**	**Beta factor**	**1.05%**
Reserves & Surplus	**₹15,000 crores**	**Market rate of return**	**19%**
Capital employed	**₹20,000 crores**	**Equity (market) risk premium**	**10%**
Operating profit after tax	**₹ 4,200 crores**	**Tax rate**	**30%**

Solution:

Statement showing computation of EVA

Particulars	
Cost of Equity (k_e)= Risk free rate + (Beta × market risk premium)	9 + (1.05 × 10)=19.5%
Cost of Debt (K_d) = Interest × (100% -tax rate)	12 × 70% = 8.40%
Debt- Equity Ratio (as given in the question)	20% & 80%
WACC = [(K_d) × Debt % + (k_e) × Equity %	(8.40 × 20% + 19.50 × 80%)=17.28%
Operating profit after tax	₹4,200 crores
Capital charge = Capital employed × WACC	₹3456 crores
Economic Value Added	₹(4,200 – 3,456)=₹744 crores

(d) List the sources of Government Revenue?

Solution:

Sources of Revenue

- Revenue Receipts
- Tax Revenue
  - Sharable with the States
  - Non sharable
- Non-Tax Revenue
  - Interest
  - Dividends
  - Receipts of Commercial Departments
- External Grants
- Capital Receipts
- Miscellaneous Capital Receipts
  - Disposal of Capital Assets
  - Divestment of SOE Shares
- Repayment of Loans.

(e) A firm of contractors obtained a contract for construction of bridges across a river. The following details are available in the records kept for the year ended 31st March, 2015.

	₹ In lakhs
Total contract price	**2,000**
Work certified	**1,000**
Work not certified	**210**

Estimated further cost to completion	**990**
Progress payment received	**800**
To be received	**280**

Determine the amount of
- **Contract work-in-progress;**
- **Amount due from/to customer.**

Solution:

Contract Work-in-Progress:

= Work certified + Work not certified = ₹ (1,000+210) lakhs = ₹ 1,210 lakhs

Amount due from/ to customer:

= Contract costs incurred + Recognised profits - Recognised losses – (Progress payments received + Progress payments to be received)

= ₹1,210 lakhs + NIL - ₹200 lakhs – ₹(800 + 280)lakhs = (₹70)lakhs i.e., amount due to the customer is ₹70 lakhs.

Working Note:

Amount of Foreseeable loss:

Particulars	Amount (₹ in lakhs)
Total Cost of Construction (1,000+210+990)	2,200
Less: Total Contract Price	2,000
Total foreseeable loss to be recognised as expenses	200

2. **Red Ltd. and Blue Ltd. propose to amalgamate. Their balance sheets as at 31st March, 2014 were as follows:**

Equity and Liabilities	Note	Red Ltd. (₹)	Blue Ltd. (₹)
Share holders' funds			
Share Capital			
Equity Share Capital (in shares of ₹ 10 each)		**15,00,000**	**6,00,000**
Reserves and Surplus	**1**	**9,00,000**	**1,50,000**
Current liabilities:			
Trade Payables – creditors		**3,00,000**	**1,50,000**
Total		**27,00,000**	**9,00,000**
Assets			
Non-current Assets:			
Fixed Assets (less depreciation)		**12,00,000**	**3,00,000**
Investments (face value of ₹ 3 lakhs, 6% tax free G.P notes)		**3,00,000**	
Current Assets:			
Inventories		**6,00,000**	**3,90,000**
Trade Receivables – debtors		**5,10,000**	**1,80,000**
Cash and cash equivalents		**90,000**	**30,000**
Total		**27,00,000**	**9,00,000**

Note 1: Reserves and Surplus	Red Ltd. (₹)	Blue Ltd. (₹)
General Reserves	**6,00,000**	**60,00,000**
Profit and Loss Account	**3,00,000**	**90,000**

Their Net Profit (after taxation) were as follows:

Year	Red Ltd.	Blue Ltd.
2011-12	₹ 3,90,000	₹ 1,35,000
2012-13	₹ 3,75,000	₹ 1,20,000
2013-14	₹ 4,50,000	₹ 1,68,000

Normal trading profit may be considered as 15% on closing capital invested. Goodwill may be taken as 4 years purchase of average super profit. The stock of Red Ltd. and Blue Ltd. are to be taken at ₹ 6,12,000 and ₹4,26,000 respectively for the purpose of amalgamation. Green Ltd. is formed for the purpose of amalgamation of two companies. Assume Tax Rate 40%.

(i) Ascertain the number of shares to be issued by Green Ltd. in the form of equity shares of ₹ 10 each.

(ii) Draft opening balance sheet of Green Ltd. after amalgamation. [16]

Solution:

(i) Computation of shares to be issued by Green Ltd.

Computation of Net Assets of amalgamating companies

	Red Ltd. (₹)	Blue Ltd. (₹)
Goodwill (W.N 2) Fixed Assets 6% investments (Non- trade) Inventories Debtors Cash and cash equivalents	3,19,200 12,00,000 3,00,000 6,12,000 5,10,000 90,000	1,21,200 3,00,000 ---- 4,26,000 1,80,000 30,000
	30,31,200	10,57,200
Less: Creditors	3,00,000	1,50,000
Net Assets	27,31,200	9,07,200
No. of Equity Shares	1,50,000	60,000
Intrinsic value of a share	₹18.208	₹15.12
No of shares to be issued by Green Ltd. to		
Red Ltd. 1,50,000 X 18.208/10	2,73,120 shares	
Blue Ltd. 60,000 X 15.12/10		90,720 shares

In total 2,73,120+ 90,720 i.e. 3,63,840 shares will be issued by Green Ltd.

Ratio of exchange of shares will be as follows:

A. Holders of 1,50,000 equity shares of Red Ltd. will get 2,73,120 shares in Green Ltd.

B. Similarly, holders of 60,000 equity shares of Blue Ltd. will get 90,720 shares in Green Ltd.

(ii)

Green Ltd. (Opening Balance Sheet)
as on 01.04.2014

Equity and Liabilities	Note	Current Year	Previous Year
Shareholders' funds			
Share Capital			
Equity share capital (in shares of ₹10 each)		36,38,400	
Current Liabilities:			
Trade Payables-Creditors(3,00,000+1,50,000)		4,50,000	
Total		40,88,400	
Assets			

Non-current Assets:			
Fixed Assets (less depreciation)			
Tangible assets(12,00,000+ 3,00,000)		15,00,000	
Intangible assets(3,19,200 + 1,21,200)		4,40,400	
Investments (Face value of ₹ 3 lakhs, 6% Tax free G.P notes		3,00,000	
Current Assets:			
Inventories(6,12,000+4,26,000)		10,38,000	
Trade receivables-debtors(5,10,000+ 1,80,000)		6,90,000	
Cash and cash equivalents(90,000+30,000)		1,20,000	
Total		40,88,400	

Working Notes:

A. Calculation of Closing trading capital employed on the basis of net assets

	Red Ltd. (₹)	Blue Ltd. (₹)
Fixed Assets Inventories Debtors Cash and cash equivalents	12,00,000 6,12,000 5,10,000 90,000	3,00,000 4,26,000 1,80,000 30,000
	24,12,000	9,36,000
Less: Creditors	3,00,000	1,50,000
Net Assets	21,12,000	7,86,000

B. Calculation of value of Goodwill

Average trading profit

	Red Ltd. (₹)	Blue Ltd. (₹)
2011-12 2012-13 2013-14	3,90,000 3,75,000 4,50,000	1,35,000 1,20,000 1,68,000
Profit after tax	12,15,000	4,23,000
Profit before tax Add: Under valuation of closing stock	20,25,000 12,000	7,05,000 36,000
	20,37,000	7,41,000
Average of 3 years' profit before tax	6,79,000	2,47,000
Less: Income from non-trade investments (3,00,000 × 6%)	18,000	--
Average profit before tax Less: 40% tax	6,61,000 2,64,400	2,47,000 98,800
Average profit after tax	3,96,600	1,48,200

Super Profits

	Red Ltd. (₹)	Blue Ltd. (₹)
Average trading profit Less: Normal Profit Red Ltd. ₹21,12,000 × 15% Blue Ltd. ₹ 7,86,000 × 15%	3,96,600 3,16,800 --	1,48,200 -- 1,17,900
	79,800	**30,300**

Value of Goodwill

	Red Ltd. (₹)	Blue Ltd. (₹)
Value of Goodwill at 4 years' purchase of super profits	3,19,200	1,21,200

3. **The balance sheet of Golden and Silver Limited as on 31.3.2014 are given below:**

Equity and Liabilities	Note	Golden Ltd. (₹)	Silver Ltd. (₹)
Share holders' funds			
Share Capitals			
Equity Share Capital		2,40,000	2,40,000
Reserves and Surplus	1	64,000	71,000
Current Liabilities:			
Trade Payables – creditors		8,000	15,000
Other current liabilities		4,000	10,000
Total		3,16,000	3,36,000
Assets			
Non- current Assets:			
Fixed Assets		88,000	1,68,000
Investment		1,80,000	10,000
Current Assets:			
Inventories		20,000	80,000
Trade Receivables – debtors		12,0000	30,000
Cash and cash equivalents		8,000	16,000
Other current assets		8,000	32,000
Total		3,16,000	3,36,000

Note: 1 Reserves and surplus	Golden Ltd. (₹)	Silver Ltd. (₹)
General Reserves	40,000	32,000
Profit and Loss Account	24,000	39,000

Additional Information:

(i) On 1.10.2011, Golden Ltd. acquired 16,000 shares of ₹ 10 each at the rate of ₹ 11 per share.

(ii) Balance to General Reserve and Profit and Loss Account of Silver Ltd. stood on 1.4.2011 at ₹ 60,000 and ₹ 32,000 respectively.

(iii) All the dividends declared and paid relating to the past years had been properly adjusted for to arrive at the profit and loss account balance.

(iv) On 1.3.2014, bonus shares were issued by Silver Ltd. at the rate of one fully paid share for every five held and effect has been given to that in the above accounts. The bonus was declared from general reserves from out of profits earned prior to 1.4.2011.

(v) On 1.10.2011, Fixed assets was revalued at ₹ 2,16,000 but no adjustment had been made in the books.

(vi) Depreciation had been charged @ 10% p.a on the book value as on 1.4. 2011 (on straight line method), there being no addition or sale since then.

(vii) Out of current profits ₹ 4,000 have been transferred to general reserve every year.

(viii) Bills receivable of Golden Ltd. include ₹ 4,000 bills accepted by Silver Ltd. Bills discounted by Golden Ltd., but not yet matured include ₹ 3,000 accepted by Silver Ltd.

(ix) Sundry creditors of Golden Ltd. include ₹ 4,000 due to Silver Ltd. sundry debtors of Silver Ltd. include ₹ 8,000 due from Golden Ltd.

(x) It is found that Golden Ltd. has remitted a cheque of ₹ 4,000 which has not yet been received by Silver Ltd.

Show the analysis of pre and post acquisition profit and reserves as on 31.03.2014 for the purpose of consolidation. [16]

Solution:

Interest of Golden Ltd in Silver Ltd.	₹
Share capital of Silver Ltd. on 31.3.2014 Less: Issue of Bonus Shares $\frac{1}{6} \times ₹2,40,000$	2,40,000 40,000
Share capital before Bonus issue	2,00,000
No. of Equity Shares before Bonus issue $\frac{2,00,000}{10}$ No. of shares held by Golden Ltd.	20,000 16,000
Interest of Golden Ltd. in Silver Ltd $\frac{16,000}{20,000} \times 100$	
Minority shareholders' Interest	20%

Analysis of Profit of Silver Ltd.

		Capital Profit (₹)	**Revenue Reserve (₹)**	**Revenue Profit (₹)**
General Reserve on 31.3.2014 (After Bonus issue)	32,000			
Add: Bonus issue	40,000			
Balance (before bonus issue) ₹ 1,80,000 – (16,000 shares x ₹ 11)	72,000			
General Reserve on 1.4.2011	60,000			
Less: Bonus issue	40,000	**20,000**		
Increase in General Reserve (Transfer of ₹4000 p.a. for 3 years) (72,000 – 60,000)	12,000	**2,000**	**10,000**	
Profit and Loss Account (39,000 – 12,000)	27,000	**4,500**		**22,500**
Additional depreciation written back due to revaluation of fixed assets $12,000 \times \frac{10}{100} \times 2.5$				**3,000**
		26,500	**10,000**	**25,500**
Share of Golden Ltd. (80%)		21,200	**8,000**	**20,400**
Share of Minority Shareholders (20%)		5,300	**2,000**	**5,100**
		26,500	**10,000**	**25,500**

Loss on Revaluation has been calculated as follows:	
Value of Assets on 1.4.2011 (1,68,000 X $\frac{100}{70}$)	2,40,000
Less : Depreciation for 6 months (2,40,000 x $\frac{100}{200} \times \frac{1}{2}$)	12,000
Valuation of Assets on 1.10.2011	2,28,000
Less: Re-valued value of Assets	2,16,000
Loss on Revaluation	12,000

It has been assumed that Profit of ₹27,000 for the year 2012-2013, has been earned evenly in 3 years, (year 2011-12, 2012-13 and 2013-14) hence profit per year would be $\frac{27,000}{3}$ = ₹9000.Half of the profit of ₹9,000 for the year 2011-12 would be pre-acquisition (Capital Profit) and Remaining half i.e. ₹4500 would be post-acquisition profit (Revenue profit).

4. (a) Mitra Ltd. acquired 25% of shares in Friend Ltd. as on 31.03.2014 for ₹ 9 lakhs. The balance sheet of Friend Ltd as on 31.03.2014 is given below

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Share capital	**15,00,000**	**Fixed Assets**	**15,00,000**
Reserves and Surplus	**15,00,000**	**Investments**	**6,00,000**
		Current Assets	**9,00,000**
	30,00,000	**Total**	**30,00,000**

Following additional information are available for the year ended 31.03.2015 –

(i) Mitra Ltd. received dividend from Friend Ltd for the year ended 31.03.2014 at 40% from the Reserves.

(ii) Friend Ltd. made a profit After tax of ₹ 21 lakhs for the year ended 31.03.2015.

(iii) Friend Ltd. declared a dividend @ 50% for the year ended 31.03.2012 on 30.04.2015.

Mitra Ltd. is preparing consolidated Financial Statements in accordance with AS- 21 for its various subsidiaries.

- **Calculate goodwill if any on acquisition of Friend Ltd.'s shares.**
- **How Mitra Ltd. will reflect the value of investment in Friend Ltd. in the consolidated financial statements?**
- **How the dividend received from Friend Ltd. will be shown in the consolidated financial statements? [12]**

Solution:

A. Basic Information

Mitra's stake in Friend Ltd.	Nature of Investment in Friend Ltd.	Date of Consolidation
25% Shares	Associate in terms of AS 23	31.03.2015

B. Calculation of Goodwill

Particulars	**₹ in lakhs**
Mitra's share in the Equity of Friend Ltd. (as at the date of investment) [25% of ₹30 lakhs (Equity Capital ₹15 Lakhs + Reserves ₹15 Lakhs)] **Less:** Cost of Investment	7.50 (9.00)
Goodwill	**(1.50)**

C. Extract of Consolidate Profit and Loss Account of Mitra Ltd. for the year ended 31.03.2015

(₹ in lakhs)

Ref No.		**Particulars**	**Note No.**	**As at 1st March, 2015**	**As at 1st January, 2014**
	II.	Other Income		5.25	

(₹in lakhs)

Note to the Profit and Loss Account (Other Income)	**As at 1st January, 2015**	**As at 1st January, 2014**
Share of Profit from Friend Ltd.(25% ×₹21 lakhs) i.e. 5.25 lakhs	5.25	
Dividend from Friend Ltd. (15 Lakhs ×25% ×40%) i.e. 1.50 lakhs	NIL	
Less: Transfer to Investment in Friend Ltd. A/c i.e. 1.50 lakhs		
Total	5.25	

D. Extract of Consolidated Balance Sheet of Mitra Ltd. as at 31.03.2015

(₹in lakhs)

Ref No.		**Particulars**	**Note No.**	**As at 1st March, 2015**	**As at 1st January, 2014**
	II.	Assets		₹	₹
		Non-current investments		12.75	

(₹in lakhs)

Note to the Balance Sheet (Non-current Investments)		As at 1st March, 2015	As at 1st January, 2014
Investment in Friend Ltd. ₹(9.00+5.25-1.5) Goodwill	₹11.25 ₹1.50	12.75	
Total		12.75	

Note: Dividend declared on 30.04.2015 will not be recognized in consolidated Financial Statements.

(b) Mithila grants 120 share options to each of its 240 employees. Each grant is conditional on the employee working for Mithila over the next three years. Mithila has estimated that the fair value of each share option is ₹ 24.
Mithila estimates that 25% of employees will leave during the three year period and so forfeit their rights to the share options.
Everything turns out exactly as expected.
Calculate the amounts to be recognized as expense during the vesting period. [4]

Solution:

Year	Calculation	Expense for Period (₹)	Cumulative Expense (₹)
1	28,800 options × 75% × ₹24 × 1/3 years	1,72,800	1,72,800
2	(28,800 options × 75% × ₹24 × 2/3 years) – 1,72,800	1,72,800	3,45,600
3	(28,800 options × 75% × ₹24 × 3/3 years) - ₹3,45,600	1,72,800	5,18,400

5. (a) Aro Ltd. furnishes the following profit and loss Account –

Particulars	Notes	₹ (000)
INCOME:		
Turnover	**1**	**29,872**
Other income		**1,042**
Sub-total		**30,914**
EXPENDITURE:		
Operating expenses	**2**	**26,741**
Interest on 8% debentures		**987**
Interest on cash credit	**3**	**151**
Excise duty		**1,952**
Sub-total		**29,831**
Profit before depreciation		**1,083**
Less: Depreciation		**(342)**
Profit before tax		**741**
Less: Provision for tax		**(376)**
Profit after tax		**365**
Less: Transfer to fixed assets replacement reserve		**(65)**
Profit available for distribution		**300**
Less: dividend paid		**(125)**
Retained profit		**175**

Notes:
1. **Turnover is based on invoice value and net of sales tax.**
2. **Salaries, wages and other employee benefits amounting to ₹ 14,761(000) are included in operating expenses.**
3. **Cash credit represents a temporary sources of finance. It has not been considered as a part of capital.**

4. **Transfer of ₹54 (000) to the credit of deferred tax account is included in provision for tax.**

Prepare value added statement for the year ended 31st march 2014 and reconcile total value added with profit before taxation. [10]

Solution:

Value Added Statement of Aro Ltd.

Particulars	**₹(000)**	**₹(000)**	**₹(000)**
Turnover			29,872
Less: Operating Expenses [Total ₹26,741 – salaries ₹14,761]			(11,980)
Value added by Trading Activities			17,892
Less: Interest on Cash Credit			(151)
Add: Other Income			1042
Total value Added			18,783
Applied as follows-			
1. To Employees Salaries, Wages etc.		14,761	78.6%
2. To Government Excise Duty	1,952		
Income tax (376-54)	322	2274	12.1%
3. To Financiers Interest on Debentures		987	5.3%
4. To Shareholders Dividends		125	0.7%
5. To Earnings retained for expansion and replacement			
Retained Profit	175		
Depreciation	342		
Deferred tax credit	54		
Fixed Asset Replacement Reserve	65	636	3.3%
Total Application		18,783	100%

Reconciliation of Total Value Added with Profit before taxation

Particulars	**₹(000)**	**₹(000)**
Profit before taxation		741
Add: Depreciation	342	
Interest on Borrowings	987	
Excise Duty paid to Government	1,952	
Salaries and Wages to Employees	14,761	18,042
Total Value Added		18,783

(b) From the following details, compute according to Lev and Schwartz (1971) model, the value of human resources of skilled employees group.

- **Annual average earning of an employee till the retirement age ₹ 2,00,000**
- **Age of retirement 65 years**
- **Discount rate 15%**
- **No. of employees in the group 20**
- **Average age 62 years [6]**

Solution:

Particulars	
(i) Average Annual Earning till retirement	₹2,00,000
(ii) Annuity Factor for 3 years at 15%	2.2832
(iii) No. of employees	20
(iv) Value of Human Resource of Skilled Employees group (i)×(ii)×(iii)	₹91,32,800

Note: As the employees are 62 years (Average), there are 3 more years for them i.e., till 65 years of age to retire. Hence the average earning is discounted for 3 years at 15%.

6. **(a) While closing its books of accounts on 31.03.2016 a Non-banking Financial Company has its advances classified as follows:**

Particulars	**₹ In lakhs**
Standard Assets	**25,200**
Sub-standard Assets	**2,010**
Secured portion of doubtful debts:	
- **Upto one year**	**480**
- **One year to three years**	**135**
- **More than three years**	**45**
Unsecured portion	**145**
Loss Assets	**72**

Calculate the amount of provision to be made against the advances. [8]

Solution:

Computation of amount of provision

Particulars	**Loan ₹ Lakhs**	**Provision %**	**Provision ₹ Lakhs**
Standard Assets	25,200	0.25%	63.00
Sub-Standard Assets	2,010	10%	201.00
Secured Portion of Doubtful Debts:			
- Upto one year	480	20%	96.00
- One year to three years	135	30%	40.50
- More than three years	45	50%	22.50
Unsecured Portion	145	100%	145.00
Loss Assets	72	100%	72.00
Total			**640.00**

(b) On the basis of the following information related to trading in options, you are required to pass relevant journal entries (at the time of inception and at the time of final settlement) in the books of Tom (Buyer) and Jerry (seller). Assume that the price on expiry is ₹ 950 and both Tom and Jerry follow the calendar year as an accounting year.

Date of purchase	**Option Type**	**Expiry date**	**Premium per unit**	**Contract Lot**	**Multiplier**
29.03.2015	**Equity index, call**	**31.05.2015**	**₹ 10**	**1,000 units**	**₹ 850 p.u**

[8]

Solution:

In the books of Tom (Buyer)

S. No.	**Particulars**		**Debit ₹**	**Credit ₹**
29.03.15	Equity Index Option Premium A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Being premium paid on Equity Stock Options)			
31.05.15	Profit and Loss A/c	Dr.	10,000	
	To Equity Index Stock Option A/c			10,000
	(Being premium on option written off on expiry)			
31.05.15	Bank A/c	Dr.	1,00,000	
	To Profit and Loss A/c			1,00,000
	(Being profit on exercise of option received = 1,000 units			

	*(₹950 - ₹850)) (Exercise Price - Spot Price)		

In the books of Suman (Seller)

S. No.	Particulars	Debit ₹	Credit ₹
29.03.15	Bank A/c Dr. To Equity Index Option Premium A/c (Being premium on Option collected)	10,000	 10,000
31.05.15	Profit and Loss A/c Dr. To Bank A/c (Being loss on Option paid)	1,00,000	 1,00,000
31.05.15	Equity Index Option Premium A/c Dr. To Profit and Loss A/c (Being premium on option recognized as income)	10,000	 10,000

7. **(a) From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2016 in accordance with AS-3 (Revised) using the direct method. The company does not have any cash equivalents.**

Summary cash account for the year ended 31.3.2016

Particular	Amount (₹ '000)	Particulars	Amount (₹ '000)
Balance on 1.4.2015	**400**	**Payment to suppliers**	**2,600**
Issue of equity shares	**1,000**	**Purchase of fixed assets**	**1,200**
Receipts from customers	**4,500**	**Overhead expenses**	**200**
Sale of fixed Assets	**200**	**Wages and salaries**	**600**
		Taxation	**450**
		Dividend	**100**
		Repayment of bank loan	**800**
		Balance on 31.3.2016	**150**
	6,100		**6,100**

[8]

Solution:

X Ltd.

Cash Flow Statement for the year ended 31st March, 2016 (Using the direct method)

Particulars	₹ '000	₹ '000
Cash flows from operating activities		
Cash receipts from customers	4,500	
Cash payment to suppliers	(2,600)	
Cash paid to employees	(600)	
Cash payments for overheads	(200)	
Cash generated from operations	1,100	
Income tax paid	(450)	
Net cash from operating activities		650
Cash flows from investing activities		
Payment for purchase of fixed assets	(1,200)	
Proceeds from sale of fixed assets	200	
Net cash used in investing activities		(1,000)
Cash flows from financing activities		
Proceeds from issuance of equity shares	1,000	
Bank loan repaid	(800)	

Dividend paid	(100)	
Net cash from financing activities		100
Net increase in cash		(250)
Cash at beginning of the period (01.04.2015)		400
Cash at end of the period(31.03.2016)		150

(b) Mr. Sen buys the following Equity Stock Options and the seller/writer of the options is Mr. Ghosh

Date of purchase	Option Type	Expiry date	Market lot	Premium per unit	Strike price (₹)
29 June, 2013	PQ Co. Ltd	30 Aug., 2013	100	30	460
30 June, 2013	MN Co. Ltd.	30 Aug., 2013	200	40	550

Assume the price of P Q Co. Ltd. and MN Co. Ltd. on 30th August, 2013 is ₹ 470 and 500 respectively. Pass journal entries in the books of Mr. Ghosh. [8]

Solution:

In the books of Mr. Ghosh
Journal

Date	Particulars	Debit (₹)	Credit (₹)
29.06.2013	Bank A/c Dr. To, Option premium A/c [Being option premium received(₹3,000+₹8,000)]	11,000	 11,000
30.08.2013	Loss on Derivatives A/c Dr. To, Bank A/c (Being Loss recognised) (₹470 - ₹460)×100 = ₹1,000 (₹550 - ₹500)×200 = ₹10,000	11,000	 11,000
30.08.2013	Option premium A/c Dr. To, Profit & Loss A/c (Being Premium transferred to income)	11,000	 11,000

8. (a) Discuss the structure of Indian Government Accounting Standards Advisory Board. [8]

Solution:

Government Accounting Standards Advisory Board (GASAB) consists of the following officers:
1. Deputy Comptroller and Auditor General (Accounts) as Chairperson;
2. Controller General of Accounts;
3. Financial Commissioner, Railways;
4. Controller General of Defence Accounts;
5. Additional Secretary (Budget), Ministry of Finance, Government of India;
6. Deputy Governor, Reserve Bank of India or his nominee;
7. Director General, National Council of Applied Economic Research (NCAER), New Delhi;
8. President, Institute of Chartered Accountants of India (ICAI), or his Nominee;
9-12 Principal Secretary (Finance) of four States by annual rotation;
13. Principal Director (Accounts).

(b) State the principles of Government Accounting. [8]

Solution:

The general principles of Government Accounting are as follows:

1. The Government Expenditure are classified under Sectors, major heads, minor heads, sub-heads and detailed heads of account, the accounting is more elaborate that that followed in commercial accounts. 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. 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 (b) whether it can and should increase or decrease taxation accordingly.
3. 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.