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.

(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?

(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%

(d) List the sources of government revenue?

(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

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]**

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	Red Ltd. (₹)	Blue 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]**

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]**

(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]**

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]**

(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]**

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]**

(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]

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]

(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]**

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