Paper 18- Corporate Financial Reporting

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

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

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

(a) Rose Ltd. entered into agreement with Tulip Ltd. for sale of goods of ₹8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2016. On the same day Tulip Ltd. entered into another agreement with Rose Ltd. to resell the same goods at ₹10.80 lakhs on 1st August, 2016. State the treatment of this transaction in the financial statements of Rose Ltd. as on 31.03.16. The pre-determined re-selling price covers the holding cost of Tulip Ltd. Give the Journal Entries as on 31.03.14 in the books of Rose Ltd.

(b) Diamond Ltd. supplied the following information:

Net profit for 2014 – 15	₹33 lakh
Net profit for 2015 – 16	₹49.50 lakh
No. of shares before rights issue	1,65,000
Rights issue ratio	One for every four held
Right issue price	₹270
Date of Exercising rights option	30th June, 2015 (Fully Subscribed on this date)
Fair value of share before rights issue	₹405

You are required to compute:

(i) Basic earnings per share and
(ii) Adjusted earnings per share as per AS- 20.

(c) While closing its books of accounts on 31st March, a NBFC has its advances classified as follows –

Particulars	₹ Lakhs	Particulars	₹Lakhs
Standard Assets	8,400	Unsecured Portion of Doubtful Debts	87
Sub-Standard Assets	910	Loss Assets	24
Secured Portions of Doubtful Debts:			
- Up to one year	160		
- One year to three years	70		
- more than three years	20		

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

(d) Ajanta grants 120 share options to each of its 230 employees. Each grant is conditional on the employee working for Ajanta over the next three years. Ajanta has estimated that the fair value of each share option is ₹24. Ajanta 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.

(e) S Ltd. acquired a patent at a cost of ₹60 lacs for a period of 5 years and the product-life cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹10 lacs per annum. After two years it was found that the product life-cycle may continue for another 4 years from then. the net cash flows from the product during these 4 years were expected to be ₹49,50,000; ₹54,00,000; ₹58,50,000 and ₹63,00,000. Find out the amortization cost of the patent for each of the year.

2. The following are the summarized Balance Sheet (drafted) ZIN Ltd. and VES Ltd. as on March 31,2016.

(Amount in ₹)

Equity and Liability	ZIN Ltd.	VES Ltd.	Assets	ZIN Ltd.	VES Ltd.
1. Shareholders' Funds:			1. Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets	14,00,000	10,00,000
(i) Equity shares of ₹10 each	12,00,000	12,00,000	(b) Non-Current investments		
(ii) 10%Pref. Shares of ₹10 each	4,00,000	4,00,000	(i) 12,000 equity shares of VES Ltd.	1,60,000	
(b) Reserves & Surplus	6,00,000	8,00,000	(ii) 20,000 equity shares of Z in Ltd.		3,20,000
2. Non-Current liabilities:			2. Current Assets:		
Long term Borrowings (12% Debentures)	4,00,000	6,00,000	(a) Inventories	4,80,000	12,80,000
3. Current Liabilities:			(b) Trade Receivables		
Trade Payables			(i) Debtors	7,20,000	7,60,000
(i) Sundry Creditors	4,40,000	5,00,000	(ii) Bills Receivable	1,20,000	80,000
(ii) Bills payable	60,000	1,00,000	(c) Cash & Cash Equivalents	2,20,000	1,60,000
Total	31,00,000	36,00,000	Total	31,00,000	36,00,000

Fixed assets of both the companies are to be revalued at 15% above Book values and stock and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends, preference dividends having been already paid. After the above transactions are given effect to, Zin Ltd. will absorb Ves Ltd. on the following terms:

(a) 8 equity shares of ₹ 10 each will be issued by Zin Ltd. at par against 6 shares of Ves Ltd.
(b) 10% preference share of Ves Ltd. will be paid off at 10% discount, by issue of 10% preference share of ₹100 each in Zin Ltd. at par.
(c) 12% Debenture Holders of Ves Ltd. are to be paid off at a 8% premium by 12% debentures in Zin Ltd. issued at a discount of 10%.
(d) ₹ 60,000 to be paid by Zin Ltd. to Ves Ltd. for liquidation expenses.
(e) Sundry Creditors of Ves Ltd. include ₹40,000 due to Zin Ltd.

You are required to Prepare:

(i) Statement of purchase consideration payable by Zin Ltd.
(ii) Balance Sheet of Zin Ltd. as on March 31, 2016 after its absorption of Ves Ltd. as per Schedule-III to the Companies Act, 2013 with Notes to Accounts. **[3+13 = 16]**

3. 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 (draft) of all four companies as on 31.03.2016 are:

(₹ in lakhs)

Particulars	A Ltd.	B Ltd.	C Ltd.	D Ltd.
Liabilities				
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
Assets				
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 01.04.2015, 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 31.03.2016 as per AS-21, AS-23 and AS-27. **[16]**

4. (a) A Company purchased a plant for ₹50 Lakhs during the financial year and installed it immediately. The price charged by the Vendor included Excise Duty (CENVAT Credit Available) of ₹5 Lakhs. During this year, the Company also produced excisable goods on which Excise Duty chargeable is ₹4.50 Lakhs. Show the Journal Entries describing CENVAT Credit treatment. **[8]**

(b) From the following information in respect of Unnat Ltd., prepare a value added statement for the year 2016

	₹ '000
Turnover	2,300
Plant and Machinery (net)	1,080
Depreciation on Plant and Machinery	275
Dividends to ordinary shareholders	146
Debtors	195
Creditors	127
Total stock of all materials, WIP and finished goods	
Opening Stock	160
Closing Stock	200
Raw materials purchased	625
Cash at Bank	98
Printing and Stationary	22
Auditor's remuneration	28
Retained Profits (Opening balance)	994
Retained Profits for the year	288
Rent, Rates and Taxes	165
Other expenses	85

Ordinary share capital issued	1,500
Interest on borrowing	40
Income tax for the year	276
Wage and Salaries	327
Employees State Insurance	35
PF- Contribution	28

Calculate the Value added per employee, average earning per employee and sales per employee on the basis that 95 employees work in Unnat Ltd. **[8]**

5. (a) Discuss the concept of Triple Bottom Line Reporting. **[6]**

(b) Techno Ltd. has 2 divisions Laptops and Mobiles.
Division Laptops has been making constant profits while division Mobiles has been invariably suffering losses.
On 31st March 2015 the division-wise draft Balance Sheet was: (₹ in crores)

	Laptops	Mobiles	Total
Fixed assets cost	250	500	750
Depreciation	(225)	(400)	(625)
Net Assets (A)	25	100	125
Current assets:	200	500	700
Less: Current liabilities	(25)	(400)	(425)
(B)	175	100	275
Total (A+B)	200	200	400
Financed by:			
Loan funds	-	300	300
Capital: Equity ₹10 each	25	-	25
Surplus	175	(100)	75
	200	200	400

Division Mobiles along with its assets and liabilities was sold for ₹50 crores to Turnaround Ltd. a new company, who allotted 1 crore equity shares of ₹10 each at a premium of ₹40 per share to the members of Techno Ltd. in full settlement of the consideration, in proportion to their shareholding in the company.
Assuming that there are no other transactions, you are asked to:
(i) Pass journal entries in the books of Techno Ltd.
(ii) Prepare the Balance Sheet of Techno Ltd. after the entries in (i).
(iii) Prepare the Balance Sheet of Turnaround Ltd. **[10]**

6. X Ltd. granted 500 stock options to its employees on 01.04.2013 at ₹ 50 per share. The vesting period is 2 ½ years and the maximum exercise period is one year. Market price on that date is ₹ 140 per share. All the options were exercised on 30.06.2016. Pass journal entries giving suitable narrations, if the face value of equity share is ₹ 10 per share. Also show the impact of the above items in the Balance Sheet for the year Mar. 31, 2014 to 2016. **[16]**

7. (a) Bill Ltd. exchanges used car for building that possibly become Bill Ltd.'s storage space. Future cash flow will significantly change. The books value of the car total is ₹80,000 (cost of ₹2,04,000 – accumulated depreciation of ₹1,24,000). The car's fair value is ₹90,000. In addition, Bill Ltd. must pay ₹40,000 cash as part of the exchange. Calculate the gain to be recognized on the exchange and Cost of building to be capitalized. What will be the gain and cost of building to be capitalized, if fair value of the car is ₹76,000. **[10]**

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

Debt Capital 12%	₹8,000 crores	Risk free rate	9%

Equity capital	₹2,000 crores	Beta factor	1.05
Reserves & Surplus	₹30,000 crores	Market rate of return	19%
Capital Employed	₹40,000 crores	Equity(market) risk premium	10%
Operating profit after tax	₹8,400 crores	Tax rate	30%

[6]

8. (a) "IGAS 3 - Loans and Advances made by Governments " — Discuss. **[8]**

(b) Discuss in brief the Standard – setting procedure of Government Accounting Standards Advisory Board. **[8]**