Paper – 18: Corporate Financial Reporting

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Question No.1 which is compulsory and carries 20 Marks and answer any 5 Question from Q. No 2 to Q No 8

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

1. (a) Qu Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years However no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles and transfer plus employees in a phased manner.

(i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.
(ii) If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24 ?
(iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

(b) Himalayas Ltd. is showing an intangible asset at `72 lakhs as on 01.04.2013 and that item was required for `96 lakhs on 01.04.2010 and that item was available for use from that date. Himalayas Ltd. 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 relevant accounting standard.

(c) Who appoints the Public Accounts Committee Chairman? What is the Procedure of Appointment of Chairman of the Public Accounts Committee?

(d) While closing its books of account on 31st March, 2015 a Non-Banking Finance Company has its advances classified as follows:

	(` in lakhs)
Standard Assets	16,800
Sub-standard assets	1,340
Secured portions of doubtful debts:	
- Upto one year	320
- One year to three years	90
- More than three years	30
Unsecured portions of doubtful debts	97
Loss assets	48

Calculate the amount of provisions, which must be made against the Advances.

(e) From the information furnished you are required to compute the Basic and Diluted EPS (earnings per share) for accounting year 01.04.2014 to 31.3.2015 and adjusted EPS for the year 01.04.2013 to 31.03.2014.

Net profit for year ended 31.03.2014	`75,50,000
Net profit for year ended 31.03.2015	`1,00,25,00
No. of equity shares as on 01.04.2014	50,00,250

Bonus issue on 01.01.2015	1 share for every 2 held
No. of 12% Convertible Debentures of ` 100 each issued on 1.1.2015	1,00,000
Conversion ratio of Debentures	10 shares per debenture
Tax rate	30%

2. (A) The following are the balance Sheets (as at 31-03-2015) of M Ltd. and B Ltd:

Liabilities	M Ltd `	B Ltd `	Assets	M Ltd `	B Ltd `
Share Capital:			Fixed Assets	25,00,000	15,00,000
Equity Shares of ` 10 each.	18,00,000	9,00,000	Investments	2,50,000	2,50,000
			Current Assets		
10% Preference shares of ` 100 each.	6,00,000	--	Stock	9,00,000	6,00,000
			Debtors	7,50,000	6,00,000
			Bills Receivable	25,000	5,000
12% Preference shares of ` 100 each	--	3,00,000	Cash at Bank	75,000	45,000
Reserves and Surplus					
Statutory Reserve	50,000	50,000			
General Reserve	12,50,000	8,50,000			
Secured Loan					
15% Debentures	2,50,000	--			
12% Debentures	--	2,50,000			
Current Liabilities					
Sundry Creditors	5,40,000	6,40,000			
Bills Payable	10,000	10,000			
	45,00,000	30,00,000		45,00,000	30,00,000

Contingent liabilities for bills receivable discounted `10,000.

The following additional information is provided to you:

	M Ltd. `	B Ltd. `
Profit before interest and tax	7,37,500	3,90,000
Rate of Income tax	40%	40%
Preference dividend	60,000	36,000
Equity dividend	1,80,000	1,35,000
Balance profit transferred to Reserve Account.		

(B) The equity shares of both the companies are quoted on the Mumbai Stock Exchange. Both the companies are carrying on similar manufacturing operations.

(C) M Ltd proposes to absorb business of B Ltd. as on 31.03.2015. The agreed terms for absorption are:

(i) 12% Preference shareholders of B Ltd. will receive 10% Preference shares of M Ltd. sufficient to increase their present income by 20%.

(ii) The Equity shareholders of B Ltd. will receive equity shares of M Ltd. on the following terms:

(a) The Equity shares of B Ltd. will be valued by applying to the earnings per share of B Ltd. 60 per cent of price earnings ratio of M Ltd. based on the results of 2014 - 15 of both the Companies.

(b) The market price of Equity shares of M Ltd. is `40 per share.

(c) The number of shares to be issued to Equity shareholders of B Ltd. will be based on the 80% of market price.

(d) In addition to Equity shares, 10% Preference shares of M Ltd. will be issued to the equity shareholders of B Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2010-11.

(i) 12% Debenture holders of B Ltd. are to be paid at 8% premium by 15% debentures in M Ltd. issued at a discount of 10%.

(ii) `8,000 is to be paid by M Ltd. to B Ltd. for liquidation expenses. Sundry Creditors of B Ltd. include `10,000 due to M Ltd. Bills receivable discounted by M Ltd. were all accepted by B Ltd.

(iii) Fixed assets of both the companies are to be revalued at 20% above book value. Stock in trade is taken over at 10%; less than their book value.

(iv) Statutory reserve has to be maintained for two more years

(v) For the next two years no increase in the rate of equity dividend is anticipated.

(vi) Liquidation expense is to be considered as part of purchase consideration.

You are required to:

(i) Find out the purchase consideration.
(ii) Give journal entries in the books of M Ltd.
(iii) Give the Balance Sheet as at 31.3.2015 after absorption [5+5+6=16]

3. The summarized balance sheets of two companies, Major Ltd. and Minor Ltd. as at 31st December, 2015 are given below:

Particulars	Major Ltd	Minor Ltd
Assets:		
Plant and Machinery	4,14,000	1,00,800
Furniture	14,000	9,200
18,000 Ordinary Shares in Minor Ltd.	2,40,000	--
4,000 Ordinary Shares in Major Ltd.	--	48,000
Stock in Trade	96,000	2,28,000
Sundry Debtors	1,40,000	1,70,000
Cash at Bank	34,000	26,000
	9,38,000	5,82,000
Liabilities:		
Ordinary Shares of `10 each	3,60,000	2,00,000
7.5% Preference Shares of ` 10 each	3,00,000	1,60,000
Reserves	52,000	60,000
Sundry Creditors	1,06,000	1,22,000
Profit and Loss Account	1,20,000	40,000
	9,38,000	5,82,000

A) Major Ltd. acquired the shares of Minor Ltd. on 1st July, 2015. As on 31st December, 2014, the Plant and Machinery stood in the books at ` 1,12,000, the reserve at ` 60,000 and the profit and loss account at ` 16,000. The plant and machinery was revalued by Major Ltd. on the date of acquisition of shares of Minor Ltd at ` 1,20,000 but no adjustments were made in the books of Minor Ltd.

B) On 31st December, 2014, the debit balance of profit and loss account was ` 45,500 in the books of Major Ltd.

C) Both the companies have provided depreciation on all their fixed assets at 10% p.a.

You are required to prepare a Consolidated Balance Sheet as on 31st December 2015 as per Schedule III. 16

4. (a) The following is an extract of the Profit and Loss account of Better and Best Ltd. for the year ended 31st march, 2014.

Particulars	(` '000)
Sales (including excise duty recoveries)	727
Other income	13
	740
Materials	530
Excise duty	62
Salaries, wages and employee benefits	19
Other expenses	47
Interest and finance charges	7
Depreciation	5
Provision for taxation	31
Preliminary expenses written off	5
Transfer to debenture redemption reserve	5
Proposed dividend	5
Transfer to General reserve	24
	740

Notes:

(i) Other expenses include fees and commission to whole time directors of `9,000 and loss on sale of fixed assets of `3,000

(ii) Interest and finance charges include interest on long term loans of `4,000 balance being on short-term borrowings.

You are required to prepare a Value Added Statement for the year ended 31st March, 2014.

4. (b) From the following details, compute according to Lev and Schwartz (1971) model, the total value of human resources of the employee groups skilled and unskilled.

		Skilled	Unskilled
i)	Annual average earning of an employee till the retirement age	`50,000	`30,000
ii)	Age of retirement	65 years	62 years
iii)	Discount rate	15%	15%
iv)	No of employees in the group	20	25
v)	Average age	62 years	60 Years

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5. (a) The Balance Sheet of Munna Ltd. on 31st March, 2015 is as under:

Liabilities	`	Assets	`

Authorised and issued equity share capital 20,000 shares of `100 each.	20,00,000	Goodwill	2,00,000
		Plant & Machinery	18,00,000
10,000 preference shares (7%) of ` 100 each.	10,00,000	Stock	3,00,000
		Debtors	7,50,000
Sundry Creditors	7,00,000	Preliminary expenses	1,00,000
Bank Overdraft	3,00,000	Cash	1,50,000
		Profit and Loss A/c	7,00,000
	40,00,000		40,00,000

Two years preference dividends are in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and paying dividend provided the capital base is reduced.

An internal reconstruction scheme as follows was agreed to by all concerned:

(i) Creditors agreed to forego 50% of the claim.

(ii) Preference shareholders withdrew arrear dividend claim. They also agreed to lower their capital claim by 20% by reducing nominal value in consideration of 9% dividend effective after reorganization in case equity shareholders loss exceeded 50% on the application of the scheme.

(iii) Bank agreed to convert overdraft into term loan to the extent required for making current ratio equal to 2:1.

(iv) Revalued figure for plant and machinery was accepted as ` 15,00,000.

(v) Debtors to the extent of ` 4,00,000 were considered good.

(vi) Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganization.

Your are required to prepare the proforma balance sheet after reorganization. 10

5. (b) Bright Ltd. acquired 30% of East India Ltd. Shares for `2,00,000 on 01-06-14. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-14 East India earned profits `80,000 and declared a dividend of `50,000 on 12-08-2014. East India reported earnings of ` 3,00,000 for the financial year ending on 31-03-15 and declared dividends of ` 60,000 on 12-06-2015.

Calculate the carrying amount of investment in:

(i) Separate financial statements of Bright Ltd. as on 31-03-15;

(ii) Consolidated financial statements of Bright Ltd.; as on 31-03-15;

(iii) What will be the carrying amount as on 30-06-2015 in consolidated financial statements? 6

6. (a) Choice Ltd. grants 100 stock options to each of its 1,000 employees on 01.04.2009 for `20 depending upon the employees at the time of vesting of options. The market price of the share is `50. These options will vest at the end of year 1 if the earning of Choice Ltd. is 16%, or it will vest at the end of the year 2 if the average earning of two years is 13%, or lastly it will vest at the end of the third year if the average earning of 3 years will be 10%. 5,000 unvested options lapsed on 31.3.2010. 4,000 unvested options lapsed on 31.3.2011and finally 3,500 unvested options lapsed on 31.3.2012.

Finally is the earning of Choice Ltd:

Year ended on	Earnings (in %)
31.3.2010	14%
31.3.2011	10%
31.3.2012	7%

850 employees exercise their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass journal entries for the above. 10

6. (b) A buyer buys a stock option of New Light Company Limited on 30th August, 2014 with a strike price of ` 150 per unit to be expired on September 30th 2014. The premium is ` 10 per unit and the market lot is of 100. The margin to be paid is ` 60 per unit.
Show, how the transactions will appear in the books of the seller, when:
i) The option is settled by delivery of the Asset, and
ii) The option is settled in cash and the Index price is ` 160 per unit. 6

7. (a) Compute EVA of Vikram Ltd. for 3 years from the information given

(in ` Lakhs)

Year	1	2	3
Average Capital Employed	`3,000.00	`3,500.00	`4,000.00
Operating Profit before Interest (adjusted for Tax Effect)	`850.00	`1,250.00	`1,600.00
Corporate Income Taxes	`80.00	`70.00	`120.00
Average Debt ÷ Total Capital Employed (in %)	40.00	35.00	13.00
Beta Variant	1.10	1.20	1.30
Risk Free Rate (%)	12.50	12.50	12.50
Equity Risk Premium (%)	10.00	10.00	10.00
Cost of Debt (Post Tax) (%)	19.00	19.00	20.00

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7. (b) M/s XYZ Ltd. has three segments namely X, Y, Z. The total assets of the company are `10.00 crs. Segment X has ` 2.00 crs. Segment Y has `3.00 crs. and segment Z has `5.00 crs. Deferred tax assets included in the assets of each segments are X – `0.50 crs, Y – ` 0.40 crs. and Z – `0.30 crs. The accountant contends that all the three segments are reportable segments. Comment 8

8. (a) State the scope of Indian Government Accounting Standard (IGAS)-3 on Loans and Advances made by Governments 8

8. (b) Briefly describe the role of Committee on Public Undertakings 8