PAPER – 18 - CORPORATE FINANCIAL REPORTING

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL C	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identity	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
		Decide	To solve or conclude
	EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify
		Evaluate	Appraise or asses the value of
		Recommend	Propose a course of action

Paper – 18 - Corporate Financial Reporting

Full Marks: 100 **Time allowed-3hrs**

This paper contains 5 questions, divided in sub-questions. Each question represents the specified weightage in sections as prescribed syllabus for this paper. Answers must be given against all questions. However, students are requested to read the instructions against each individual question also. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

Question No. 1 is compulsory.

1. (a) An enterprise reports quarterly, estimates an annual income of ₹ 10 lakhs. Assume tax rates on 1st ₹ 5,00,000 at 30% and on the balance income at 40%. The estimated quarterly income are ₹ 75,000, ₹ 2,50,000, ₹ 3,75,000 and ₹ 3,00,000.

Calculate the tax expense to be recognized in each quarter. [5]

(b) Vishnu Company has at its financial year ended 31st March, 2015, fifteen law suits outstanding none of which has been settled by the time the accounts are approved by the directors. The directors have estimated the possible outcomes as below:

Result	Probability	Amount of loss
For first ten cases:		
Win	0.6	
Loss-low damages	0.3	90,000
Loss-high damages	0.1	1,60,000
For remaining five cases:		
Win	0.5	
Loss-low damages	0.3	60,000
Loss-high damages	0.2	95,000

The directors believe that the outcome of each is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss. [5]

Answer:

1. (a)

As per AS 25 'Interim Financial Reporting', income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

		₹
Estimated Annual Income	(A)	10,00,000
Tax expenses:		
30% on ₹ 5,00,000		1,50,000
40% on earning ₹ 5,00,000		2,00,000

(B)	3,50,000

Weighted average annual income tax rate = $\frac{B}{A} = \frac{3,50,000}{10,00,000}$ = 35%

Tax expense to be recognized in each of the quarterly reports	₹
Quarter I - ₹ 75,000 × 35%	26,250
Quarter II - ₹ 2,50,000 × 35%	87,500
Quarter III - ₹ 3,75,000 × 35%	1,31,250
Quarter IV - ₹ 3,00,000 × 35%	1,05,000
₹ 10,00,000	3,50,000

1. (b)

In the given case, the probability of winning first 10 cases is 60% and for remaining five cases is 50%. In other words, probability of losing 10 cases and 5 cases is 40% and 50% respectively. According to AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where it is not probable that a present obligation exists, an enterprise discloses a contingent liability. Since in the given case, chances of winning the case is more and losing the case is less, no provision will be recognized.

The amount of contingent loss may be calculated as under:

Expected contingent loss in first ten cases = [₹ 90,000 × 0.3 + ₹ 1,60,000 × 0.1] × 10 cases

= [₹ 27,000 + ₹ 16,000] × 10 cases

= ₹ 43,000 × 10 cases = ₹ 4,30,000

Expected contingent loss in remaining five cases = [₹ 60,000 × 0.3 + ₹ 95,000 × 0.2] × 5 cases

= [₹ 18,000 + ₹ 19,000] × 5 cases

Total contingent liability = ₹ 4,30,000 + ₹ 1,85,000

= ₹ 6,15,000.

An enterprise should not recognise a contingent liability. For each class of contingent loss/liability at the balance sheet date, an enterprise should disclose, by way of a note, a brief description of the nature of the contingent liability.

Question No. 2: Answer to Question No. 2(a) is Compulsory. Answer any two from the remaining sub-questions.

2. (a) The following are the Balance Sheets of Big Ltd & Small Ltd for the year ending 31st March (₹ Crores)

Particulars	Big Ltd	Small Ltd
Equity Share Capital – in Equity Shares of ₹ 10 each	**50**	**40**
Preference Share Capital – in 10% Preference Shares of ₹ 100 each	**–**	**60**
Reserves and Surplus	**200**	**150**
Total Own Funds	**250**	**250**
Loans – Secured	**100**	**100**
Total Funds Employed	**350**	**350**
Applied for: Fixed Assets at Cost Less Depreciation	**150**	**150**

Current Assets Less Current Liabilities	**200**	**200**
Total Application of Funds	**350**	**350**

The Present Worth of Fixed Assets of Big Ltd and Small Ltd is ₹ 200 Crores and ₹ 429 Crores respectively. Goodwill of Big Ltd is ₹ 40 Crores and that of Small Ltd is₹ 75 Crores.

Small Ltd absorbs Big Ltd by issuing Equity Shares at par in such a way that Intrinsic Net Worth is maintained.

Goodwill Account is not to appear in the books. Fixed Assets are to appear at old figures.

Draft a statement of Valuation of Shares on Intrinsic Value Basis. [5]

Answer:

2. (a) Valuation of Shares on Intrinsic Value basis

Particulars	Big Ltd	Small Ltd
Equity Share Capital	50	40
Reserves and Surplus	200	150
Add: Goodwill agreed upon (as given)	40	75
Add: Incr. in Value of Fixed Assets (Present Worth **less** Book Value)	200 – 150 = 50	429 – 150 = 279
Total Net Worth	**340**	**544**
Alternatively, Net Worth can be calculated by the Assets Route as below:		
Goodwill	40	75
Fixed Assets	200	429
Net Current Assets	200	200
Less: Secured Loans	(100)	(100)
Preference Capital	–	(60)
Net Equity Worth	**340**	**544**
Number of Equity Shares	5 Crores	4 Crores
Intrinsic Value per Equity Share	₹ 68	₹ 136
Ratio of Intrinsic Value per Equity Share	1	2

Notes:

1. **Number of Shares to be issued:** Since the Shares are to be issued at par, the number of Equity Shares of ₹ 10 each to be issued to maintain the Intrinsic Net Worth = $\frac{₹\ 5\ \text{Crores}}{2}$ = 2.5 Crores Shares.
2. **General Reserve:** Net Assets taken over – Purchase Consideration = (150 + 200 – 100) – 25 = 225 Crores.

2. (b) Uma Limited agrees to acquire, as a going concern, the business of the Vidya Limited, on the basis of the Vendor's Balance Sheet as 31st December, which is as follows:

Equity and Liabilities	₹	Assets	₹

(1) Shareholders' Funds:		(1) Non-Current Assets:	
(a) Share Capital		(a) Fixed Assets: (i) Tangible Assets	
- 20,000 Equity Shares called up of ₹ 30 each	6,00,000	- Freehold Property	2,50,000
(b) Reserves & Surplus (i) Reserve Fund (ii) Profit & Loss A/c	1,25,000 60,000	- Plant & Machinery	50,000
		(b) Non-Current Investments - 6% Govt Paper	10,000
(2) Current Liabilities:		(2) Current Assets:	
Trade Payables - Sundry Creditors	75,000	(a) Inventories (b) Trade Receivables (Sundry Debtors 2,30,000 - Reserve 10,000)	3,00,000 2,20,000
		(c) Cash & Cash Equivalents	30,000
Total	8,60,000	Total	8,60,000

Note: Authorised Capital - 25,000 Shares of ₹ 50 each and Issued Capital-20,000 Shares of ₹ 50 each.

Reserve of ₹ 10,000 is created in respect of Bad Debts.

Uma Limited took over all Assets and Liabilities of the Vendor Company, subject to the retention out of such Assets of ₹15,000 to provide for Cost of Liquidation, Income-Tax etc. and to satisfy any dissenting Shareholders.

The consideration for the Sale is the allotment to the Shareholders in the Vendor Company of one Share of ₹100 (₹50 paid-up) in Uma Ltd for every two shares in Vidya Limited. The Market Value of Uma Ltd's Shares, which are ₹ 50 paid-up, at date of sale is ₹ 70 each.

The Liquidator of the Vendor Company had paid out of ₹ 15,000 retained, costs of Liquidation amounting to ₹ 2,500, Income-Tax ₹ 7,500 and Dissenting Shareholders of 100 Shares at ₹ 32.50 per share, i.e. ₹ 3,250.

The Sale and Purchase were carried through in terms of the agreement. Pass the necessary entries in the books of Vidya Ltd. [10]

Answer:

1. Basic Information

Selling Co: Vidya Ltd	**Date of Amalgamation: 31st Dec**	**Nature of Amalgamation:** Purchase (Income Tax payable i.e. Liability is not taken over. Hence, all the Assets and Liabilities condition is not satisfied)
Buying Co: Uma Ltd	**Date of Balance Sheet: 31st Dec**	

2. Purchase Consideration is the amount paid to **Assenting Shareholders only** and is calculated as below –

- Number of Shares (for Assenting Shareholders) = Total - Dissenting Shareholders = 20,000 - 100 = 19,900.
- Number of Shares of Uma Ltd, issuable to Assenting Shareholders = 19,900 ÷ 2 = 9,950 Shares.
- Purchase Consideration at ₹ 70 per Share = ₹ 70 x 9,950 = ₹ **6,96,500**

3. Entries in the Books of Vidya Ltd (Vendor)

	Particulars		Debit	Credit
1.	Realisation A/c	Dr.	8,55,000	
	To Freehold Property			2,50,000
	To Plant & Machinery			50,000
	To Stock			3,00,000
	To Debtors			2,30,000
	To Bank (30,000 - 15,000)			15,000
	To 6% Government Paper			10,000
	(Being Assets transferred to Realization A/c excluding Cash ₹15,000 for Liqn Expenses)			
2.	Reserves for Bad Debts	Dr.	10,000	
	Creditors	Dr.	75,000	
	To Realisation A/c			85,000
	(Being Liabilities transferred to realization account)			
3.	Uma Ltd.	Dr.	6,96,500	
	To Realisation A/c			6,96,500
	(Being Purchase Consideration due recorded)			
4.	Equity Shares of Uma Ltd	Dr.	6,96,500	
	To Uma Ltd			6,96,500
	(Being settlement of purchase consideration received as shares)			
5.	Equity Share Capital (100 x 30)	Dr.	3,000	
	Realisation A/c (balancing figure)	Dr.	250	
	To Bank			3,250
	(Being Purchase / Buyback of dissenting Shareholders interest)			
6.	Realisation A/c	Dr.	10,000	
	To Bank			10,000
	(Being Realization Expenses ₹ 2,500 & Taxes ₹ 7,500 met)			
7.	Equity Share Capital (6,00,000 - 3,000)	Dr.	5,97,000	
	Reserve Fund	Dr.	1,25,000	
	Profit and Loss A/c	Dr.	60,000	
	To Equity Shareholders A/c			7,82,000
	(Being Transfer of Paid Up Capital & Reserves of assenting Equity Shareholders)			
8.	Equity Shareholders A/c	Dr.	83,750	
	To Realisation A/c			83,750
	(Being Realisation Profit / Loss transferred to Equity Shareholders)			
9.	Equity Shareholders A/c	Dr.	6,98,250	
	To Equity Shares of Uma Ltd.			6,96,500
	To Bank (15,000 - 7,500 - 2,500 - 3,250)			1,750
	(Being Equity Shareholders due settled)			

Note: It is assumed that the balance in Bank A/c after payment of expenses is attributable to assenting shareholders. However, it can be assumed that the Balance is to be taken over by Uma Ltd. The Capital Reserve shall undergo a change correspondingly.

2. (c) (i)The following is the Balance Sheet of A Ltd.

Liabilities	**₹**
Equity Share Capital	**4,00,000**
Reserves and Surplus	**8,00,000**
Secured Loan	**4,00,000**
Unsecured Loans	**12,00,000**
	28,00,000

Assets	**₹**	**₹**
Fixed Assets		**14,00,000**
Investments		**8,00,000**
(Market Value ₹ 18,00,000)		
Current Assets	**8,00,000**	
Less: Current liabilities	**(2,00,000)**	**6,00,000**
		28,00,000

The company consists of three divisions. The scheme was agreed upon, according to which a new company AD Ltd. is to be formed. It will takeover investments at ₹ 18,00,000 and unsecured loans at balance sheet value. It is to allot equity shares of ₹ 10 each at par to the shareholders of A Ltd. in satisfaction of the amount due under the arrangement. The scheme was duly approved by the High Court. Pass journal entries in the books of A Ltd. **[6]**

(ii) Describe the treatment of Negative Goodwill in amalgamation as purchase. **[4]**

Answer:

In the Books of A Ltd.

	Particulars		**Debit ₹**	**Credit ₹**
1.	AD Ltd. A/c	Dr.	18,00,000	
	To Investments A/c			8,00,000
	To Shareholders A/c			10,00,000
	[Being investments transferred at agreed value of ₹ 18,00,000]			
2.	Unsecured Loans A/c	Dr.	12,00,000	
	To AD Ltd. A/c			12,00,000
	[Being unsecured loan taken over by AD Ltd.]			
3.	Shareholders A/c	Dr.	6,00,000	
	To AD Ltd. A/c			6,00,000

	[Being allotment by AD Ltd. of 60,000 Equity shares of ₹ 10 each to shareholders of the company]			
4.	Shareholders A/c	Dr.	4,00,000	
	To Capital Reserve			4,00,000
	[Being balance in Shareholders A/c transferred to Capital Reserve]			

(ii) If the consideration paid for amalgamation is less than the net assets of the transferor company, the difference is called Negative Goodwill. This should be recognized in the transferee company's financial statements as capital reserve.

Example: D Ltd. acquired the net assets of S Ltd. for a total consideration of ₹25 lakhs. The fair value of net assets of S Ltd is ₹40 lakhs. In the above case, the difference of ₹15 lakhs constitutes Negative Goodwill. This should be recognized as Capital Reserve in the financial statements of D Ltd.

2. (d) Long Ltd & Short Ltd were amalgamated on and from 1st April. A new Company Moderate Ltd was formed to take over the business of the existing companies. The Balance Sheets of Long Ltd and Short Ltd on the date of amalgamation are given below - (₹ in Lakhs)

Equity and Liabilities	Long	Short	Assets	Long	Short
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital	850	725	(a) Fixed Assets - Tangible		
(i) Equity Shares of ₹100			Assets		
(ii) 14% Pref. Shares of ₹100	320	175	(i) Land & Building	460	275
(b) Reserves & Surplus			(ii) Plant & Machinery	325	210
(i) Revaluation Reserve	125	80	(b) Non-Current Investments	75	50
(ii) General Reserve	240	160	(2) Current Assets:		
(iii) Investment Allowance Reserve	50	30	(a) Inventories	325	269
(iv) Profit & Loss Account	75	52	(b) Trade Receivables		
			(i) Debtors	305	270
(2) Non-Current Liabilities:			(ii) Bills Receivable	25	-
Long Term Borrowings			(c) Cash & Cash Equivalents	385	251
(i) Secured Loans - Debentures (₹ 100)	50	28			
(ii) Unsecured Loans - Public Deposit	25	—			
(3) Current Liabilities:					
Trade Payables (i) Sundry Creditors	145	75			
(ii) Bills Payable	20	-			
Total	19,00	13,25	Total	19,00	13,25

Other information -

13% Debenture holders of Long Ltd & Short Ltd are discharged by Moderate Ltd by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

Preference Shareholders of the two Companies are issued equivalent number of 15% Preference Shares of Moderate Ltd at a price of ₹ 125 per share (Face Value - ₹ 100)

Moderate Ltd will issue 4 Equity Shares for each Equity Share of Long Ltd and 3 Equity Shares for each Equity Share of Short Ltd. The Shares are to be issued at ₹ 35 each having a Face Value of ₹ 10 per share.

Investment Allowance Reserve is to be maintained for two more years.

Calculate the securities premium amount and also the value of goodwill/capital reserve on the basis of the following assumption that it is the nature of Purchase. [10]

Answer:

1. Basic Information

Selling Co: Long Ltd, Short Ltd	**Date of Balance Sheet:** 1st April	**Nature of Amalgamation:** Purchase (as given in the question)
Buying Co: Moderate Ltd	**Date of Amalgamation:** 1st April	

2. Computation of Purchase Consideration **(₹ Lakhs)**

Particulars		**Long Ltd**	**Short Ltd**
Preference Share Holders:	3,20,000 Shares of ₹ 125 each	400.00	
	1,75,000 Shares of ₹ 125 each		218.75
Equity Share Holders:	4 x 8,50,000 = 34,00,000 Shares of ₹ 35 each	11,90.00	
	3 x 7,25,000 = 21,75,000 Shares of ₹ 35 each		761.25
Total		1,590.00	980.00

3. Computation of Share Premium

Particulars	**Share Capital**	**Securities Premium**	**Total Amount**
Preference Share Capital = (3,20,000 + 1,75,000) = 4,95,000 Shares	4,95,000 x ₹ 100 = 4,95,00,000	4,95,000 x ₹ 25 = 1,23,75,000	6,18,75,000
Equity Share Capital = (34,00,000 + 21,75,000) = 55,75,000 Shares	55,75,000 x ₹ 10 = 5,57,50,000	55,75,000 x ₹ 25 = 13,93,75,000	19,51,25,000
Total	**10,52,50,000**	**15,17,50,000**	**25,70,00,000**

4. Computation of Goodwill / Capital Reserve on "Purchase"

Particulars		**Long Ltd**	**Short Ltd**
Assets Taken over:	Land & Building	460.00	275.00
	Plant & Machinery	325.00	210.00
	Investments	75.00	50.00
	Stock	325.00	269.00
	Sundry Debtors	305.00	270.00
	Bills Receivable	25.00	-
	Cash & Bank	385.00	251.00
	Total	**1,900.00**	**1,325.00**
Liabilities Taken Over:	13% Debentures	43.33	24.27
	Public Deposits	25.00	-
	Sundry Creditors	145.00	75.00
	Bills Payable	20.00	-
	Net Assets Taken over	**1,666.67**	**1,225.73**
Less:	Purchase Consideration	(1,590.00)	(980.00)
	Capital Reserve	**76.67**	**245.73**

Question No. 3: Answer to question No. 3(a) is Compulsory. Also answer any one from the remaining sub-questions.

3. (a) The Balance Sheets of Labh Ltd and Nasht Ltd as at 31st December are given below – (₹ 000s)

Equity and Liabilities	Labh	Nasht	Assets	Labh	Nasht
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital	25,00	6,00	(a) Fixed Assets	40,00	5,00
(b) Reserves & Surplus			(b) Non-Current Investments		
(i) General Reserve	16,00	-	-60% Stake in Nasht	5,00	-
(ii) Profit & Loss Account	14,00	(9,50)	(c) Other Non-Current Assets		
(2) Non-Current Liabilities:			- Preliminary Expenses	-	50
Long Term Borrowings - 8% Debentures	5,00	4,00	(2) Current Assets:		
(3) Current Liabilities:			(a) Inventories	25,00	2,00
(a) Short Term Borrowings - Bank OD	20,00	7,00	(b) Trade Receivables		
(b) Trade Payables - Sundry Crs	10,00	3,00	- Sundry Debtors	20,00	3,00
Total	**90,00**	**10,50**	**Total**	**90,00**	**10,50**

When Labh Ltd acquired the Shares in Nasht Ltd, the P&L A/c of Nasht reflected a balance of ₹2,00,000 (Dr.). Prepare a statement showing the consolidation of balances and also calculate the amount of minority interest under the following situations-

1. Minority Shareholders are not under any express obligation to make good the Losses.

2. Minority Shareholders are required to make good their Share of Losses subject to a maximum of (a) ₹ 1,00(000's), and (b) ₹2,00(000's). [10]

Answer:

1. Basic Information

Company Status		Dates		Holding Status	
Holding Company	= Labh	Acquisition:	Not Given	Holding Company	= 60%
Subsidiary	= Nasht	Consolidation:	31st December	Minority Interest	= 40%

2. Analysis of Reserves of Nasht Ltd (₹ 000's)
(a) Profit and Loss Account

Balance as per Balance Sheet (₹ 9,50)

Date of Acquisition (₹ 2,00)
(Capital Profit)

Acquisition to Consolidation (balancing figure)
(₹ 7,50) (Revenue Profit)

Group Interest-Pre
= (2,00) x 60%= (1,20)

Minority Interest
= (2,00) x 40% = (8,0)

Group Interest-Post
= (7,50) x 60% = (4,50)

Minority Interest
= (7,50) x 40% = (3,00)

(b) Preliminary Expenses: ₹ 50(000's) - Assumed to continue from date of acquisition.

3. Consolidation of Balances (₹ 000's)

Particulars	Total	Minority Interest	Pre-Acquisition	Post Acquisition	
Nasht Ltd (Holding - 60%, Minority - 40%)				**Gen. Res.**	**P&L A/c**
Equity Capital	600	240	360		
General Reserve	–	–	–	–	–
Profit and Loss A/c	(950)	(380)	(120)		(450)
Preliminary Expenses	(50)	(20)	(30)		
Minority Interest		**(160)**			
Total [Cr]			**210**		**(450)**
Cost of Investment [Dr.]			**(500)**		
Parent's Balances				1,600	1,400
For Consolidated Balance Sheet			**(G/w) (290)**	**1,600**	**(950)**

4. Consolidation of Profit & Loss Account (₹ 000's)

Obligation on Minority = Upto ₹	**NIL**	**1,00**	**2,00**
Balance before Adjusting for Negative Minority Interest	**9,50**	**9,50**	**9,50**
Less: Minority Interest - (Loss to the extent not borne by Minority adjusted against Group Profits) i.e. Minority Loss Less Obligation of Minority to make good the losses restricted to actual Loss to Minority	(1,60)	(60) (160 –100)	– (160 - 200)
Balance in P&L for Consolidated Balance Sheet	**7,90**	**8,90**	**9,50**

3. (b) Guru Ltd acquired control in Sishya Ltd a few years back when Sishya Ltd had ₹ 25,000 in Reserve and ₹ 14,000 (Cr.) in Profit & Loss Account. Plant Account (Book Value ₹ 66,000) of Sishya Ltd was revalued at ₹ 62,000 on the date of purchase. Equity Dividend of ₹ 7,500 was received by Guru Ltd out of pre-acquisition Profit and the amount was correctly treated by Guru Ltd. Debenture Interest has been paid upto date.

Following are the Balance Sheets of Guru Ltd and Sishya Ltd as at 31st December (₹ 000s) -

Equity and Liabilities	Guru	Sishya	Assets	Guru	Sishya
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets - (i) Tangible		
(i) Equity Shares of (₹ 10)	500	100	- Land & Buildings	200	50
(ii)6% Pref. Shares of (₹ 100)	100	50	- Plant & Machinery	105	100
(b) Reserves & Surplus			(ii) Intangible - Goodwill	50	30
(i) General Reserve	30	30	(b) Non-Current Invt - in Sishya		
(ii)Profit & Loss Account	40	12	- 300 Preference Shares	28	NIL
(2) Non-Current Liabilities:			- 7,500 Equity Shares	85	NIL
Long Term Borrowings			- Debentures (FV ₹50,000)	45	NIL
- 6% Debentures	NIL	100	(2) Current Assets:		
(3) Current Liabilities:			(a) Inventories	130	100
(a) Short Term Borrowings			(b) Trade Receivables		
- Due to Sishya Ltd	10	NIL	(i) Debtors	90	50
(b) Trade Payables (i) Sundry Crs	90	60	(ii) Bills Receivable	30	10

(ii) Bills Payable	20	25	(c) Cash & Cash Equivalents (d) Short Term Loans & Adv	27	25
			- Due from Guru Ltd	NIL	12
Total	**790**	**377**	**Total**	**790**	**377**

Prepare Consolidated Balance Sheet as at 31st December from the above, and following additional information -

1. **Cheque of ₹ 2,000 sent by Guru Ltd to Sishya Ltd was in transit.**
2. **Bills Receivable of Sishya Ltd are due from Guru Ltd.**
3. **Balance Sheet of Sishya Ltd was prepared before providing for 6 months dividend on Preference Shares, the first half being already paid.**
4. **Both the Companies have proposed Preference Dividend only, but no effect has been given in the accounts.**
5. **Stock of Guru includes ₹ 6,000 purchased from Sishya on which Sishya made 20% Profit on Cost. Stock of Sishya includes 7 10,000 purchased from Guru on which Guru made 10% Profit on Selling Price.**
6. **Since acquisition, Sishya has written off 30% of the Book Value of Plant as on date of acquisition by way of depreciation. [15]**

Answer:

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = Guru Subsidiary = Sishya	Consolidation: 31st December	Holding Company = 75% Minority Interest = 25%

2. Analysis of Reserves & Surplus of Sishya Ltd

(a) General Reserve

Balance on date of consolidation (given) ₹ 30,000

As on Date of Acquisition (given)
₹ 25,000 Capital Profit

- Group Interest-Pre = 25,000 x 75% = 18,750
- Minority Interest = 25,000 x 25% = 6,250

From date of acquisition to date of consolidation (balancing figure) = **₹ 5,000 Revenue Reserve**

- Group Interest-Post = 5,000 x 75% = 3,750
- Minority Interest = 5,000 x 25% = 1,250

(b) Profit & Loss Account

	Balance on 31st December	₹ 12,000
Less:	Proposed Preference Dividend (₹ 50,000 x 6% x 6 ÷ 12)	₹1,500
	Corrected Balance	₹ 10,500

	As on date of acquisition	₹ 14,000
Less:	Equity Dividend for pre-acqn period	₹ 10,000

From date of acquisition to date of consolidation (balancing figure) =

(Recd, by Guru $\frac{7,500}{75\%}$) **₹ 4,000 Capital Profits** **₹ 6,500 Revenue Profits**

Group Interest-Pre	Minority Interest	Group Interest-Post	Minority Interest
= 4,000 x 75% = 3,000	= 4,000 x 25% = 1,000	= 6,500 x 75%= 4,875	= 6,500 x 25% = 1,625

(c) Gain / Loss on Revaluation of Assets

- Loss on Revaluation of Machinery = 62,000 - 66,000 = **(₹ 4,000) Capital Profit**
- Depreciation Gain on Revaluation Loss = 4,000 x 30% = **₹ 1,200 Revenue Profit**

3. Consolidation of Balances

Particulars	Total	Minority Interest	Pre-Acqn.	Post Acquisition	
Sishya Ltd (Holding 75%, Minority 25%)				**Gen. Res.**	**P&L**
Equity Capital	1,00,000	25,000	75,000		
Preference Shares	50,000	20,000	30,000		
General Reserves	30,000	7,500	18,750	3,750	
Profit and Loss A/c	10,500	2,625	3,000		4,875
Loss on Revaluation of Assets	(4,000)	(1,000)	(3,000)		900
Depreciation Gain on Revaluation	1,200	300			900
Preference Dividend	1,500	600			(750)
Stock Reserve - Upstream (6000 x 20 ÷ 120)	(1,000)	(250)			
Minority Interest		**54,775**			
Total [Cr]			**1,23,750**	**3,750**	**5,925**
Cost of Investment [Dr.]			(1,13,000)		
(Equity 85,000 + Pref. 28,000)				30,000	34,000
Parent's Balances					
Stock Reserve - Downstream (₹ 10,000 x 10%) (Note 1)					(1,000)
Elimination of Intra-group Debentures (50,000 - 45,000)	5,000			5,000	
For Consolidated Balance Sheet		**54,775**	**Cap. Res. 10,750**	**38,750**	**38,925**

Notes:

1. Unrealized Profits on Upstream Transaction (i.e. Subsidiary to Holding Company) alone is eliminated from the Minority Interest, towards their share, i.e. 25%. The balance of 75% (Holding Company's Share) will be reduced from the Reserves of Guru Ltd. Unrealized Profits on Downstream Transaction, will be eliminated in full against Reserves of Guru Ltd.

2. Parent's P&L A/c Corrected Balance

Particulars			P&L A/c
	Balance as per Balance Sheet		40,000
Less:	Proposed Preference Dividend	(₹ 1,00,000 x 6%)	(6,000)
	Corrected Balance		**34,000**

4. Consolidated Balance Sheet of Guru Ltd and its Subsidiary Sishya Ltd as at 31st December

	Particulars as at 31st December	Note	This Year	Prev.Yr
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**	**1**	6,00,000	
	(a) Share Capital	**2**	88,425	
	(b) Reserves & Surplus		54,775	
(2)	**Minority Interest**			
(3)	**Non-Current Liabilities**		50,000	
	Non-Current Liabilities - 6% Debentures (1,00,000 - 50,000 held by Guru in Sishya)			
(3)	**Current Liabilities**			
	(a) Trade Payables	**3**	1,85,000	
	(b) Short Term Provisions - Proposed Preference Dividend (Guru Ltd)		6,000	
	Total		**9,84,200**	
II	**ASSETS**			
(1)	**Non-Current Assets**			
	Fixed Assets: (i) Tangible Assets	**4**	4,52,200	
	(ii) Intangible Assets - Goodwill (50,000 + 30,000)		80,000	
(2)	**Current Assets**			
	(a) Inventories = 1,30,000 + 1,00,000 - 2,000 Stock Reserve		2,28,000	
	(b) Trade Receivables	**5**	1,70,000	
	(c) Cash & Cash Equivalents	**6**	54,000	
	Total		**9,84,200**	

Notes to the Balance Sheet

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: ....Equity Shares of ₹ 10 each and ....6% Preference Shares of ₹100 each		
Issued, Subscribed & Paid up: 50,000 Equity Shares of ₹ 10 each	5,00,000	
1,000 6% Preference Shares of ₹ 100 each	1,00,000	
Total	**6,00,000**	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Capital Reserve on Consolidation	10,750	
(b) Other Reserves - General Reserve	33,750	
(c) Surplus (Balance in P & L A/c)	43,925	
Total	**88,425**	

Note 3: Trade Payables

Particulars	This Year	Prev. Year
(a) Sundry Creditors (90,000 + 60,000)	1,50,000	
(b) Bills Payable (20,000 + 25,000 - 10,000 Mutual Owings)	35,000	

Total	**1,85,000**	

Note 4: Tangible Assets

Particulars	This Year	Prev. Year
(a) Land & Buildings (2,00,000 + 50,000)	2,50,000	
(b) Plant & Machinery (1,05,000 + 1,00,000 - 4,000 Revln. Loss + 1,200 Depn Gain)	2,02,200	
Total	**4,52,200**	

Note 5: Trade Receivables

Particulars	This Year	Prev. Year
(a) Sundry Debtors (90,000 + 50,000)	1,40,000	
(b) Bills Receivable (30,000 + 10,000 - 10,000 Mutual Owings)	30,000	
Total	**1,70,000**	

Note 6: Cash and Cash Equivalents

Particulars	This Year	Prev. Year
(a) Cheques in Transit	2,000	
(b) Cash at Bank (27,000 + 25,000)	52,000	
Total	**54,000**	

3. (c) The Balance Sheets of A Ltd and B Ltd as on the dates of last closing of Accounts are as under – **(Amount in ₹)**

Equity and Liabilities	A (as on 31.03.2013)	B (as on 31.12.2012)	Assets	A (as on 31.03.2013)	B (as on 31.12.2012)
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets		
- Equity Shares of ₹ 10 each	11,00,000	5,00,000	(i) Tangible		
(b) Reserves & Surplus	4,50,000	2,05,000	- At Cost	8,45,000	5,26,500
(2) Non-Current Liabilities:					
Long Term Borrowings			Less: Depn	(1,95,000)	(1,21,500)
				6,50,000	4,05,000
-15% ₹ 100 Non-Convt Deb	-	3,00,000	(b) Non-Current Invt		
(3) Current Liabilities:			(In B Ltd)		
(a) Trade Payables	4,80,000	2,80,000	(i) 40,000 Shares	8,00,000	-
(b) Other Current Liabilities	1,00,000	40,000	(ii) 1,000 Debentures	1,50,000	-
(c) Short Term Provisions			(2) Current Assets:		
- Tax	1,50,000	2,50,000	(a) Inventories	2,00,000	3,50,000
			(b) Trade Receivables	2,50,000	4,65,000
			(c) Cash & Cash Equiv	2,30,000	3,55,000
Total	**22,80,000**	**15,75,000**	**Total**	**22,80,000**	**15,75,000**

Note: Reserves & Surplus consists of Accumulated Profits & Reserves.

The following information is also available -

1. **On 8th February, 2013 there was a fire at the factory of B Ltd resulting in Inventory worth ₹20,000 being destroyed. B received 75% of the loss as Insurance.**
2. **The same fire resulted in destruction of a Machine having a written down value of ₹ 1,00,000. The Insurance Company admitted the Company's claim to the extent of 80%. The Machine was insured at its Fair Value of ₹ 1,50,000.**
3. **On 13th March, 2013 A sold goods costing ₹ 1,50,000 to B at a mark-up of 20%. Half of these goods were resold to A, who in turn was able to liquidate the entire stock of such goods before closure of accounts on 31st March, 2013. As on 31st March, 2013 B's accounts payable show ₹ 60,000 due to A on the two transactions.**
4. **A acquired the holdings in B on 1st January, 2011 when the reserves and accumulated Profits of B Ltd stood at ₹ 75,000.**
5. **Both Companies have not provided for tax on current year Profits. The Current year taxable Profits are ₹ 33,000 and ₹ 66,000 for A Ltd and B Ltd respectively. The tax rate is 33%.**
6. **The incremental profits earned by B Ltd for the period January, 2013 to March 2013 over that earned in the corresponding period in 2012 was ₹ 56,000. Expect for the Profits that resulted from the transactions with A in the aforesaid period the entire Profits have been realised in cash before 31st March. 2013.**

You are requested to consolidate the accounts of the two Companies and prepare a Consolidated Balance Sheet of A Limited and its Subsidiary as at 31st March, 2013. [15]

Answer:

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = A Ltd Subsidiary = B Ltd	Acquisition: 01.01.2011 Consolidation: 31.03.2013	Holding Company = 80% (40,000/50,000) Minority Interest = 20%

2. Analysis of Reserves & Surplus of B Ltd

	Balance on 31.12.2012	2,05,000	
Less:	Provision for Taxes	(21,780)	[₹ 66,000 x 33%]
	Corrected Profit	**1,83,220**	

01.01.2011	Transfer during 2011 and 2012 (Balancing Figure)
₹ 75,000 - Pre Acquisition	**₹ 1,08,220**

Profits for the 3 Months from 1.1.2013 to 31.3.2013

Particulars	₹
Profit for 2012 (before Taxes)	66,000
Profit for the first three months (assuming even accrual during the period)	16,500

Add:	Incremental Profits for 1.1.2013 to 31.3.2013 over the corresponding period's profit	56,000
	Total Profit for the period	**72,500**
	Nature	**Post Acqn.**

3. Consolidation of Balances (a) Elimination of Debentures

Particulars		₹
	Face Value of Debentures held by A in B (1,000 x ₹100)	1,00,000
Less:	Cost of Acquisition by A	(1,50,000)
	Excess Paid - To be reduced from Free Reserves	(50,000)

(b) Minority Interest, Cost of Control and Consolidation of Reserves (Credit Balances Added, Debit Balances Reduced)

Particulars	**Total**	**Minority Interest**	**Group Interest**	
B Ltd (Group 80%, Minority 20%)			**Pre-Acquisition**	**Post Acquisition**
Equity Share Capital	5,00,000	1,00,000	4,00,000	-
Accumulated Reserves				
As at 31.12.2012	1,83,220	36,644 (183220 x 0.2)	60,000 (75,000 x 0.8)	86,576 (108220 x 0.8)
For 1.1.2013 to 31.03.2013	72,500	14,500 (72500 x 0.2)		58,000 (72500 x 0.8)
Sub Total		**1,51,144**	**4,60,000**	**1,44,576**
Balance from A Ltd's Balance Sheet			(8,00,000) (Cost of Investment)	4,50,000
Provision for Taxation for A Ltd (33,000 x 33%)		–		(10,890)
Adjustment on Account of Debentures		–		(50,000)
Unrealized Profits on Downstream Transaction (1,50,000 x 20% x 50%)				(15,000)
Balance for Consolidated Balance Sheet		**1,51,144**	**(3,40,000)**	**5,18,686**
		Minority	**Goodwill**	**Reserves**

(c) Inter Company Transactions and Profits Thereon [Ledger A in the Books of B Ltd]

Particulars	₹	**Particulars**	₹
To Sales to A [Balancing Figure] To balance c/d	1,20,000 60,000	By Purchases [1,50,000 + 20%]	1,80,000
Total	**1,80,000**	**Total**	**1,80,000**

Particulars	₹
Sales to A Less: Cost of Goods to B (50% of ₹ 1,80,000)	1,20,000 **90,000**
Profit on Such Sale	**30,000**
Cash Profits in the books of B Ltd [Total Profits for the Quarter 72,500 - Profit on Transactions with A ₹ 30,000]	42,500

(d) Stock in Trade

Particulars		₹
Balance on 31.12.2012		3,50,000
Add:	Purchase of Stock from A Ltd	1,80,000
Less:	Cost of Stock resold to A (50% of Purchases)	(90,000)
Less:	Stock of Goods Lost by Fire	(20,000)
	Balance in Closing Stock on 31.03.2013 of B Ltd	4,20,000
Add:	Stock as per A Ltd	2,00,000
Less:	**Stock Reserve (Unrealized Profits on downstream transaction)**	(15,000)
	Consolidated Balance	**6,05,000**

Note: It is assumed that but for the purchase from A Ltd, stock of B Ltd is maintained at the same level

(e) Cash and Bank

B Ltd		₹	₹
Opening Balance			3,55,000
Add:	Insurance Compensation Received for Loss of Stock (75% of ₹ 20,000)		15,000
	Machinery (80% of Fair Value of ₹ 1,50,000)		1,20,000
Add:	Other Cash Profits		
	Total Cash Profits [from (c) above]	42,500	
Less:	Profit on Insurance Compensation on Machinery Destroyed (Compensation 1,20,000 - Book Value 1,00,000)	(20,000)	
Add:	Net Stock Loss (Compensation 15,000 - Book Cost ₹ 20,000)	5,000	27,500
	Closing Balance as at 31.03.2013		5,17,500
Add:	Balance from A Ltd		2,30,000
	Consolidated Balance		**7,47,500**

4. Consolidated Balance Sheet of A Ltd and its Subsidiary B Ltd as at 31.03.2013

	Particulars as at 31st March	**Note**	**This Year**	**Prev. Yr**
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	(c) Share Capital	**1**	11,00,000	
	(d) Reserves & Surplus (Note 3(b) above)		5,18,686	
(2)	**Minority Interest** (Note 3(b) above)		1,51,144	
(3)	**Non—Current Liabilities**			
	Long Term Borrowings = 15% ₹ 100 Non-Convertible Debentures (3L - 1L)		2,00,000	
(4)	**Current Liabilities**			
	(d) Trade Payables = 480 + 280 + Additional 60 - Mutual 60		7,60,000	
	(e) Other Current Liabilities = 100 + 40		1,40,000	
	(f) Short Term Provisions - Tax Provision (150+250+10.89+21.78)		4,32,670	
	Total		**33,02,500**	
II	**ASSETS**			
(1)	**Non-Current Assets**			
	Fixed Assets: (i) Tangible Assets (650 + 405 - 100 Destroyed)		9,55,000	
	(ii) Intangible Assets - Goodwill on		3,40,000	

	Consolidation			
(2)	**Current Assets** (a) Inventories (Note 3(d) above) (b) Trade Receivables = 250 + 456 - 60 (c) Cash and Cash Equivalents (Note 3(e) above)		 6,05,000 6,55,000 7,47,500	
	Total		**33,02,500**	

Notes to the Balance Sheet: **Note 1: Share Capital**

Particulars		This Year	Prev. Year
Authorised:	Equity Shares of ₹ 10 each		
Issued, Subscribed & Paid up:	1,10,000 Equity Shares of ₹ 10 each, fully paid up	11,00,000	
Total		**11,00,000**	

Working Notes and Assumptions:

1. Additional Profits for the period 1.1.2013 to 31.03.2013 of B Ltd is assumed to be after considering Stock Loss and machinery destruction.
2. Receivables, Creditors, Liabilities and other receivables and payables are assumed to be maintained by B Ltd as on the date of consolidation i.e. they do not vary.
3. Except for the Stock Loss and additional goods purchased from A Ltd, stock of B is assumed to be maintained on same levels.
4. Mutual Owings of ₹ 60,000 has been added and reduced for creditors since subsidiary's balance is as at 31.12.2012, which does not reflect such balance. However, on the asset side, it has been eliminated without adding, since Parent's Balance Sheet as at 31.03.2013, contains such balance in its books.

Question No. 4: Answer to Question No. 4(a) is Compulsory. Also answer any two from the remaining sub-questions.

4. (a) State the potential XBRL applications. [5]

Answer:

Potential XBRL applications:

(a) XBRL for Financial Statements - financial statements of all sorts used to exchange financial information

(b) XBRL for Taxes -specification for tax returns which are filed and information exchanged for items which end up on tax returns

(c) XBRL for Regulatory Filings – specifications for the large number of filings required by government and regulatory bodies

(d) XBRL for Accounting and Business Reports - management and accounting reporting such as all the reports that are created by your accounting system rendered in XML to make re-using them possible

(e) XBRL for Authoritative Literature - a standard way for describing accounting related authoritative literature published by the AICPA, FASB, ASB, and others to make using these resources easier, "drill downs" into literature from financials possible.

4. (b) Pilot Ltd. supplies the following information using which you are required to calculate the economic value added.

Financial Leverage	**1.4 times**	
Capital (equity and debt)	**Equity shares of ₹ 1,000 each**	**34,000 (number)**
	Accumulated profit	**₹ 260 lakhs**
	10 percent Debenture of ₹10 each	**80 lakhs (number)**
Dividend expectations of equity shareholders	**17.50%**	
Prevailing Corporate Tax rate	**30%**	

[10]

Answer:

Computation of EVA	**(₹ in lakhs)**
Net profit after tax (Refer Working Note 1)	140
Add: Interest adjusted for tax effect (800 × 10% × 70)	56
Return to Providers of Funds	196
Less: Cost of Capital (Refer Working Note 2)	(161)
Economic Value Added (EVA)	35

Working Notes:

1. **Interest and Net Profit**

$$\text{Financial Leverage} = \frac{\text{Profit before Interest \& Taxes (PBIT)}}{\text{Profit before Tax (PBT)}}$$

Interest on Borrowings = ₹ 800,00,000 × 10% = ₹ 80 lakhs

Therefore,

$$1.40 = \frac{\text{PBIT}}{\text{PBIT} - \text{Interest}}$$

$$1.40 = \frac{\text{PBIT}}{\text{PBIT} - 80}$$

$$1.40\ (\text{PBIT}-80) = \text{PBIT}$$

$$1.40\ \text{PBIT}-112 = \text{PBIT}$$

$$1.40\ \text{PBIT}-\text{PBIT} = 112$$

$$0.40\ \text{PBIT} = 112$$

$$\text{PBIT} = 112/0.40$$

$$\text{PBIT} = ₹\ 280\ \text{Lakhs}$$

PBIT = PBIT – I = 280-80 = ₹ 200 lakhs

Less: Tax (30%) = (₹ 60) lakhs

Net profit after tax = ₹ 140 lakhs

	(₹ in lakhs)
2. Cost of Capital	
Equity Shareholder' funds	600
10% Debenture holders' funds	800
Total	1,400
Weights assigned to Equity shareholders fund = $\frac{600}{1400}$ = 0.4286	
Weights assigned to Debenture holders = $\frac{800}{1400}$ = 0.5714	

Source of Funds (1)	Amount ₹ (in lakhs) (2)	Weight (3)	Cost % (4)	WACC % (5) = (3 × 4) %
Equity share holders' funds	600	0.4286	17.50	7.50
Debenture holders' funds	800	0.5714	7.00*	4.00
Total	1400	1.0000	----	11.50

Cost of Capital = Average Capital Employed × Weighted Average Cost of Capital (WACC)

= ₹ 1,400 lakhs × 11.50% = ₹ 161 lakhs.

4. (c) Dravid Investment Ltd. deals in equity derivatives. Their current portfolio comprises of the following instruments:

Infy ₹ 5,600 Call Expiry June 2014 2,000 unit bought at ₹ 197 each (cost)

Infy ₹ 5,700 Call Expiry June 2014 3,600 unit bought at ₹ 131 each (cost)

Infy ₹ 5,400 Put Expiry June 2014 4,000 unit bought at ₹ 81 each (cost)

What will the profit or loss to Dravid Investments Ltd. in the following situations?

(i) Infy closes on the expiry day at ₹ 6,041

(ii) Infy closes on the expiry day at ₹ 5,812

(iii) Infy closes on the expiry day at ₹ 5,085 **[10]**

Answer:

Payoff/unit at Infy Closing price

Instrument	Infy Units	Closing Cost	Price Strike	Infy (i) At 6,041	Closing (ii) At 5,812	Price (iii) At 5,085
5600 Call	2000	197	5,600	441	212	NIL
5700 Call	3600	131	5,700	341	112	NIL

5400 Put	4000	81	5,400	NIL	NIL	315
	Profit per unit			**Profit Amount**		
	Infy	**Closing**	**Price**	**Infy**	**Closing**	**Price**
Instrument	6,041	5,812	5,085	6,041	5,812	5,085
5600 Call	244	15	-197	4,88,000	30,000	-3,94,000
5700 Call	210	-19	-131	7,56,000	-68,400	-4,71,600
5400 Put	-81	-81	234	-3,24,000	-3,24,000	9,36,000
				9,20,000	**-3,62,400**	**70,400**

4. (d) (i) One major step involved in reporting process is setting the direction for TBL reporting. – Discuss. [6]

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

(1)	**Annual average earning of an employee till the retirement age**	**₹ 1,00,000**
(2)	**Age of Retirement**	**65 years**
(3)	**Discount rate**	**15%**
(4)	**No. of employees in the group**	**20**
(5)	**Average age**	**62 years**

[4]

Answer:

(i) Setting the Direction for TBL Reporting

- Engage with stakeholders to understand their requirements
- Prioritise stakeholder requirements and concerns
- Set overall objectives for TBL reporting
- Review current approach and assess capability to deliver on reporting objectives
- Identify gaps and barriers associated with current approach, and prioritise risks associated with overall reporting objective
- Review of associated legal implications
- Develop TBL reporting strategy
- Determine performance indicators for inclusion in report
- Establish appropriate structure and content of the report.

(ii)

Particulars	
(a) Average Annual Earning till retirement	₹ 1,00,000
(b) Annuity Factor for 3 years at 15%	2.2832
(c) No. of employees	20
(d) Value of Human Resource of Skilled Employees group (a) × (b) × (c)	₹ 45,66,400

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%.

Question No. 5 (Answer any three):

(a) Discuss the functions of the Public Accounts Committee. [5]

(b) Describe the role of CAG. [5]

(c) List the benefits of Cash Flow Statements – IGAS 3. [5]

(d) Describe the constitution of the Board Secretariat of GASAB. [5]

Answer:

5.

(a) Functions of the Committee

The Public Accounts Committee examines the accounts showing the appropriation of the sums granted by Parliament to meet the expenditure of the Government of India, the Annual Finance Accounts of the Government of India and such other accounts laid before the House as the Committee may think fit. Apart from the Reports of the Comptroller and Auditor General of India on Appropriation Accounts of the Union Government, the Committee also examines the various Audit Reports of the Comptroller and Auditor General on revenue receipts, expenditure by various Ministries/ Departments of Government and accounts of autonomous bodies. The Committee, however, does not examine the accounts relating to such public undertakings as are allotted to the Committee on Public Undertakings.

While scrutinising the Reports of Comptroller and Auditor General on Revenue Receipts, the Committee examines various aspects of Government's tax administration. The Committee, thus, examines cases involving under-assessments, tax-evasion, non-levy of duties, mis-classifications etc., identifies loopholes in the taxation laws and procedures and make recommendations in order to check leakage of revenue.

(b) CAG's Role

Under section 10 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (56 of 1971), the Comptroller and Auditor General shall be responsible-

(a) for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and

(b) for keeping such accounts in relation to any of the matters specified in clause (a) as may be necessary;

Provided that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-

(i) the said accounts of the Union (either at once or gradually by the issue of several orders); or

(ii) the accounts of any particular services or departments of the Union;

Provided further that the Governor of a State with the previous approval of the President and after consultation with Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-

(i) the said accounts of the State (either at once or gradually by the issue of several orders); or

(ii) the accounts of any particular services or departments of the State;

Provided also that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for keeping the accounts of any particular class or character.

(2) Where, under any arrangement, a person other than the Comptroller and Auditor General has, before the commencement of this Act, been responsible-

(i) for compiling the accounts of any particular service or department of the Union or of a State, or

(ii) for keeping the accounts of any particular class or character, such arrangement shall, notwithstanding anything contained in subsection (1), continue to be in force unless, after consultation with the Comptroller and Auditor General, it is revoked in the case referred to in clause (i), by an order of the President or the Governor of the State, as the case may be, and in the case referred to in clause (ii) by an order of the President.

(c) Benefits of Cash Flow Information

1. The Cash Flow Statement provides benefit to the users by giving information about the cash flows of a Government to predict the future cash requirements of the Government. The Cash Flow Statement also gives information about Government's ability to generate cash flows in the future and to determine the changes in the scope and nature of its activities. A Cash Flow Statement also provides the Government means to discharge its accountability for cash inflows and cash outflows during the reporting period.
2. A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in its financial structure (including its liquidity and sustainability) and its ability to affect the amounts of cash flows in order to adapt to changing circumstances and opportunities.
3. Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.

(d) Board Secretariat

The Secretariat of GASAB is constituted by officers of various Accounts and Finance streams belonging to Civil Services. They are listed below:

1. Indian Audit and Accounts Service (IA&AS)
2. Indian Civil Accounts Service (ICAS)
3. Indian Defence Accounts Service (IDAS)
4. Indian Post and Telecom Accounts Service (IP&TAFS)
5. Indian Railway Accounts Service (IRAS)