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

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) From the following details of an asset (i) Find out impairment loss and (ii) Treatment of impairment loss.

Cost of asset	**₹112 lakhs**
Useful life period	**10 years**
Salvage Value	**Nil**
Current carrying value	**₹54.60 lakhs**
Useful life remaining	**3 years**
Recoverable amount	**₹24 lakhs**
Upward revaluation done in last year	**₹28 lakhs**

[5]

(b) Z Limited began construction of a new plant on 1st April 2014 and obtained a special loan of ₹16 lakhs to finance the construction of the plant. The rate of interest on loan was 10 per cent per annum.
The expenditure that was made on the project of plant construction was as follows:

	₹
01.04.2014	**20,00,000**
01.08.2014	**48,00,000**
01.01.2015	**8,00,000**

The Company's other outstanding non-specific loan was ₹92,00,000 at an interest of 12% per annum.
The construction of the plant was completed on 31.03.2015. You are required to calculate the amount of interest to be capitalized as per the provision of AS 16 of the borrowing cost (including cost). [5]

Answer:

1. (a)

According to AS 28 "Impairment of Assets" an impairment loss on a revalued asset is recognized as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognized directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

Impairment Loss and its treatment	**₹**
Current carrying amount (including revaluation amount of ₹28 lakhs)	54,60,000
Less: Current recoverable amount	24,00,000
Impairment loss	30,60,000
Impairment loss charged to revaluation reserve	28,00,000
Impairment loss charged to profit and loss account	2,60,000

(b) (i) Computation of average accumulated expenses

	₹
₹20,00,000 × 12/12	20,00,000
₹48,00,000 × 8/12	32,00,000
₹8,00,000 × 3/12	2,00,000
	54,00,000

(ii) Non-specific Borrowings

Non-specific Borrowings = Average accumulated capital expenses – Specific borrowings = ₹54,00,000 - ₹16,00,000 = ₹38,00,000

(iii) Interest on average accumulated expenses

	₹
Specific borrowings (₹16,00,000 ×10%)	1,60,000
Non-specific borrowings (₹38,00,000 × 12%)	4,56,000
Amount of interest to be capitalized	6,16,000

(iv) Total expenses to be capitalized for plant

	₹
Cost of plant ₹(20,00,000 + 48,00,000 + 8,00,000)	76,00,000
Add: Amount of interest to be Capitalised	6,16,000
Total cost of plant	82,16,000

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

2. (a) Given below are the Balance Sheets of X Ltd. and Y Ltd. as at 31st March 2015 at which date Y Ltd. was taken over by X Ltd.

Equity and Liabilities	X Ltd.	Y. Ltd.	Assets	X Ltd.	Y Ltd.
Shareholders' Funds: **Equity Share of ₹10 each**	**5.00**	**10.00**	**Non-Current Assets:Fixed assets**	**22.00**	**11.00**
Reserves	**22.50**	**4.00**	**Current Assets**	**9.30**	**4.65**
Non-Current Liabilities **12% Debentures**	**2.20**	**1.10**			
Current Liabilities: **Trade Payables for Goods**	**1.60**	**.55**			
	31.30	**15.65**		**31.30**	**15.65**

The market value of an equity share of X Ltd. At present is ₹100.

If X Ltd. agrees to take over only the assets of Y Ltd. and to discharge the purchase consideration to the extent of one quarter in cash and the balance in the form of equity shares of ₹10 each at ₹55 each. An equity share in Y Ltd. is valued @ ₹15. [5]

Answer:

2. (a)

	Calculation of Current Values of Assets	
A.	Total Assets at Current values (balancing figure)	16,65,000
B.	Less: Outsiders Liabilities at Current Values (₹1,10,000 + ₹55,000)	1,65,000
C.	Net Assets at Current values (A – B)	15,00,000
D.	No. of Equity Shares	1,00,000
E.	Intrinsic Value of an equity Share (C/D)	₹15

Value of Net Assets taken over = ₹16,65,000

Calculation of Modes of discharging Purchase Consideration

No. of Equity Shares to be issued = (75% of ₹16,65,000)/55 = 22,704.55

Thus,

Equity Shares [22,704 × ₹55]	12,48,720
Cash for fractional Share [0.55 × ₹100]	55
Cash for 25% of Net Assets [25% of 16,65,000]	4,16,250
Total Purchase Consideration	16,65,025

2. (b) The following is the Balance Sheet of V Ltd. as at 31st March, 2015

Equity and Liabilities	**₹**	**Assets**	**₹**
Shareholders' Funds: **20,000 Shares of ₹10 each**	**2,00,000**	**Non-Current Assets:**	
General Reserve	**20,000**	**Land and Building**	**1,00,000**
Non-current Liabilities **10% Debentures**	**84,000**	**Plant and Machinery** **Goodwill**	**1,45,000** **25,000**
Current Liabilities **Loan from Bank**	**40,000**	**Current Assets:** **Inventories**	**55,000**
Trade Payables	**80,000**	**Trade Receivables**	**65,000**
		Cash at Bank	**34,000**
	4,24,000		**4,24,000**

The business of V Ltd. is taken over by P Ltd. as on that date on the following terms:-

(i) All assets (except Cash at Bank) are taken over at book value less 10% subject to (ii) below.

(ii) Goodwill is to be valued at 4 years' purchase of the excess of average of five years' profits over 8% of the combined amount of Share Capital and General Reserve.

(iii) Trade creditors are to be taken over subject to a discount of 5% and other liabilities to be discharged by P Ltd. at book value.

(iv) The purchase consideration is to be discharged in cash to the extent of ₹10,000 and the balance in fully paid Equity Shares of ₹10 each valued at ₹12.50 per share.

The average of the five years' profit is ₹30,100. The expenses of liquidation amount to ₹2,000. Prior to 31st March 2015 (Ltd. sold goods costing ₹30,000 to P Ltd. for ₹40,000. Trade Receivables include ₹20,000 still due from P Ltd. On the date of absorption, ₹25,000 worth of goods were still in stock of P Ltd.

Required: (a) Give Journal entries in the books of P Ltd. [10]

Answer:

2. (b)

JOURNAL OF P LTD.

Particulars		**L. F.**	**Dr. (₹)**	**Cr. (₹)**
Business Purchase A/c To Liquidators of V Ltd. (Being the purchase price agreed to be paid for the business of V Ltd.)	Dr.		1,78,500	 1,78,500
Goodwill (Balancing figure)	Dr.		48,000	

Land & Building Dr. Plant & Machinery Dr. Inventories Dr. Trade Receivables Dr. Reserve for Discount on Trade Payables Dr. To Provision for on Trade payables To trade payables To 10% Debentures To Loan from Bank To Business Purchase A/c (Being the assets and liabilities taken over from V Ltd.)		90,000 1,30,500 49,500 65,000 4,000	 4,500 80,000 84,000 40,000 1,78,500
Liquidators of V Ltd. Dr. To Bank A/c To Equity Share Capital A/c To Securities Premium A/c (Being the issue of Shares and payment in cash in satisfaction of purchase consideration)		1,78,500	 10,000 1,34,800 33,700
Goodwill Dr. To Inventories A/c (Being the Elimination of unrealised profit on unsold goods worth ₹25,000 bought from V Ltd. still unsold – (25,000 × 10,000/40,000)		6,250	 6,250
Trade payable A/c Dr. To Trade Receivables A/c (Being Elimination of the amount owed by us to V Ltd.)		20,000	 20,000
10% Debentures A/c Dr. Loan from Bank A/c Dr. To Bank A/c (Being the liabilities of V Ltd. Discharged)		84,000 40,000	 1,24,000

Working Notes:

(i) Calculation of Goodwill:

	₹
Average of 5 years' profit	30,100
Less: Normal Profit (8% of ₹2,20,000)	(17,600)
Super Profit	12,500
Goodwill at 4 years' purchase (12,500 × 4)	50,000

(ii) Calculation of Purchase Consideration**:**

A	Assets taken over at agreed values		₹
	Land & Building [₹1,00,000 – ₹10,000]		90,000
	Plant & Machinery [₹1,45,000 – ₹14,500]		1,30,500
	Inventories [₹55,000 – ₹5,500]		49,500
	Trade Receivables [₹65,000 – ₹6,500]		58,500
	Goodwill as per (i) above		50,000
			3,78,500

B	Less: Liabilities taken over:		
	Trade Payables	80,000	
	Less Discount @ 5%	(4,000)	76,000
	10% Debentures		84,000
	Loan from bank		40,000

		2,00,000
Net Assets taken over (Purchase consideration) (A – B)		1,78,500
Payable in cash		10,000
In shares – 13,480 shares of ₹10 each valued at ₹12.50 per share		1,68,500
		1,78,500

2. (c) The following are the Balance Sheets of A Ltd. and B Ltd. as at 31.03.2015:

Equity and Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Shareholders' Funds: Equity Shares of ₹10 each	**36,00,000**	**18,00,000**	**Non-Current Assets: Fixed assets**	**50,00,000**	**30,00,000**
10% Preference Shares of ₹100 each	**12,00,000**	**-**	**Non-Current Investments**	**5,00,000**	**5,00,000**
12% Preference Shares of ₹100 each	**-**	**6,00,000**	**Current Assets: Inventories**	**18,00,000**	**12,00,000**
Statutory Reserve	**1,00,000**	**1,00,000**	**Trade Debtors**	**15,00,000**	**12,00,000**
General Reserve	**25,00,000**	**17,00,000**	**Bills Receivable**	**50,000**	**10,000**
Non-Current Liabilities: 15% Debentures	**5,00,000**	**-**	**Cash at Bank**	**1,50,000**	**90,000**
12% Debentures		**5,00,000**			
Current Liabilities: Trade Creditors	**10,80,000**	**12,80,000**			
Bills Payable	**20,000**	**20,000**			
	90,00,000	**60,00,000**		**90,00,000**	**60,00,000**

Contingent liabilities for Bills receivable discounted ₹20,000.

(A) The following additional information is provided to you:

	A Ltd. ₹	B. Ltd. ₹
Profit before Interest and Tax	**14,75,000**	**7,80,000**
Rate of Income-tax	**40%**	**40%**
Preference Dividend	**1,20,000**	**72,000**
Equity Dividend	**3,60,000**	**2,70,000**

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) A Ltd. Proposes to absorb business of B Ltd. as on 31.03.2015. The agreed terms for absorptions are:

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

(ii) The Equity shareholders of B Ltd. will receive equity shares of A 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 A Ltd. based on the results of 2014-2015 of both the Companies.

(b) The market price of Equity shares of A 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 A 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 2014-2015.

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

(iv) ₹16,000 is to be paid by A Ltd. to B Ltd. for liquidation expenses. Trade Payables of B Ltd. include ₹20,000 due to A Ltd. Bills receivable discounted by A Ltd. were all accepted by B Ltd.

(v) Fixed assets of both the companies are to be revalued at 20% above book value. Inventories are to be taken over at 10% less than their book value.

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

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

Required:

(a) Calculate the Purchase consideration.

(b) Give journal entries in the books of A Ltd. **[10]**

Answer:

2. (c)

(i) Computation of Purchase Consideration

	₹
For Preference Shareholders	
Present Income of Preference Shareholders of B Ltd.	72,000
Add: required 20% increase	14,400
	86,400

10% Preference Shares to be issued = (72,000 + 14,400) × 100/10 = ₹8,64,000

For Equity Shareholders

Valuation of Equity Shares of B Ltd. =

(Number of Shares × EPS of B Ltd. × P/E ratio of A Ltd. × 60/100)

= 1,80,000 × (₹2 × 20 × 60%) = 1,80,000 × ₹24 = ₹43,20,000

No of Equity Shares to be issued at 80% of Market Price = 43,20,000/(80% of 40) = 1,35,000

Equity Share capital = 1,35,000 × ₹10 = ₹13,50,000

Securities Premium = 1,35,000 × ₹22 = ₹29,70,000

43,20,000

Issue of Preference shares

		₹
A.	Present Equity Dividend	2,70,000
B.	Less: Expected Equity Dividend from A. Ltd. [13,50,000 × 10%]	(1,35,000)
C.	Loss in income	1,35,000
D.	10% Preference Shares to be issued = 1,35,000 × 100/10 = ₹13,50,000	
E.	Total Purchase consideration	

	Preference Share capital [₹8,64,000 + ₹13,50,000] Equity Shares [₹13,50,000 + ₹29,70,000]	22,14,000 43,20,000
		65,34,000

JOURNAL

(ii)

Date	Particulars		(Dr.) ₹	(Cr.) ₹
1	Fixed Assets A/c	Dr.	10,00,000	
	To Revaluation Reserve A/c			10,00,000
	(Being Revaluation of Fixed assets at 20% above book value)			
2	Business Purchase A/c	Dr.	65,34,000	
	To Liquidator of B Ltd.			65,34,000
	(Being purchase consideration payable for the business. taken over from B Ltd.			
3	Fixed Assets A/c (30,00,000 +20%)	Dr.	36,00,000	
	Investment A/c	Dr.	5,00,000	
	Inventories A/c(12,00,000 -10%)	Dr.	10,80,000	
	Trade Debtors A/c	Dr.	12,00,000	
	Bills Receivable A/c	Dr.	10,000	
	Cash at bank A/c	Dr.	90,000	
	Goodwill A/c (balancing figure)	Dr.	18,94,000	
	To 12% Debentures in B Ltd.			5,40,000
	To Trade Creditors			12,80,000
	To Bills Payable			20,000
	To Business Purchase A/c			65,34,000
	(Being the incorporation of different assets and liabilities of B Ltd. Taken over at agreed values and balance debited to Goodwill account)			
4	Liquidator of B Ltd.	Dr.	65,34,000	
	To Equity Share Capital A/c			13,50,000
	To Securities Premium A/c			29,70,000
	To Preference Share Capital A/c			22,14,000
	(Being the discharge of consideration for B Ltd's business)			
5	12% Debentures in B Ltd.	Dr.	5,40,000	
	Discount on issue of Debentures A/c	Dr.	60,000	
	To 15% Debentures A/c			6,00,000
	(Being the allotment of 15% Debentures to debenture holders at a discount of 10% to discharge liability of B Ltd. Debentures)			
6	Trade payables A/c	Dr.	20,000	
	To Trade Receivables A/c			20,000
	(Being the cancellation of Mutual owing)			
7	Amalgamation Adjustment A/c	Dr.	1,00,000	
	To Statutory reserve A/c			1,00,000
	(Being the Statutory reserve Account is maintained under statutory requirements)			
8	Securities Premium A/c	Dr.	60,000	
	To Discount on issue of Debentures A/c			60,000
	(Being the discount on issue of Debentures written off out of Securities Premium)			
9	Goodwill A/c	Dr.	16,000	
	To Bank A/c			16,000
	(Being the payment of liquidation expenses)			

Working Note:

Calculation of EPS & P/E Ratio

Particulars	A Ltd. ₹	B Ltd. ₹
Profit before Interest and Tax	14,75,000	7,80,000
Less: Interest on Debentures	(75,000)	(60,000)
Profit Before Tax	14,00,000	7,20,000
Less: Tax @40%	(5,60,000)	(2,88,000)
Profit after tax	8,40,000	4,32,000
Less: Preference Dividend	(1,20,000)	(72,000)
Earnings for Equity Shareholders	7,20,000	3,60,000
Number of shares	3,60,000	1,80,000
EPS (Earnings/ No. of shares)	2	2
Market price	40	-
P/E Ratio	40/2=20	N.A.

2. (d) The following are the Balance Sheets of Andrew Ltd. and Barry Ltd. as at 31.03.2015.

(in ₹000)

Equity and Liabilities	Andrew Ltd. ₹	Barry Ltd. ₹	Assets	Andrew Ltd. ₹	Barry Ltd. ₹
Shareholders' Funds: **Equity Shares of ₹10 each**	**3,000**	**1,000**	**Non-Current Assets:** **Fixed Assets**	**3,400**	**6,800**
10,000 Preference Shares of ₹100 each	**1,000**	**-**	**Current Assets:** **Inventories (Pledged with secured loan creditors)**	**18,400**	**-**
General Reserve	**400**	**2,800**	**Other Current Assets**	**3,600**	**9600**
Non-Current Liabilities: **Secured Loans (secured against pledge of stocks)**	**16,000**	**8,000**	**Profit & Loss A/c**	**16,600**	**-**
Unsecured Loans	**8,600**				
Current Liabilities	**13,000**	**4,600**			
	42,000	**16,400**		**42,000**	**16,400**

Both the companies go into liquidation and Charlie Ltd., is formed to take over their businesses. The following information is given:

(1) All Current assets of two companies, except pledged stock are taken over by Charlie

Ltd. The realisable value of all Current assets are 80% of book values in case of Andrew Ltd. and 70% for Barry Ltd. Fixed assets are taken over at book value.

(2) The break up of Current liabilities is as follows:

	Andrew Ltd. ₹	Barry Ltd. ₹
Statutory liabilities (including ₹22 lakh in case of Andrew Ltd. in case of a claim not having been admitted shown as contingent liability)	72,00,000	10,00,000
Liability to employees	30,00,000	18,00,000

The balance of Current liability is miscellaneous creditors.

(3) Secured loans include ₹16,00,000 accrued interest in case of Barry Ltd.

(4) 2,0,000 equity shares of ₹10 each are allotted by Charlie Ltd. at par against cash payment of entire face value to the shareholders of Andrew Ltd. And barry Ltd. In the ratio of shares held by them in Andrew Ltd. And Barry Ltd.

(5) Preference shareholders are issued Equity shares worth ₹2,00,000 in lieu of present holdings.

(6) Secured loan creditors agree to continue the balance amount of their loans to Charlie Ltd. after adjusting value of pledged security in case of Andrew Ltd. And after waiving 50% of interest due in the case of Barry Ltd.

(7) Unsecured loans are taken over by Charlie Ltd. at 25% of Loan amounts.

(8) Employees are issued fully paid equity shares in Charlie Ltd. In full settlement of their dues.

(9) Statutory liabilities are taken over by Charlie Ltd. At full value and miscellaneous creditors are taken over at 80% of the book value.

Required: Show the opening Balance Sheet of Charlie Ltd. [10]

2. (d)

Answer:

BALANCE SHEET OF CHARLIE LTD. AS AT 31.03.2015

Particulars	Note No	₹ (lacs)
I. Equity and Liabilities		
(1) **Shareholders' Funds**		
(a) Share Capital (b) Reserves and Surplus	1	7,000
(2) **Non-Current Liabilities**		
Long-term Borrowings	2	10,630
(3) **Current Liabilities**		
(a) Trade Payables [7,200 +1,000 + 4,000 + 1440]		13,640
Total		31,270
II. Assets		
(1) Non-Current Assets		
(a) Fixed Assets		
Tangible Assets (3,400 + 6,800)		10,200
Intangible Assets	(iv)	9,470
(2) Current Assets		
(a) Cash and Cash Equivalents		2,000
(b) Other Current Assets		9,600
Total		31,270

Notes To Accounts:

(1) **Shareholders' Funds** 7,00,000 Equity Shares of ₹10 each	7,000
Pref. Shares of ₹10 each (Of the above 5,00,000 shares were issued for consideration otherwise than cash)	
(2) **Non-Current Liabilities** Secured Loans (1,280 + 7,200) Unsecured Loans (25% of 8,600)	8,480 2,150
	10,630

Working Notes:

(i) VALUE OF MISCELLANEOUS TRADE PAYABLES TAKEN OVER BY CHARLIE LTD.

	Andrew Ltd. ₹	**Barry Ltd.** ₹
Given in balance sheet	13,000	4,600
Less: Recorded Statutory liabilities	(5,000)	(1,000)
Liability to employees	(3,000)	(1,800)
Miscellaneous Trade Payables	5,000	1,800
80% thereof	4,000	1,440

(ii) VALUE OF TOTAL LIABILITIES TAKEN OVER BY CHARLIE LTD.

Particulars	**Andrew Ltd.**		**Barry Ltd.**	
	₹	₹	₹	₹
Current Liabilities:				
Recorded Statutory liabilities	5,000		1,000	
Unrecorded Statutory liabilities	2,200		-	
Liability to employees	3,000		1,800	
Miscellaneous creditors	4,000	14,200	1,440	4,240
Secured loans				
Given in Balance sheet	16,000		8,000	
Interest waived [50% of 1600]	-		(800)	7,200
Value of Inventories				
(80% of ₹ 184 lakhs)	(14,720)	1,280		
Unsecured Loans				
(25% of ₹86 lakhs)		2,150		-
		17,630		11,440

(iii) Assets taken over by Charlie Ltd.

	Andrew Ltd. ₹	**Barry Ltd.** ₹
Fixed Assets (Assumed on book value basis)	3,400	6,800
Current Assets 80% and 70% respectively of book value	2,880	6,720
	6,280	**13,520**

(iv) Goodwill/Capital reserve on Amalgamation

		₹	₹
A.	Total Assets taken over	6,280	13,520
B.	Liabilities taken over	17,630	11,440
C.	Net Assets taken over (A – B)	(11,350)	2,080
D.	Equity shares to be issued to Preference shareholders	200	-
E.	Goodwill (capital reserve) (C – D)	11,550	(2,080)

F. Net Goodwill on Amalgamation = ₹11,550 – ₹2,080 = ₹9,470

(v) Equity Shares issued by Charlie Ltd.

			Number
(i)	For cash		2,00,000
(ii)	For consideration other than cash In Discharge of Liabilities to Employees	4,80,000	
(iii)	To Preference Shareholders	20,000	5,00,000
			7,00,000

Value of Shares ₹10 × 7,00,000 = ₹70 lakhs

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

3. (a) H Ltd. acquired 30,000 equity shares in S Ltd. on 01.07.2014 for ₹5,00,000. The credit balance of Profit and Loss Account of S Ltd. as on 01.04.2014 was ₹2,00,000. Following are the extracts of Balance Sheets:

EXTRACTS OF BALANCE SHEETS OF H LTD. AND S LTD. AS AT 31ST MARCH, 2015

	H Ltd. ₹	S Ltd. ₹
Equity Share Capital (₹10)	**10,00,000**	**5,00,000**
Profit & Loss A/c	**3,00,000**	**2,50,000**
Investments in S Ltd.	**5,00,000**	**-**

Required: Calculate the Share of Minority Shareholders and Holding Company in the pre acquisition and post-acquisition profits of a subsidiary company and also give the rectifying entry to rectify the wrong recording of the receipt of dividends in the books of H Ltd. in the following case

(a) On 31.03.2015 S Ltd. declared an interim dividend @ 10% for the year 2014-2015. H Ltd. credited the receipt of dividend to its Profit & Loss Account. [10]

Answer:

3. (a)

Step 1: Basic Data:

Relevant Date of Acquisition: 1.7.2014
Pre-acquisition period: 3 months (i.e., from 1.4.2014 to 30.06.2014)
Post-acquisition period: 9 months (i.e., from 1.7.2014 to 31.03.2015)
Share of Holding Company: 60% (i.e., 30,000/50,000)
Share of Minority: 40% (i.e., 20,000/50,000)

Step 2:

PROFIT AND LOSS ACCOUNT OF S LTD.

Dr. **Cr.**

Date	Particulars	₹	Dare	Particulars	₹
31.03.2015	To Interim Dividend	50,000	01.04.2014	By Balance b/d	2,00,000
31. 03.2015	To Balance c/d	2,50,000	2014-2015	By Profit earned (bal.fig.)	1,00,000
		3,00,000			3,00,000

Step 3:

ANALYSIS OF PROFITS OF S LTD.

		Capital Profits ₹	Revenue Profits ₹
A.	Opening Balance of Profit and Loss A/c	2,00,000	
B.	Profit earned (in the ratio of 3 months: 9 months)	25,000	75,000
C.	Less: Interim Dividend (in the ratio of 3 months: 9 months)	(12,500)	(37,500)
D.	Total	2,12,500	37,500
E.	Share of Minority @ 40%	85,000	15,000
F.	Share of Holding company @ 60%	1,27,500	22,500

JOURNAL ENTRY IN THE BOOKS OF H LTD.

	₹	₹
Profit and Loss A/c Dr. To Investment in S Ltd. Being the rectification of interim dividend received out of pre-acquisition profits (i.e. 30,000 × 3/12) wrongly credited to Profit and Loss A/c)	7,500	 7,500

3. (b) Hinduja Ltd made an offer to acquire all the Shares of Leyland Cargo Ltd, to be satisfied by the allotment of 5 Shares in Hinduja Ltd at ₹25 per Share for every 4 Shares in Leyland Cargo Ltd. By the date of expiration of the offer, which was on 01.01.2013, Shareholders owning 75% of the Shares Leyland Cargo Ltd accepted the offer and the acquisition was effective from that date.

The accounting date of Leyland Cargo Ltd was on 31st March in each year, but to conform with Hinduja Ltd, the accounts were prepared to 30.06.2013, covering the Fifteen Months to the date.

The draft summarized accounts of the Companies on 30.06.2013 which do not include any of Shares in Leyland Cargo Ltd were as follows -

Equity and Liabilities	Hinduja	Leyland	Assets	Hinduja	Leyland
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital - Authorised	3,00,000	75,000	(a) Fixed Assets - Tangible		
- Issued & Fully paid (₹10)	1,50,000	60,000	(i) P & M at Cost	50,000	12,000
			Less: Depreciation	18,000	3,000
(b) Reserves & Surplus				32,000	9,000
- General Reserve	55,000	-	(ii) Freehold Prop, (at cost)	2,00,000	38,000
- Profit & Loss A/c	62,000	20,000			
(2) Current Liabilities:			(b) Non-Current Investments		
(a) Other Current Liabilities	27,000	7,000	(Quoted Invt at Cost)	7,000	-
(b) Short Term Provisions					
- Provision for Taxation	33,000	6,000	(2) Current Assets:		
			(a) Inventories	32,000	21,000
			(b) Trade Receivables - Drs	41,000	17,000
			(c) Cash & Cash Equivalents	15,000	8,000
Total	3,27,000	93,000	Total	3,27,000	93,000

Profit & Loss Account – period ending 30.06.2013

Particulars	Hinduja	Leyland
Period	12 Months	15 Months
Balance brought forward	14,000	12,000
Add: Profit for the period	80,000	18,000

Total	**94,000**	**30,000**
Taxation for the period **Interim Dividend paid, 30th Nov 2012** **Balance carried forward**	**32,000** **-** **62,000**	**6,000** **4,000** **20,000**
Total	**94,000**	**30,000**

The Directors of Hinduja Ltd recommended a final dividend of 20% to the Shareholders on register as on 30.06.2013. The Directors of Leyland Cargo Ltd proposed a final dividend of 12.50% payable on 30.09.2013.

You are required to prepare the Consolidated Balance Sheet of Hinduja Ltd and Leyland Cargo as on 30.06.2013. [15]

Answer:

3. (b)

1. Basic Information

Company Information	Dates	Holding Status
Holding company = Hinduja Subsidiary = Leyland	Acquisition: 01.01.2013 Consolidation:30.06.2013	Holding Company = 75% Minority Interest = 25%

2. Computation of Purchase Consideration - Cost of Investment in Leyland Cargo in Hinduja's books

Particulars		₹
Number of Shares Acquired	(75% of 6,000 Shares)	4,500
Exchange Ratio (5 Shares in Hinduja Ltd for 4 Shares of Leyland Cargo Ltd)		
Number of Shares issued by Hinduja Ltd	(5/4 × 4,500)	5,625
Issue Price Per Share		₹25
Total Purchase Consideration	(5,625 Shares × ₹ 25 Per Share)	₹1,40,625
Part of Equity Share Capital	(5,625 Shares × ₹10 Per Share)	₹56,250
Part of Securities Premium	(5,625 Shares × ₹ 15 Per Share)	₹84,375

3. Analysis of Profit and Loss Account of Leyland cargo Ltd.

Balance on 30.06.2013	₹20,000
Less: Proposed dividend (₹60,000 × 12.5%)	₹ 7,500
Corrected balance	**₹12,500**

Balance on 01.04.2012
(Preceding B/Sheet) ₹**12,000**
Capital Profit

Group Interest – Pre
= 12,000 × 75%
= 9,000
Profit

Minority Interest
= 12,000 × 25%
= 3,000

Profit for 15 Months (01.04.12 to 30.06.13 i. e. upto consolidation)
(Balancing figure) ₹**500**

01.4.12 to 31.12.12
₹500 × 9/15 = ₹300
Capital Profit

GI – Pre
= 300 ×75% = 225

MI
= 300 ×25% =75

1.01.13 to 30.06.13
₹500×6/15=₹200
Revenue

GI – Post
= 200 ×75% = 150

MI
=200 ×25% =50

Total capital Profits: ₹12,000 + 300 = ₹12,300, Total Revenue Profits: ₹200

4. Consolidation of Balance

Particulars	Total	Minority Interest	Pre-Acquisition	Post Acquisition	
Leyland (Holding 75%, Minority 25%)				**Gen. Res.**	**P&L A/c**
Equity Capital	60,000	15,000	45,000		
Profit and Loss A/c	12,500	3,125	9,225		150
Share of Proposed Dividend	7,500	1,875	3,375		2,250
Minority Interest		**20,000**	[7500×(9/15)×75%]		[7,500 ×(6 / 15)× 75%]
Total [Cr.]			**57,600**	-	**2,400**
Cost of Investment [Dr.]			**(1,40,625)**		
Parent's Balances				55,000	62,000
Proposed Dividend [(₹ 1,50,000 x 20%) + New Shares ₹ 56,250 × 20% × 6/12)]					(35,625)
For Consolidated Balance Sheet		**20,000**	**83,025 (Goodwill)**	**55,000**	**28,775**

5. Consolidated Balance Sheet of Hinduja Ltd. and its Subsidiary Leyland Cargo Ltd. as at 30.06.2013

	Particulars as at 30th June	Note	This Year	Prev. Year
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	**1**	2,06,250	
	(b) Reserves & Surplus	**2**	1,68,150	
(2)	**Minority Interest**		20,000	
(3)	**Current Liabilities**			
	(a) Other Current Liabilities (27,000 + 7,000)		34,000	
	(b) Short Term Provisions	**3**	74,625	
	Total		**5,03,025**	
II	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Fixed Assets (i) Tangible Assets	**4**	2,79,000	
	(ii) Intangible Assets - Goodwill on Consolidation		83,025	
	(b) Non-Current Investments - Quoted at Cost		7,000	
(2)	**Current Assets**			
	(a) Inventories = 32,000 + 21,000		53,000	
	(b) Trade Receivables = 41,000 + 17,000		58,000	
	(c) Cash & Cash Equivalents = 15,000 + 8,000		23,000	
	Total		**5,03,025**	

Notes to the balance Sheet

Note 1: Share capital

Particulars	This Year	Prev. Year
Authorised: ....Equity Shares of ₹10 each		
Issued, Subscribed & Paid up: [₹ 1,50,000 + (5,625 Shares × ₹ 10)] (Of the above, 5,625 Shares were issued for Non-Cash Consideration)	2,06,250	
Total	**2,06,250**	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Securities Premium	84,375	
(b) Other reserves - General Reserve	55,000	

(c) Surplus (Balance in P & L A/c	28,775	
Total	**1,68,150**	

Note 3: Short term Provisions

Particulars	This Year	Prev. Year
(a) Proposed dividend (Hinduja) (b) Provision for taxation (33,000 + 6,000)	35,625 39,000	
Total	**74,625**	

Note 4: Tangible Assets

Particulars	This Year	Prev. Year
(a) Freehold Property (2,00,000 + 38,000 (b) Plant & machinery (32,000 + 9,000)	2,38,000 41,000	
Total	**2,79,000**	

3. (c) On 01.01.2011, Ganpat Ltd acquired 8,000 Shares of ₹10 each of Hari Ltd at ₹90,000. The Balance Sheet of Ganpat Ltd and Hari Ltd as at 31.12.2013 are given below -

Equity and Liabilities	Ganpat	Hari	Assets	Ganpat	Hari
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets	60,000	1,10,000
- Equity Share of (₹10)	1,00,000	1,00,000	(b) Non-Current Investments	1,00,000	15,000
(b) Reserves & Surplus			(2) Current Assets:		
(i) General Reserve	40,000	26,000	(a) Inventories	30,000	40,000
(ii) Profit & Loss A/c	36,000	35,000	(b) Trade Receivables - Drs	25,000	20,000
(2) Current Liabilities:			(c) Cash & Cash Equivalents	32,000	24,000
Trade Payable – Sundry Crs	71,000	48,000			
Total	2,47,000	2,09,000	Total	2,47,000	2,09,000

1. **At the time of acquiring Shares, Hari Ltd had ₹ 24,000 in General Reserve and ₹15,000 (Cr.) in P & L A/c.**
2. **Hari Ltd paid 10% Dividends in 2011,12% in 2012,15% in 2013 for 2010,2011 and 2012 respectively. All Dividends received have been credited to the Profit & Loss Account of Ganpat Ltd.**
3. **Proposed Dividend for both the Companies for 2013 is 10%.**
4. **One Bonus Share for five fully paid Shares held has been declared by Hari Ltd out of pre-acquisition reserve on 31.12.2013. No effect has been given to that in the above accounts.**
5. **On 01.01.2011, Building of Hari Ltd which stood at ₹50,000 was revalued at ₹60,000 but no adjustment has been made in the books. Depreciation has been charged @ 10% p.a. on reducing balance method.**
6. **In 2013, Ganpat Ltd purchased from Hari Ltd, goods for ₹10,000 on which Hari Ltd made a Profit of 20% on Sales. 25% of such goods are lying unsold on 31.12.2013.**

Prepare the consolidated balance Sheet as at 31.12.2013. [15]

Answer:

3. (c)

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = Ganpat Subsidiary = Hari	Acquisition: 01.01.2011 Consolidation:31.12.2013	Holding Company = 80% Minority Interest = 20%

Note: Number of Shares in Hari after Bonus Issue = 10,000 + 1/5th Bonus = 12,000 Shares. Holding by Ganpat in Hari=Originally Acquired 8,000 Shares + Bonus at 1/5th = 9,600 Shares, out of 12,000 Shares = 80%.

2. Analysis of Reserves and Surplus of Hari Ltd.

(a) General Reserve

Balance on date of Consolidation	₹26,000
Less: Bonus Issue (1/5th of ₹1,00,000)	₹ 20,000
Corrected Balance	**₹6,000**

As on date of acquisition 01.01.2011 ₹24,000
Less: Bonus issue (₹1,00,000 × 20% ₹20,000
Balance **Capital Profit**) **₹4,000**

Group Interest – Pre = 4,000 × 80% = 3,200

Minority Interest = 4,000 × 20% = 800

Transfer between 01.01.11 and 31.12.13 (acquisition to consolidation) (bal.fig) ₹2,000 **Revenue Reserve**

Group Interest – Post = 2,000 × 80% = 1,600

Minority Interest = 2,000 × 20% = 400

(b) Profit & Loss Account

Balance on date of Consolidation	₹35,000
Less: Proposed dividend 2013 (10% of ₹1,00,000)	₹ 10,000
Corrected Balance	**₹25,000**

Bal. on date of acquisition 01.01.11 ₹15,000
Less: Pre – Acqn Dividend 2010 (10%) ₹10,000
Balance **Capital Profits** **₹5,000**

Group Interest – Pre = 5,000 × 80% = 4,000

Minority Interest = 5,000 × 20% = 1,000

Profit for 2011, 2012 & 2013 (balancing figure) ₹20,000 **Revenue**

Group Interest – Post = 20,000 × 80% = 16,000

Minority Interest = 20,000 × 20% = 4,000

(c) Gain /Loss on revaluation of Building

Gain on Revaluation = ₹60,000 – ₹50,000 = ₹10,000 – Capital Profit

Extra Depreciation on Revaluation Gain

For 2011 – ₹10,000 ×10% For 2012 – ₹ 1,000 × 90% For 2013 – ₹ 900 × 90%	₹ 1,000 ₹900 ₹810	**(₹ 2,710)**	**Revenue Profit**

Group Interest – Post = (2,710) × 80% = (2,168)

Minority Interest = (2,710) × 20% = (542)

Alternatively, Depreciation Gain can be derived as under -

Year	Depreciation on ₹50,000 already provided		Depreciation on 60,000 (Required)		Additional Depreciation
2011	₹50,000 ×10% =	₹ 5,000	₹ 60,000 × 10% =	₹ 6,000	(1,000)
2012	₹ 5,000 × 90% =	₹ 4,500	₹ 6,000 × 90% =	₹ 5,400	(900)
2013	₹ 4,500 × 90% =	₹4,050	₹ 5,400 × 90% =	₹ 4,860	(810)
Total Additional Depreciation to be provided (Revenue Profit)					**(2,710)**

3. Consolidation of Balances

Particulars	Total	Minority Interest	Pre-Acqn.	Post Acquisition	
Hari Ltd (Holding 80%, Minority 20%)				**Gen. Res.**	**P & L A/c**
Equity Capital (₹1,00,000 + Bonus Shares ₹ 20,000)	1,20,000	24,000	96,000	-	-
General Reserves	6,000	1,200	3,200	1,600	-
Profit and Loss A/c	25,000	5,000	4,000	-	16,000
Gain on Revaluation of Assets	10,000	2,000	8,000	-	-
Extra Depreciation on Revaluation Gain	(2,710)	(542)	-	-	(2,168)
Proposed Dividend (₹1,00,000 ×10%)	10,000	2,000	-	-	8,000
Stock Reserve – Upstream (10,000 × 25% x 20%)	(500)	(100)	-	-	(400)
Minority Interest		**33,558**			
Total [Cr.]			1,11,200	1,600	21,432
Cost of Investment [Dr.] (Note)			(82,000)		
Parent's balance (Note)				40,000	18,000
For Consolidated balance Sheet		**33,558**	**29,200**	**41,600**	**39,432**
		Minority Int.	**Cap. Res.**	**Gen. Res.**	**P & L A/c**

Note – Parent's P & L A/c Balance and Cost of Investment

Particulars	Invst.	P&L A/c
Balance as per Balance Sheet	90,000	36,000
Less: Pre-acquisition Dividend (₹80,000 × 10%)	(8,000)	(8,000)
Less: Dividend Proposed for 2013 by Ganpat (₹ 1,00,000 × 10%)	-	(10,000)
For Consolidation of Balances	82,000	18,000

4. Consolidated Balance Sheet of Ganpat Ltd. And its Subsidiary Hari Ltd. as at 31.12.2013

	Particulars as at 31st December	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	**1**	1,00,000	
	(b) Reserves 8t Surplus	**2**	1,10,232	
(2)	**Minority Interest**		33,558	
(3)	**Current Liabilities** (a) Trade Payables (71,000 + 48,000) (b) Short Term Provisions - Proposed Dividend (Ganpat Ltd)		 1,19,000 10,000	
	Total		**3,72,790**	
II	**ASSETS**			

(1)	**Non-Current Assets** (a) Fixed Assets [G 60,000 + H 1,10,000 + Revain Gain 10,000 (-) Deprn Loss 2,710] (b) Non-Current Investments = 1,00,000 + 15,000 - 90,000 held by Ganpat in Hari		1,77,290 25,000	
(2)	**Current Assets** (a) Inventories = 30,000 + 40,000 - 500 Stock Reserve (b) Trade Receivables - Debtors (25,000 + 20,000) (c) Cash & Cash Equivalents = 32,000 + 24,000		69,500 45,000 56,000	
	Total		**3,72,790**	

Notes to the Balance Sheet

Note 1: Share capital

Particulars	This Year	Prev. Year
Authorised: ....Equity Shares of ₹100 each		
Issued, Subscribed & Paid up: 1,000 Equity Shares of ₹100 each	**1,00,000**	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Capital Reserve on Consolidation	29,200	
(b) Other Reserves - General Reserve	41,600	
(c) Surplus (Balance in P & L A/c	39,432	
Total	**1,10,232**	

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

4. (a) 'By introducing XBRL for reporting, regulators and other government authorities can obtain certain benefits.'- List them. [5]

Answer:

4. (a)

By introducing XBRL for reporting, regulators and other government authorities can:

- Obtain data which can be entered automatically into systems without reformatting or other "translation" effort.
- Dramatically reduce costs by automating routine tasks.
- Quickly and automatically identify problems with filings.
- Analyse and compare data much more quickly, efficiently and reliably. Benefit from the use of software in validation and analysis.
- Monitor data and activities and reach judgments with far greater speed and confidence.
- Focus effort on analysis, decision-making and dealing with counterparties rather than on data manipulation.
- Provide a much faster and focused response to counterparties.
- Promote efficiencies and cost savings throughout the regulatory filing process.

4. (b) B (ESOP) Ltd. provides you the following particulars in respect of stock options granted:

Grant Date	**April 1, 2011**
Number of employees covered	**1050**
Number of Options granted per employee	**50**
Vesting Condition: Continuous employment for 3 years	
Nominal value per share (₹)	**100**
Exercise Price per share (₹)	**125**
Market price per share on grant date (₹)	**149**
Vesting Date	**March 31, 2014**
Exercise Date	**March 31,2015**
Fair Value of Option per share on Grant Date (₹)	**30**

Position on	**31.03.2012**	**31.03.2013**	**31.03.2014**
Estimated Annual Rate of Departure	**2%**	**3%**	
Number of Employees left	**30**	**20**	**16**
Number of employees entitled to exercise option			**984**

On 31st March, 2015, 960 employees exercised the option and 24 employees did not exercise the option.

Required: Compute Expenses to be recognized in each year by Fair Value Method and prepare Employees Compensation Expense Account and ESOP Outstanding Account in books of the company. [10]

Answer:

4. (b)

Expense to be recognized in each year

Particulars	**2011-2012**	**2012-2013**	**2013-2014**
A. No. of employees entitled to option	=1050 × 0.98 × 0.98 × 0.98	=1020 × 0.97 × 0.97	984
B. No. of Options per employee	50	50	50
C. Fair value of Option per share	30	30	30
D. Total Fair Value of Option [A*B*C]	14,82,000	14,39,580	14,76,000
E. Expense to be recognized [Total fair value × No. of years expired/ Vesting period]-[Expenses already recognized during previous years]	=14,82,000/3 =4,94,000	=[14,39,580×2/3]-[4,94,000]=4,65,720	=14,76,000-4,94,000-4,65,720=5,16,280

Value of options forfeited = [(984 – 960) ×50 × ₹30] = ₹36,000

Dr. **Employees' Compensation Expense Account** Cr.

Year	**Particulars**	**₹**	**Year**	**Particulars**	**₹**
2011-12	To ESOP Outstanding A/c	4,94,000	2011-12	By Profit & Loss A/c	4,94,000
2012-13	To ESOP	4,65,720	2012-13	By Profit & Loss A/c	4,65,720

	Outstanding A/c				
2013-14	To ESOP Outstanding A/c	5,16,280	2013-14	By Profit & Loss A/c	5,16,280

Dr. **ESOP Outstanding Account** Cr.

Year	Particulars	₹	Year	Particulars	₹
2011-12	To Balance c/d	4,94,000	2011-12	By Employees' Compensation Exp. A/c	4,94,000
		4,94,000			4,94,000
2012-13	To Balance c/d	9,59,720	2012-13	By Balance b/d	4,94,000
				By Employees' Compensation Expense A/c	4,65,720
		9,59,720			9,59,720
2013-14	To Balance c/d	14,76,000	2013-14	By Balance b/d	9,59,720
				By Employees' Compensation Exp A/C	5,16,280
		14,76,000			14,76,000
2014-15	To General Reserve (1,200 × 30)	36,000	2014-15	By Balance b/d (49,200 × 30)	14,76,000
	To Share Capital (48,000 ×100)	48,00,000		By Bank (48,000 × 125)	60,00,000
	To Securities Premium (48,000 ×55)	26,40,000			
		74,76,000			74,76,000

Note: Securities Premium = (Exercise price + Fair Value)- Nominal Value = (125+30)-100=55

4. (c) VA Ltd. furnishes the following Profit and Loss A/c:

Profit and Loss A/c for the year ended 31st March,2015

Income	**Notes**	**₹('000)**
Turnover	**1**	**29,872**
Other Income		**1,042**
		30,914
Expenditure		
Operating expenses	**2**	**26,741**
Interest on 8% Debenture		**987**
Interest on Cash Credit	**3**	**151**
Excise duty		**1,952**
		29,831
Profit before depreciation		**1,083**
Less: Depreciation		**(342)**
Profit before tax		**741**
Provision for tax	**4**	**376**
Profit after tax		**365**
Less: Transfer to Fixed Assets Replacement Reserve		**(65)**
		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 source 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, 2015 and reconcile total value added with profit before taxation. [10]

Answer:

4. (c)

VA LTD.

Value Added Statement for the year ended 31st March, 2015

Particulars	**₹('000)**	**₹('000)**	**%**
Turnover		29, 872	
Less: Cost of bought in materials and services:			
Operating Expenses(26,741 -14,761)	11,980		
Excise Duty	1,952		
Interest on Cash Credit	151	(14,083)	
Value added by manufacturing and trading activities		15,789	
Add: Other income		1,042	
Total Value Added		16,831	
Application of Value Added:			
To pay to employees:			
Salaries, wages and other employee benefits		14,761	87.70
To Pay to Government:			
Corporation tax (376 -54)		322	1.91
To pay to providers of capital:			
Interest on 8% Debentures	987		
Dividends	125	1,112	6.61
To Provide for maintenance and expansion of the company:			
Depreciation	342		
Fixed assets Replacement Reserve	65		
Deferred Tax Account	54		
Retained Profit	175	636	3.78
		16,831	100

Note: Deferred tax account could alternatively be shown as an item 'To pay to Government'.

Reconciliation between Total Value Added and Profit before Taxation

	₹('000)	**₹('000)**
Profit before tax		741
Add: Depreciation	342	
Wages, Salaries and other benefits	14,761	
Debenture Interest	987	16,090

Total Value Added		16,831

4. (d) From the following data in respect of an employer, calculate the total value of human capital under 'Lev and Schwartz' Model.

Distribution of employees of A Limited

Age	Unskilled		Semi-skilled		Skilled	
	No.	Avg. Annual Earnings	No.	Avg. Annual Earnings	No.	Avg. Annual Earnings
30-39	100	18,000	60	36,000	40	84,000
40-49	50	30,000	30	48,000	20	1,20,000
50-54	30	36,000	20	60,000	10	1,80,000

Retirement age is 55 year. Apply 20% discount factor. In calculation of total value of human factor the lowest age of each class should be taken. Annuity factors @20 per cent are:

Years	5	10	15	20	25
Annuity Factor @20%	2.991	4.192	4.675	4.870	4.948

[10]

Answer:

4. (d)

Statement showing the total value of Human Capital under Lev and Schwartz Model

Particulars	Age Group 30-39 years	Age Group 40-49 years	Age Group 50-55 years	Value in ₹
Unskilled	98,60,400	71,57,400	32,30,280	2,02,48,080
Semi-skilled Employees	1,12,88,160	69,05,880	35,89,200	2,71,83,240
Skilled Employee	1,79,01,120	1,17,99,600	53,83,800	3,50,84,520
				7,71,15,840

Working notes:
The Present Value of earnings of each category of employees is ascertained as follows:

Particulars	No.	Annual Salary	Total Salary	PV Factor	Present Value
Unskilled Employees Age Group 30-39 years					
For next 10 years	100	18,000	18,00,000	4.192	75,45,600
For 11-20 years	100	30,000	30,00,000	0.678	20,34,000
For 21-25 years	100	36,000	36,00,000	0.078	2,80,800
					98,60,400
Age group 40-49 years					
For next 10 years	50	30,000	15,00,000	4.192	62,88,000
For 11-15 years	50	36,000	18,00,000	0.483	8,69,400
					71,57,400
Age group 50-55 years					
For next 5 years	30	36,000	10,80,000	2.991	32,30,280
Semi-skilled Employees Age group 30-39 years					
For next 10 years	60	36,000	21,60,000	4.192	90,54,720
For 11-20 years	60	48,000	28,80,000	0.678	19,52,640

For 21-25 years	60	60,000	36,00,000	0.078	2,80,800
					1,12,88,160
Age Group 40-49					
For next 10 years	30	48,000	14,40,000	4.192	60,36,480
For 11-15 years	30	60,000	18,00,000	0.483	8,69,400
					69,05,880
Age Group 50-55 years					
For next 5 years	20	60,000	12,00,000	2.991	35,89,200
Skilled Employees					
Age Group 30-39 years					
For next 10 years	40	84,000	33,60,000	4.192	1,40,85,120
For 11-20 years	40	1,20,000	48,00,000	0.678	32,54,400
For 21-25 years	40	1,80,000	72,00,000	0.078	5,61,600
					1,79,01,120
Age Group 40-49 years					
For next 10 years	20	1,20,000	24,00,000	4.192	1,00,60,800
For 11-15 years	20	1,80,000	36,00,000	0.483	17,38,800
					1,17,99,600
Age Group 50-55 years					
For next 5 years	10	1,80,000	18,00,000	2.991	53,83,800

Question No. 5 (Answer any three):

5. (a) Distinguish between Commercial and Government Accounting. [5]

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

(c) List the structure of the Government Accounting Standards Advisory Board. [5]

(d) Describe the objective and scope of Guarantees given by Governments: Disclosure Requirements[IGAS1] [5]

Answer:

(a) The principles of Commercial and Government Accounting differ in certain essential points. The difference is due to the fact that, while the main function of a commercial concern is to take part in the production, manufacture or inter-change of gods or commodities between different groups or individuals and thereby to make profit, Government is to govern a country and, in connection therewith, to administer the several departments of its activities in the best way possible. Government Accounts are designed to enable Government to determine how little money it need take out of the pockets of the tax-payers in order to maintain its necessary activities at the proper standard of efficiency. Non-Government Commercial accounts, on the other hand, are meant to show how much money the concern can put into the pockets of the proprietors consistently with the maintenance of a profit-earning standard in the concern.

(b) The Examination of the Appropriation Accounts relating to the Railways, Defence Services, P&T Department and other Civil Ministries of the Government of India and Reports of the Comptroller and Auditor-General of India thereon as also the Reports of the Comptroller and Auditor-General on Revenue Receipts mainly form the basis of the deliberation of the Committee. One of the duties of the Committee is to ascertain that money granted by Parliament has been spent by Government within the scope of the demand. It considers the justification for spending more or less than the amount originally sanctioned. If any money has been spent on a service in excess of the amount granted by the House for the purpose, the Committee examines with reference to the facts of each case, the circumstances leading to such an excess and makes such recommendations as it may deem fit. The functions of the Committee extend however, "beyond, the formality of expenditure to its wisdom, faithfulness and economy". The Committee thus examines cases involving losses, nugatory expenditure and financial irregularities. While scrutinizing the Reports of the 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, misclassifications etc., identifies the loopholes in the taxation laws and procedures and makes recommendations in order to check leakage of revenue.

(c) Government of India have supported the proposal for establishment of a Government Accounting Standards Advisory Board for the Union and the States by the Comptroller and Auditor General of India in order to establish and improve standards of governmental accounting and financial reporting and enhance accountability mechanisms.

Accordingly, the Comptroller and Auditor General of India has constituted a Government Accounting Standards Advisory Board (GASAB) consisting 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)

(d) Objective: The objective of this standard is to set out disclosure norms in respect of guarantees given by the Union and the State Governments in their respective Financial Statements to ensure uniform and complete disclosure of such Guarantees.

Scope: This Standard applies to preparation of the Statement of Guarantees for inclusion and presentation in the Financial Statements of the Governments. Financial Statements should not be described as complying with this Standard unless these comply with all its requirements.

The Authority in the Government which prepares the Statement of Guarantees for inclusion and presentation in the Financial Statements shall apply this standard. The Accounting Authority is responsible for inclusion and presentation of the Statement of Guarantees in the Financial Statements as provided by the Authority in the Government.