P18 - Corporate Financial Reporting

Test Paper—IV/18/CFR/2012/T-1

Time Allowed-3hours **Full Marks-100**

Section A – Generally Accepted Accounting Principles (GAAP) [10 marks]

Question 1

(a) Write down the types of share based transactions and state recognition criteria of share based payment as per IFRS 2. **[4]**

(b) B Ltd. sold machinery having WDV of ₹ 800 Lakhs to B Ltd. for ₹ 1,000 Lakhs and the same machinery was leased back by B Ltd. to H Ltd. The Lease back is operating lease.

Comment if –

i. Sale price of ₹ 1,000 lakhs is equal to fair value
ii. Fair value is ₹ 1,200 lakhs
iii. Fair value is ₹ 900 lakhs and sale price is ₹ 760 lakhs
iv. Fair value is ₹ 800 lakhs and sale price is ₹ 1,000 lakhs
v. Fair value is ₹ 920 lakhs and sale price is ₹ 1,000 lakhs
vi. Fair value is ₹ 700 lakhs and sale price is ₹ 780 lakhs **[3]**

(c) Amrita purchased a computer for ₹66,000 and leased out it to Sumita for four years on leases basis, after the lease period , value of the computer was estimated to be ₹4,500; which he realized after selling it in the second hand market. Lease amount payable at the beginning of each year is ₹33,000; ₹20,460; ₹10,230 & ₹5,115. Depreciation was charged @ 40% p.a. You are required to pass the necessary journal entries in the books of Amirita. **[3]**

Section B – Business Combinations – Accounting & Reporting [25 marks]

Question 2

(a) The following are the Balance Sheet of Anurag Ltd. and Farhan Ltd. as at 31.12.2012

Anurag Ltd.

Liabilities	₹ '000	Assets	₹ '000
Share Capital		Fixed Assets	1,700
1,50,000 Equity shares of ₹ 10 each	1,500	Stock (pledge with secured loan creditors)	9,200
5,000 Preference shares of ₹ 10 each	500	Other Current Assets	1,800
General Reserves	200	Profit and Loss Account	8,300
Secured Loans (secured against pledge of stocks)	8,000		
Unsecured Loans	4,300		
Current Liabilities	7,500		
	21,000		21,000

Farhan Ltd.

Liabilities	₹ '000	Assets	₹ '000
Share Capital 50,000 Equity shares of ₹ 10 each General Reserves Secured Loans Current Liabilities	 500 1,400 4,000 2,300	Fixed Assets Current Assets	3,400 4,800
	8,200		8,200

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

i. All current Assets of two companies, except pledged stock are taken over by Oscar Ltd. The realizable value of all Current Assets are 80% of book values in case of Anurag Ltd. and 70% for Farhan Ltd. , Fixed assets are taken over at book value .

ii. The breakup of Current liabilities -

Particulars	Anurag Ltd. ₹	Farhan Ltd. ₹
Statutory Liabilities (including ₹ 11 lakhs in case of Anurag Ltd. , in case of claim not having been admitted shown as contingent liability)	36,00,000	5,00,000
Liabilities to employees	15,00,000	9,00,000

Balance of Current liability is miscellaneous creditors.

iii. Secured Loan include ₹ 8,00,000 accrued interest in case of Farhan Ltd.

iv. 1,00,000 equity shares of ₹ 10 each are allotted by Oscar Ltd., at par against cash payment of entire face value to the shareholders of Anurag Ltd. and Farhan Ltd. in the ratio of shares held by them in Anurag Ltd. and Farhan Ltd.

v. Preference shareholders are issued Equity shares worth ₹ 1,00,000 in lieu of present holding

vi. Secured Loan Creditors agree to continue the balance amount of their loans to Oscar Ltd. , after adjusting value of pledged security in case of Anurag Ltd. and after waiving 50% of interest due in the case of Farhan Ltd.

vii. Unsecured Loans are taken over by Oscar Ltd. at 25% of loan amount.

viii. Employees are issued fully paid Equity Shares in Oscar Ltd. in full settlement of their dues

ix. Statutory liabilities are taken over by Oscar Ltd. at full values and miscellaneous creditors are taken over at 80% of the book value. **[15]**

(b) The following is the Balance Sheet of Ting-Tong Ltd.

Liabilities	Amount ₹	Amount ₹
Equity Share Capital		6,00,000
Reserves and Surplus		12,00,000
Secured Loans		6,00,000
Unsecured Loans		18,00,000
		42,00,000
Assets	**Amount ₹**	**Amount ₹**
Fixed Assets		21,00,000
Investments (Market Value ₹27,00,000)		12,00,000
Current Assets	12,00,000	

Less: Current Liabilities	(3,00,000)	9,00,000
		42,00,000

The company consists of three divisions. The scheme was agreed upon, according to which a new company Bell Ltd. is to be formed. It will takeover investmen.ts at ₹ 9,00,000 and unsecured loans at balance sheet value. It is to allot equity shares of ₹ 10 each at par to the shareholders of Ting-Tong 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 Ting-Tong Ltd. **[10]**

Section C – Group Financial Statements [25 marks]

Question 3

(a) Sky Ltd., a listed company , entered into an expansion programme on 1st October,2011. On that date the company purchased from Cloud Ltd. its investments in two Private Limited Companies. The purchase was of the entire share capital of Sun Ltd. And 50% of the share capital of Moon Ltd.

Both the investments were previously owned by Cloud Ltd. after acquisition by Sky Ltd., Moon Dry Ltd. was to be run by Sky Ltd. and Cloud Ltd. as a jointly controlled entity.
Sky Ltd. makes its financial statements up to 30th September each year. The terms of acquisition were :

Sun Ltd.

The total consideration was based on price earning ratio (P/E) of 12 applied to the reported profit of ₹ 40 Lakhs of Sun Ltd. for the 30th Sept. 2011. The consideration was settled by Sky Ltd. issuing 8% debentures for ₹ 280 lakhs (at par) and the balance by a new issue of ₹ 1 equity shares, based on its market value of ₹ 2.50 each.

Moon Ltd.

The market value of Moon Ltd. on first Oct, 2011 was mutually agreed as ₹ 750 lakhs. Sky Ltd. satisfied its share of 50% of this amount by issuing 150 lakhs ₹ 1 equity shares (market value ₹ 2.50 each) to Cloud Ltd.

Sky Ltd. has not recorded in its books the acquisition of the acquisition of the above investments or the discharge of the consideration.

The summarized statements of financial position of the three entities at 30st Sept,2012 are:

₹ in thousands

Assets	**Sky Ltd.** ₹	**Sun Ltd.** ₹	**Moon Ltd.** ₹
Tangible Assets	68,520	54,00	42,120
Inventories	19,280	14,400	37,280
Debtors	22,400	10,120	9,240
Cash	--	6,820	80
	1,10,200	85,340	88,720
Liabilities			
Equity Capital: ₹ 1 each	20,000	40,000	50,000
Retained earnings	41,600	30,000	9,00
Trade and other payables	34,240	10,540	28,200
Overdraft	3,080	--	--
Provision for taxes	11,280	4,800	1,540
	1,10,200	**85,340**	**88,720**

The following information is relevant.

i. The book values of net assets of Sun Ltd. and Moon Ltd. on the date of acquisition were considered to be a reasonable approximation to their fair values.

ii. The current profits of Sun Ltd. and Moon Ltd. for the year ended 30th Sept,2012 were ₹ 160 lakhs and ₹ 40 lakhs respectively. No dividends were paid by any of the companies during the year.

iii. Moon Ltd., the jointly controlled entity, is to be accounted for using proportional consolidation, in accordance with AS 27 "Interests in joint venture".

iv. Goodwill in respect of the acquisition of Moon Ltd. has been impaired by ₹ 20 lakhs at 30th Sept, 2012. Gain on acquisition, if any, will be separately accounted.

Prepare the consolidated Balance Sheet of Sky Ltd. and its subsidiaries as at 30th Sept,2012. **[15]**

(b) The summarized Balance Sheet of Akash Ltd. and Barish Ltd. are as Follows:

Balance Sheet as at 31 December,2012

	Akash Ltd. ₹	**Barish Ltd.** ₹
Sources of Funds:		
Share Capital in equity shares of ₹10 Each	20,00,000	5,00,000
Reserves	2,00,000	50,000
Profit and Loss A/c as on 1st Jan,2012	3,00,000	1,00,000
Profit for the year	80,000	80,000
Add: Dividends from Barish Ltd.	40,000	----
Less; Dividends paid	----	(50,000)
Creditors	3,00,000	2,00,000
Total	29,20,000	8,80,000
Application of Funds:		
Fixed assets	20,00,000	8,00,000
Current Assets	3,20,000	80,000
Shares in Barish Ltd. at cost- 30,000 shares	6,00,000	----
Total	29,20,000	8,80,000

Akash Ltd. had acquired 40,000 shares in Barish Ltd. at ₹20 each on 1st Jan,2012 and sold 10,000 of them at the same price on 1st Oct, 2012 . The sale is cum dividend. An interim dividend of 10% was paid by Barish Ltd. on 1st July , 2012.
Prepare the consolidated Balance Sheet as at 31st December,2012. **[10]**

Section D – Development in Financial Reporting [25 marks]

Question 4
(a) What are the major steps involved in undertaking the Triple Bottom Line reporting process?

(b) Give the definition of Intellectual Capital. **[5+2]**

Question 5
An entity issues 4,000 Convertible debentures at the start of year 1. The Debentures have a 3 years term, and are issued at par with a Face Value of ₹1,000 per Debenture, for a Total Proceeds of ₹40,00,000. Interest is payable annually in arrears at a nominal annual interest rate 6%. Each Debenture is convertible at any time up to maturity into 250 Equity Shares. When the Debentures are issued, the prevailing Market Interest rate for similar Debt without Conversion Options is 9% explain the presentation in the Financial Statement. **[5]**

Question 6
Write a note on Employees' Stock Purchase Plans (ESPP). **[5]**

Question 7
Mr. Investor buys a stock option of Z Ltd. in July 2008 with a Strike Price on 30th July, 2012 ₹500 to be expired on 30th August, 2012. The premium is ₹40 per unit and the market lot is 100. The margin to be paid is ₹240 per unit. Show the accounting treatment in the books of Buyer when:

(a) the option is settled by delivery of the asset, and

(b) the option is settled in cash and the Index price is ₹520 per unit. **[4]**

Question 8
How are the users of XBRL. **[4]**

Section E – Government Accounting in India [15 marks]

Question 9
(a) Write a note on role of Public Accounts Committee. **[5]**

(b) Describe the structure of Government Accounting Standard Advisory Board. **[5]**

(c) Write a note on IGAS 3. **[5]**

Test Paper—IV/18/CFR/2012/T-2

Time Allowed-3hours **Full Marks-100**

Section A – Generally Accepted Accounting Principles (GAAP) [10 marks]

Question 1

(a)

Particulars	Amount (₹)
Expenditure incurred till 31-03-2011	10,00,000
Interest cost capitalized for the financial year 2010-11 @ 13%	52,000
Amount borrowed till 31-03-11 is	4,00,000
Assets transferred to construction during 2011-12	2,00,000
Cash payment during 2011-12	1,50,000
Progress payment received	7,00,000
New borrowing during 2011-12 @ 13%	4,00,000

Calculate the amount of borrowing cost to be capitalised. **[5]**

(b) Utkal Industries Ltd. gives the following estimates of cash flows relating to fixed asset on 31-12-2007. The discount rate is 15%

Particulars (Year)	Cash flow (₹ in lakhs)
2008	4,000
2009	6,000
2010	6,000
2011	8,000
2012	4,000
Residual value at the end of 2012	1,000
Fixed asset purchased on 01-01-2005 for	₹40,000 lakhs
Useful life	8 years

Residual value estimate ₹1,000 lakhs at the end of 8 years. Net selling price ₹20,000 lakhs.
Calculate on 31-12-2007:

i. Carrying amount at the end of 2007.
ii. Value in use on 31-12-2007.
iii. Recoverable amount on 31-12-2007.
iv. Impairment loss to be recognized for the year ended 31-12-2007.
v. Revised carrying amount.
vi. Depreciation charge for 2008. **[5]**

Section B – Business Combinations – Accounting & Reporting [25 marks]

Question 2

(a) Small Ltd. and Little Ltd. two companies in the field of specialty chemicals, decided to go in for a follow on Public Offer after completion of an amalgamation of their businesses. As per agreed terms, initially a new company Big Ltd. will be incorporated on 1st January, 2012 with an authorized capital of ₹ 2 crore comprising of 20 lakh equity shares of ₹ 10 each. The holding company would acquire the entire shareholding of Small Ltd. and Little Ltd. and in turn would issue its shares to the outside holders of these shares. It is also agreed that the consideration would be a multiple of the average P/E ratio for the period 1st January, 2011 to 31st March, 2011 times the rectified profits of each company, subject to necessary adjustments for complying with the terms of the share issue.

The following information is supplied to you :

Particulars	Small Ltd.	Little Ltd.
Ordinary Shares of ₹ 10 each (Nos.)	40 lakhs	20 lakhs
10% Preference Shares of ₹ 100 each (Nos.)	2 lakhs	Nil
10% Preference Shares of ₹ 10 each (Nos.)	Nil	2 lakhs
5% Debentures of ₹ 10 each (Nos.)	4 lakhs	4 lakhs
Investments Held :		
(a) 4 lakh Ordinary Shares in Small Ltd.	-	₹ 40 lakhs
(b) 2 lakh Ordinary Shares in Little Ltd.	₹ 50 lakhs	-
Profit before Interest & Tax (PBIT) after considering the impact of Inter - Company Transactions and Holdings	₹ 50 lakhs	₹ 25 lakhs
Average P/E ratio January, 2011 to March, 2011	10	8

The following additional information is also furnished to you in respect of adjustments required for the profit figure as give above:

i. The profits of the respective companies would be adjusted for half the value of contingent liabilities as on 31st March, 2011.
ii. Debtors of Small Ltd. include an irrecoverable amount of ₹2 lakh against which ₹1 lakh was recovered but kept in Advance account.
iii. Little Ltd. had omitted to provide for increased FOREX liability of US $ 10,000 on loan availed in the Financial Year 2007-08 for purchase of Machinery. The machinery was acquired on 1st January, 2008 and put to use in Financial Year 2008-09. The additional liability arose due to change in exchange rates and is arrived at in conformity with the prevailing provisions of AS 11. The exchange rate is US $ 1 = INR 50.
iv. Small Ltd. has omitted to invoice a sale that took place on 31st March, 2011 of goods costing ₹ 2,50,000 at a mark-up of 15 per cent. Instead the goods were considered as part of closing inventory.
v. Closing Inventory of ₹45 lakhs of Little Ltd. as on 31st March, 2011 stands under-valued by 10 per cent.
vi. Contingent Liabilities of Small Ltd. and Little Ltd. as on 31st March, 2011 stands at ₹ 5 lakhs and ₹ 10 lakhs respectively.

The terms of the share issue are as under :

a. Shares in Big Ltd. will be issued at a premium of ₹13 per share for all external shareholders of Small Ltd. The Premium will be ₹15 per share for shares in Big Ltd. issued to all external shareholders of Little Ltd.
b. No shares in Big Ltd. will be issued in lieu of the investments (inter-company holdings) of both companies. Instead the shares so held shall be transferred to Big Ltd. at the close of the Financial Year ended 31st March, 2012 at Par Value consideration payable on the date of transfer.
c. Big Ltd. would in addition, to the issue of shares to outside shareholders of Small Ltd. and Little Ltd. make a preferential allotment on 31st March, 2012 of 2 lakhs ordinary shares at a premium of ₹ 28 per share to Virgin Capital Ltd. (VCL). These shares will not be eligible for any dividends declared or paid till that date.

d. Big Ltd. will go in for a 18 per cent Unsecured Bank Overdraft facility to meet incorporation costs of ₹16 lakhs and towards management expenses till 31st March, 2012 estimated at ₹14 lakhs. The overdraft is expected to be availed on 1st February, 2012 and would close on 31st March, 2012 out of the proceeds of the preferential allotment.

e. It is agreed that Interim Dividends will be paid on 31.03.2012 for the period January, 2012 to March, 2012 by Big Ltd. at 2 per cent, Small Ltd. at 3 per cent and Little Ltd. at 2.5 per cent. Ignore Dividend Distribution Tax.

f. The prevailing Income Tax Rate is 25 per cent.

Required : Compute the number of shares to be issued to the Shareholders of each of the companies and prepare the Projected Profit and Loss Account for the period from 1st January, 2012 to 31.03.2012 of Big Ltd. and its Balance Sheet as on 31st March, 2012. **[20]**

(b) D Ltd. and F Ltd. were amalgamated on and from 1st April, 2012. A new Company P Ltd. was formed to takeover the business of the existing companies. The Balance Sheets of D Ltd. and F Ltd. as on 31st March, 2012 are given below:

Liabilities	**Orange Ltd.** `	**Mango Ltd.** `	**Assets**	**Orange Ltd.** `	**Mango Ltd.** `
Share Capital			Fixed Assets:		
Equity Share of ₹10 each	85,000	72,500	Land and Buildings	79,500	43,300
9% Preference Shares of ₹10 each		17,500	Investments	7,500	5,000
Reserve and Surplus:			Current Assets:		
Revaluation Reserve	12,500	8,000	Stock	32,500	26,900
General Reserve	24,000	16,000	Debtors	30,500	27,000
Export Profit Reserve	7,500	3,000	Bills Receivables	2,500	-
			Cash and Bank	30,000	25,100
Secured Loan:					
13% Debentures of ₹100 each	5,000	2,800			
Current Liabilities and Provisions					
Bills Payable	2,000	-			
Sundry Creditors	14,500	7,500			
	1,82,500	1,27,300		1,82,500	1,27,300

i. 13% Debenture holders of D Ltd. and F Ltd. are discharged by P Ltd. by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

ii. Preference Shareholders of the two companies are issued equivalent number of 12% Preference Shares of P Ltd. at a price of ₹ 12.50 per share (face value ₹10).

iii. P Ltd. will issue 2 equity shares for each equity share of D Ltd. and 2 equity shares for each equity share of F Ltd. at ₹ 15 per share having a face value ₹ 10.

iv. Export Profit Reserve is to be maintained for two more years.

Compute the purchase consideration only. **[5]**

Section C – Group Financial Statements [25 marks]

Question 3

(a) The Balance Sheet of Amar Ltd. and Vimal Ltd. as on the dates of last closing of accounts are as under:

Particulars	Amar Ltd.	Vimal Ltd.
	As on 31.03.2012	As on 31.12.2011
	₹	₹
Liabilities		
Share capital (equity share of ₹10 each)	11,00,000	5,00,000
Accumulated Profits & reserves	4,50,000	2,05,000
15% ₹100 Non- convertible debentures	-	3,00,000
Account payable	4,70,000	2,30,000
Other liabilities	1,00,000	40,000
Tax provision	1,50,000	2,50,000
Total	**22,70,000**	**15,25,000**
Assets		
Fixed Assets at cost	8,45,000	5,26,500
Less: Depreciation	1,95,000	1,21,500
	6,50,000	**4,05,00**
Investments:		
40,000 shares in Vimal Ltd.	8,00,000	-
1,000 debenture in Vimal Ltd.	1,50,000	-
Current Assets:		
Inventories	2,00,000	3,50,000
Account Receivable	2,50,000	4,65,000
Cash & Bank	2,20,000	3,05,000
Total	**22,70,000**	**15,25,000**

The following information is also available:

i. On 8th February, 2012 there was a fire at the factory of Vimal Ltd., resulting in inventory worth ₹20,000 being destroyed. Vimal received 75 per cent of the loss as insurance.
ii. The same fire result in destruction of a machine a written having down value of ₹1,00,000. The insurance company admitted the company's claim to the extent of 80 per cent. The machine was insured at its fair value of ₹1,50,000.
iii. On 13th March, 2012, Amar sold goods costing ₹1,50,000 to Vimal at a mark-up of 20 per cent. Half of these goods were resold to Amar who in turn was able to liquidate the entire stock of such goods before closure of accounts on 31st March, 2012. As on 31st March, 2012 Vimal's accounts payable show ₹60,000 due to Amar on the two transactions.
iv. Aqua acquired the holdings in Vimal on 1st January, 2010 when the reserves and accumulated profits of Vimal Ltd. stood at ₹75,000.
v. Both companies have not provided for tax on current year profits. The current year taxable profits are ₹33,000 and ₹66,000 for Amar Ltd. and Vimal Ltd. respectively. The tax rate is 33%
vi. The incremental profits earned by Vimal Ltd. for the period January, 2012 to March 2012 over that earned in the corresponding period in 2011was ₹56,000. Except for the profits that resulted from the transactions with Amar in the aforesaid period, the entire profits have been realised in cash before 31st March, 2012.

You are requested to consolidate the accounts of the two companies and prepare a consolidated balance sheet of Amar Limited and its subsidiary as 31st march, 2012. **[20]**

(b) From the following information determine the amount of unrealized profits to be eliminated and the apportionment of the same, if M Ltd. holds 75% of the Equity Shares of N Ltd. -

A. Sales by M Ltd. to N Ltd. -

i. Goods costing ₹10,00,000 at a profit of 20% on Sale Price. Entire stock were lying unsold as on the Balance Sheet date.
ii. Goods costing ₹21,00,000 at a profit of 25% on Cost Price. 40% of the goods were included in closing stock of N.

B. Sales by P Ltd. to Q Ltd. -

i. Goods sold for ₹ 5,00,000 on which Q made profit of 25% on Cost. Entire stock were at P's godown as on the Balance Sheet date.

ii. Goods sold for ₹ 6,00,000 on which Q made profit of 15% on Sale Price. 70% of the value of goods were included in closing stock of P. **[5]**

Section D – Development in Financial Reporting [25 marks]

Question 4

State the benefits of Sustainability Reporting. **[4]**

Question 5

(a) Discuss the different types of Hedging Relationships as per AS-30. **[5]**

(b) Carrying amount of an asset is ₹2,800 lakhs. The fair value of the part transferred is ₹2,560 and the total fair value of the assets is ₹3,200. The company received ₹2,560 lakhs on sale of the part transferred. Pass journal entries. **[2]**

Question 6

On April 1, 2012, a company Evening Star Ltd. offered 100 shares to each of its 1,500 employees at ₹40 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant date is ₹50 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹48 per share.

On April 30, 2012, 1,200 employees accepted the offer and paid ₹40 per share purchased. Nominal value of each share is ₹10.

Record the issue of shares in book of the Evening Star Ltd. under the aforesaid plan. **[4]**

Question 7

Particulars	
Equity Share Capital	₹ 10,00,000
Reserves & Surplus	₹ 3,00,000
12% Preference Share Capital	₹ 2,00,000
10% Debenture	₹ 4,00,000
Immovable property (held as investment)	₹ 1,00,000
Profit after tax	₹ 2,00,000
Rate of tax	40%

Companies with Beta factor of 1 in similar business have market rate of return 15% . Beta factor of Utsav Ltd. is 1.1. Calculate EVA assuming Risk Free Return is 7%. **[5]**

Question 8

Discuss the main features of XBRL. **[5]**

Section E – Government Accounting in India [15 marks]

Question 9

(a) Write a note on Committee on Public Undertakings. **[5]**

(b) What are the procedures adopted by the GASAB for formulating Standards. **[7]**

(c) Describe the structure Board Secretariat of GASAB. **[3]**