GROUP IV

PAPER 17

WORK BOOK

CORPORATE FINANCIAL REPORTING

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
www.icmai.in

SYLLABUS - 2016

WORK BOOK

CORPORATE FINANCIAL REPORTING

FINAL

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Study Note – 1

Accounting Standards

Multiple Choice Questions:

1. **X Ltd. deals in four products X_1, X_2, $X_3$and X_4 which are neither similar nor interchangeable.**
At the time of closing of its account for the year 2016-17 the historical cost and net realizable value of the items of closing stock are determined as below:

Items	Historical Cost (₹ in Lakhs)	Net realizable value (₹ in Lakhs)
X_1	78	82
X_2	47	43
X_3	23	27
X_4	87	88

What will be the value of closing stock?
A. ₹ 235 Lakhs
B. ₹ 231 Lakhs
C. ₹ 240 Lakhs
D. None of these

Ans: (B)

Computation of value of closing stock
Lower of Historical Cost and Net Realisable Value will be considered = ₹(78+43+23+87) lakhs = ₹ 231 lakhs

2. **Which of the following is/are the examples of cash flows arising from investing activities?**
A. cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
B. cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
C. interest and dividends received (other than for a non-financial institution)
D. All of the above

Ans: (D)

3. **Which of the following statement is not a true statement regarding foreign currency cash flows under Ind AS – 7?**
A. Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

B. The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

C. Unrealised gains and losses arising from changes in foreign currency exchange rates are cash flows.

D. None of the above

Ans: (C)

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

4. Net Assets of the Transferor Company: ₹ 20 lakhs. If Purchase Consideration is ₹ 23 lakhs & amalgamation is in the nature of purchase, then

(A) 3 lakhs will be treated as Capital Reserve

(B) 3 lakhs will be treated as Goodwill

(C) ₹ 20 lakhs will be treated as Capital Reserve and ₹ 3 lakhs will be Goodwill

(D) None of the above

Ans: (B)

5. Which of the policy is/are not in accordance with AS-15 policies for retirement benefits as under?

(a) Contribution to pension fund is made based on actuarial valuation at the year end. In respect of employees who have opted for pension scheme.

(b) Contribution to the gratuity fund is made based on actuarial valuation at the year end.

(c) Leave encashment is accounted for on "PAY-AS-YOU-GO" method.

(d) None of the above

Ans: (c)

As regard leave encashment, which is accounted for on PAY-AS-YOU-GO basis, it is not in accordance with AS-15. It should be accounted for on accrual basis.

6. Identify the reportable segment by profitability test is demonstrated as follows for S Ltd.

Segment	Profit (Loss)
V	(200)
W	250
X	150
Y	(350)
Z	(50)

(A) W,X,Y and Z

(B) V,W,X and Z
(C) V,W,X and Y
(D) V,W,X, Y and Z

Ans: (C)

Reportable Segment = more than 10% of higher of absolute value of Profit or Loss
= more than 10% of 600 = 60

7. M Ltd. has taken the assets on lease from ABC Ltd. The following information is given below:
Lease Term = 4 years
Fair value at inception of lease = ₹ 14,50,000
Lease Rent = ₹ 5,00,000 p.a. at the end of year
Guaranteed Residual Value = ₹ 1,00,000
Expected Residual Value = ₹ 2,00,000
Implicit Interest Rate = 14.97%
The leased asset and liability should be recognized at -
(A) ₹ 14,85,590
(B) ₹ 14,50,000
(C) ₹ 21,00,000
(D) ₹ 20,00,000

Ans: (B)

Present value of minimum lease payment

Year	MLP	Discount rate (14.97%)	PV
1	5,00,000	0.8698	4,34,900
2	5,00,000	0.7565	3,78,250
3	5,00,000	0.6580	3,29,000
4	6,00,000	0.5724	3,43,440
	21,00,000		14,85,590

Fair value at the inception of lease (₹ 14,50,000) is less than Present value of minimum lease payment (₹ 14,85,590) so the leased asset and liability should be recognized at ₹ 14,50,500.

8. What is the weighted avg. number of equity shares for the following situation prescribed under AS-20:
Accounting year: 2016-17

01/04/2016	**Balance**	**3600 equity shares**
15/09/2016	**Issued for Cash**	**1800 equity shares**
01/02/2017	**Buyback**	**120 equity shares**

(A) 4630

(B) 4600
(C) 5280
(D) None of the above

Ans: (A)

(3600 x 12/12) + (1800 x 7/12) - (120 x 2/12) i.e. 4630 shares

9. From the following information for T Ltd, calculate the amount of tax to be debited in Profit and Loss Account for the year 31.03.2015 as per AS-22

Accounting Profit	**₹ 50,00,000**
Book Profit as per MAT (Minimum Alternate Tax)	**₹ 30,00,000**
Profit as per Income Tax Act	**₹ 25,00,000**
Tax Rate	**30%**
MAT Rate	**10%**

(A) ₹ 14, 50, 000
(B) ₹ 15, 00, 000
(C) ₹ 15, 50, 000
(D) None of the above

Ans: (C)

Tax as per accounting profit: 50,00,000 x 30% = 15,00,000
Tax as per Income Tax profit: 15,00,000 x 30% = 4,50,000
Tax as per MAT: 50,00,000 x 10% = 5,00,000
Tax expense = Current tax + Deferred tax
15,00,000 = 4,50,000 + Deferred tax

Therefore, Deferred Tax Liability as on 31.3.2015 = ₹ 15,00,000 – ₹ 4,50,000 = ₹ 10,50,000.
Amount of tax to be debited in Profit and Loss Account for the year 31.03.2015:
= Current tax + Deferred tax liability + Excess of MAT over current tax
= 4,50,000 + 10,50,000 + (5,00,000 – 4, 50, ,000)
= 15,50,000

10. On April 2016, J Ltd. bought a trademark from I Ltd. for ₹ 40 lakhs. J Ltd. retained an independent valuer, who estimated the trademark's remaining life to be 20 years. Its unamortized cost on I ltd. records was ₹ 30 lakhs. J Ltd. decided to amortize the trademark over the maximum period allowed. In J Ltd.'s Balance Sheet as on 31st March 2017, what amount should be reported as accumulated amortization?
(A) ₹ 1 lakhs
(B) ₹ 2 Lakhs
(C) ₹ 1.5 lakhs
(D) ₹ 4 lakhs

Ans: (D)

As per para 23 of AS-26, intangible assets should be measured initially at cost therefore. J Ltd. should amortize the trade mark at its cost of ₹ 40 lakhs. The unamortized cost on the seller's books ₹ 30 lakhs is irrelevant to the buyer. Although the trademark has a remaining useful life of 20 years, intangible assets are generally amortized over a maximum period of 10 years as per AS-26. Therefore, the maximum amortization expense and accumulated amortization is ₹ 4 lakhs (₹ 40 lakhs/10).

Write the answer of the following questions.

Indian Accounting Standard 1 — Presentation of Financial Statements

1. What is total comprehensive income under Ind AS – 1

Answer:

Total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'. Other comprehensive income comprises items of income and expense (including reclassification adjustments) that is not recognised in profit or loss as required or permitted by other Ind ASs.

The components of other comprehensive income include:
(a) changes in revaluation surplus — Ind As 16 & 38;
(b) remeasurements of defined benefit plans — Ind AS 19;
(c) gains and losses arising from translating the financial statements of a foreign operation — Ind AS 21;
(d) gains and losses from investments in equity instruments designated at fair value through other comprehensive income — Ind AS 109;
(e) gains and losses on financial assets measured at fair value through other comprehensive income — Ind AS 109;
(f) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income — Ind AS 109;
(g) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk — Ind AS 109;
(h) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value — Ind AS 109;
(i) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the

spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument — Ind AS 109.

2. What do the items comprise in a complete set of financial statements under Ind AS-1?

Answer:

A complete set of financial statements comprises:

(a) a balance sheet as at the end of the period;

(b) a statement of profit and loss for the period;

(c) statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information; and

(f) comparative information in respect of the preceding period;

(g) a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements

(h) An entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

3. Discuss the terms Current assets and Current liabilities as per Ind AS -1

Answer:

An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period; or

(d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

(e) An entity shall classify all other assets as non-current.

(f) This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading and the current portion of non-current financial assets.

Current liabilities

An entity shall classify a liability as current when:

(i) it expects to settle the liability in its normal operating cycle;

(ii) it holds the liability primarily for the purpose of trading;

(iii) the liability is due to be settled within twelve months after the reporting period; or

(iv) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

- An entity shall classify all other liabilities as non-current.
- Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period.
- Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Financial liabilities that provide financing on a long-term basis and are not due for settlement within twelve months after the reporting period are non-current liabilities.
- An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:
  (a) the original term was for a period longer than twelve months, and
  (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue.

4. X ltd. Has a loan obligation which would become due within a period shorter than 12 months from the reporting date. What will be disclosure requirement of this loan when

a. The entity has the power to refinance the existing loan obligation for at least 12 months after the reporting period.

b. refinancing the obligation is not at the discretion of the entity.

Answer:

If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

c. (i) State the offsetting provision under Ind AS

(ii) A Ltd, has an unused property, had no intention to use in the future. The Board of Directors decided to sell the property to compel its liquidity problems. The Company made a profit of ₹ 30 Lakhs by selling the said property. There was a fire in the factory and a part of the unused factory valued at ₹ 8 Lakhs was destroyed. The Loss was set-off against the Profit from Sale of property and a Profit of ₹ 22 Lakh was disclosed as Net Profit from Sale of Assets. Analyse.

Answer:

(i) An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.
An entity reports separately both assets and liabilities, and income and expenses. Measuring assets net of valuation allowances — for example, obsolescence allowances on inventories and doubtful debts allowances on receivables — is not offsetting.
In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material.

(ii) An Entity shall not offset Assets and Liabilities or Income and Expenses, unless required or permitted by an Ind AS.
When items of Income or Expense are material, an Entity shall disclose their nature and amount separately. Disposal of items of Property, Plant and Equipment is one example of such material item.
Disclosing Net Profits by setting off Fire Losses against Profit from Sale of property is not correct. As per Ind AS-1, Profit on Sale of property, and Loss due to Fire should be disclosed separately.

Indian Accounting Standard 2 — Inventories

1. What is Inventories as per Ind AS 2?

Answer:

Inventories are assets:
(a) held for sale in the ordinary course of business;
(b) in the process of production for such sale; or
(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

In case of service providers, inventories include the cost of service for which the entity has not yet recognised the revenue.

2. MNC Ltd. Produces three joint products X, Y and Z from a joint process. It incurred ₹ 7,84,800. Allocate the Joint Costs with the following information:

Particulars	X	Y	Z
Quantity Produced	**20,000 kgs**	**15,000 kgs**	**18,000 kgs**
Sales Price per kg	**₹ 15**	**₹ 25**	**₹ 17**
Stock Quantity at the end of year	**1,000 kgs**	**750 kgs**	**250 kgs**

Answer:

As per Ind AS – 2, costs of Joint Products should be apportioned on a rational and consistent basis. The Sales Value at Split Off Point may be used for apportionment in the given case.

Particulars	X	Y	Z
1. Production Quantity	20,000	15,000	18,000
2. Sale price per kg	₹ 15	₹ 25	₹ 17
3. Total Sale Vale (1×2)	3,00,000	3,75,000	3,06,000
4. Joint Costs apportioned (based on Sale Value) (bases on 3)	$\frac{3,00,000}{9,81,000}$ *7,84,800 =2,40,000	3,00,000	2,44,800
5. Average Joint Costs per kg (4÷1)	12	20	13.6
6. Closing Stock Quantity (given)	1000	750	250
7. Value of Closing Stock (5×6)	12,000	15,000	3,400

Note: It is presumed that the NRV of the products as at the Balance Sheet date, are higher than the respective costs

3. **In a production process, Normal Waste is 5% of input. 8,000 MT of input were put in process resulting in a wastage of 500 MT. Cost per MT of input is ₹1,250. The entire quantity of waste is on stock at the year-end. Compute the value of Inventory.**

Answer:

Abnormal Amounts of Waste Materials, Labour or other Production Costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred.

Normal Waste is 5% of 8,000 MT i.e. 400 MT and Abnormal Waste is 500 MT – 400 MT = 100 MT.

Cost of Normal Waste 400 MT (i.e. 400 MT * ₹1,250 = ₹ 5,00,000) will be included in determining the cost of inventories at the year-end.

Indian Accounting Standard 7 — Statement of Cash Flows

1. **What is the provision regarding Taxes on income in Ind AS - 7**

Answer:

Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

2. Define the term Cash and cash equivalents

Answer:

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preference shares acquired within a short period of their maturity and with a specified redemption date.

Bank borrowings are generally considered to be financing activities. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalent.

Ind AS 10 Events after the Reporting Period

1. **As at the end of the reporting period 31st March, 2017 Cost of Investments is ₹ 15,00,000. (Market Value ₹ 18,00,000) Its value declines to ₹ 8,00,000 on 15th April, 2017. How should the entity consider the above in its Financial Statements?**

Answer:

Decline in fair value of investments does not normally relate to the condition of the Investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. So, an entity does not –
(a) Adjust the amounts recognized in its Financial Statements for the Investments, or
(b) Update the amounts disclosed for the investments as at the end of the reporting period.
The entity may need to give Additional Disclosure.

2. **Company Y entered into an agreement to sell its immovable property included in the Balance Sheet at ₹ 20 lakhs to another company for ₹ 35 lakhs. The agreement to sell was concluded on 18.02.2017 and the sale deed was registered on 28.04.2017. How this will be treated in Balance Sheet as on 31.03.2017.**

Answer:

As per AS 4, Assets and liabilities should be adjusted for events occurring after the balance sheet date which provides additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date. In the present case sale of immovable property was concluded before approval by the Board. This is clearly an event occurring after the balance sheet date. Agreement to sell was entered into before the balance sheet date. Registration of the sale deed simply provides additional information relating to the conditions existing at the balance sheet date. So adjustments to assets are necessary and Asset will be derecognized in the Balance Sheet as on 31.03.2017.

3. **What is the treatment to be given in each of the following cases to an entity for re-classify its Investment in accordance with AS-13.**
   (i) A portion of Current Investments purchased for ₹ 48 lakhs to be reclassified as long-term Investments, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 57 lakhs.
   (ii) Another portion of Current Investments purchased for ₹ 31 lakhs has to be reclassified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was ₹ 24 lakhs.
   (iii) Certain Long-term Investments no longer considered for holding purposes have to be re-classified as Current Investments. The original cost of theses was ₹ 35 lakhs but they had been written down to ₹ 26 lakhs to recognize permanent decline as per AS 13.

Answer:

As per AS - 13 Accounting for Investments' where investments are reclassified from current to long term, transfers are made at the lower of cost and fair value at the date of transfer. In the first case, the market value of the investment is ₹ 57 lakhs, which is higher than its cost ₹ 48 lakhs. Therefore, the transfer to long term investments should be carried at cost ₹ 48 lakhs.

In the second case, the market value of the investment is ₹ 24 lakhs, which is lower than its cost ₹ 31 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value ₹ 24 lakhs. The loss of ₹ 7 lakhs should be charged to profit and loss account.Where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

In the third case, the book value of the investments is ₹ 26 lakhs, which is lower than its cost ₹ 35 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹ 26 lakhs.

AS-9 REVENUE RECOGNITION

1. A claim lodged with the Insurance Company in February, 2015 for loss of goods of ₹ 15 lakhs had been passed for payment in March, 2017 for ₹ 12 lakhs. No entry was passed in the books of the company, when the

claim was lodged. Advice the Company about the treatment of the following in the final statement of accounts for the year ended 31st March, 2017.

Answer:

The financial statements of the company are prepared for the year ended 31.3.17.

There was a loss of goods of ₹15 lakhs in 2014-15 and the claim was lodged in February 2015 with the Insurance Company. No entry was passed in the books of the company when the claim was lodged and the said treatment was correct in view of AS-9, which states that if uncertainty exists as to collectability, the revenue recognition should be postponed. Since, the claim is passed for payment of ₹12 lakhs in March, 2017, it should be recognized as revenue in the financial statements prepared for the year ended 31.3.17.

As per AS-5 Revised, the claim amount received will not be treated as extraordinary item. AS-5 Revised further states that when items of income and expense within profit 0r loss from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Accordingly, the nature and amount of this item should be disclosed separately.

AS-11: THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

1. Exchange Rate

Goods sold on 03.02.2018 of US $1,00,000	₹ 64.17
Exchange rate on 31.3.2018	₹ 63.58

Date of actual payment 5.04.18 ₹ 63.75

Calculate the loss/gain for the financial years 2017-18 and 2018-19.

Answer:

As per AS-11, all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction. Therefore, goods sold on 03.02.2018 and corresponding debtor would be recorded at ₹ 64.17
= 1,00,000 × 64.17= 64,70,000

As per AS-11, at the balance sheet date all monetary items should be reported using the closing rate.
Therefore, the debtors of US $1,00,000 outstanding on 31.3.18 will be reported as: 1,00,000 × 63.58= 63,58,000.

Exchange loss ₹ 1,12,000 = (64,70,000– 63,58,000) should be debited in profit and loss account for 2017-18.
As per AS-11, exchange difference on settlement on monetary items should be transferred to profit and loss account as gain or loss thereof:

1,00,000 × 63.75= 63,75,000 - 63,58,000= ₹ 17,000 should be credited to profit or loss for the year 2018-19.

AS-13: ACCOUNTING FOR INVESTMENTS

1. **In preparing the financial statements of X Ltd. for the year ended 31st March, 2016, you come across the following information.**

   "An unquoted long-term investment is carried in the books at a cost of ₹15 lakhs. The published accounts of the unlisted company received in June 2016 showed that the company was incurring cash losses with declining market share and the long-term investment may not fetch more than ₹ 10lakh". State with reasons, how would you deal with them in the financial statements:

Answer:

As per AS-13, the long-term investments should be carried in the financial statements at cost. If there is a diminution in the value of long term investments, which is not temporary in nature, provision should be made for each investment individually. Any reduction in the carrying amount should be charged to the Profit and Loss Account. The long term investments are carried at a cost of ₹15 lakhs in the books of accounts. The value of investments fall down to ₹ 10 lakh due to cash losses and the declining market share of the company in which the investments were made.
In view of the provision contained in AS-13, the carrying amount of long-term investments should be brought down to ₹ 10 lakh and ₹5 lakhs should be charged to Profit and Loss Account for the year ended 31st March, 2016.

2. **B Ltd., an insurance company, has classified its total investment on 31.3.2015 into three categories: (a) held to maturity (b) available for sale (c) held for trading.**

   Held to maturity investment is carried at acquisition cost less amortised amount. Available for sale are carried at marked to market. Held for trading investments are valued at weekly intervals at market rates. Comment on the policy of the company in accordance with AS-13.

Answer:

As per para 2(d) of AS-13, the accounting standard is not applicable to bank, insurance company, mutual funds. In this case, B Ltd. is an insurance company; therefore AS-13 does not apply here.

AS-16: BORROWING COST

1. **X Ltd. has obtained an institutional loan of ₹700 lakhs for modernization and renovation of its machinery. Machinery acquired under the modernization scheme and installation completed on 31.3.16 amounts to ₹500 lakhs. ₹150lakhs have been advanced to suppliers for additional assets and balance loan of ₹ 50 lakhs have been utilized for working capital purpose. The total interest paid for the above loan amounted to ₹ 70 lakhs during 2015-16.You are required to state how the interest on the institutional loan is to be accounted in the year 2015-16.**

Answer:

The total interest of ₹ 70 lakhs are related to two periods. Upto the date of installation of the machinery, amount disbursed is ₹ 650 lakhs(₹ 500 + 150). Interest on such amounting to ₹ 65 lakhs should be capitalized and the balance of the interest ₹ 5 lakhs (i.e. ₹ 70-65) should be treated as an expense.

2. **Sun Ltd. has taken a loan of US $10 lakhs on 1st April, 2015, for a specific project at an interest rate of 10% p.a., payable annually. On 1st April, 2015, the exchange rate between the currencies was ₹ 55 per US$. The exchange rate, as at 31st March, 2016, is ₹ 58 per US$. The corresponding amount could have been borrowed by Sun Ltd. in local currency at an interest rate of 14% p.a. as on 1st April, 2015.**
   Compute the amount of borrowing costs for the purposes of AS-16.

Answer:

(a) Interest for the period = US $10,00,000 x 10% x RS. 58 per US $ = ₹58,00,000
(b) Increase in the liability towards the principal amount = US $ 10,00,000 x (58-55)= ₹ 30,00,000.
(c) Interest that would have resulted if the loan was taken in Indian currency = US $ 10,00,000 x ₹ 55 x 14% =₹ 77,00,000
(d) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 77,00,000 – ₹58,00,000 = ₹ 19,00,000

Therefore, out of ₹ 30,00,000 increases in the liability towards principal amount, only ₹ 19,00,000 will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 77,00,000 being the aggregate of interest of ₹ 58,00,000 on foreign currency borrowings (as per Para 4(a) of AS-16) plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 19,00,000. Thus, ₹ 77,00,000 would be considered as the borrowing cost to be accounted for as per AS-16 and the remaining₹ 11,00,000 would be considered as the exchange difference to be accounted for as per AS-11 "The Effects of Changes in Foreign Exchange Rates".

3. **On 10.05.2016 C Ltd. obtained a loan from the bank for ₹ 10 crores to be utilized as under:**
   (i) Purchase of Machinery ₹ 3.5 crores.
   (ii) Construction of a factory shed ₹ 4 crores.
   (iii) Working Capital ₹ 2 crores.
   (iv) Advance for Purchase of vehicle₹ 50 lakhs.
   In March 2016, construction of shed was completed and machinery installed. Delivery of truck was not received. Total interest charged by the bank for the year ended 31.3.16 was ₹ 1.20 crores. Show the treatment of interest as perAS-16.

Answer:

As per AS-16, borrowing cost(interest) should be capitalized if borrowing cost is directly attributable to the acquisition, construction or production of qualifying asset. ₹ 5 crores borrowed from Bank was utilized for four different purposes, only construction of factory shed is a qualifying asset as per AS-16, while the other three payments are not for the qualifying asset. Therefore, borrowing cost attributable to the construction of a factory shed should only be capitalized which will be equal to ₹ 1.20 crores x 4/10 = ₹ 48 lakhs. The balance of ₹ 72 lakhs (₹ 120 lakhs – ₹ 48 lakhs) should be treated as an expense and debited to Profit and Loss Account.

AS 17: SEGMENT REPORTING

1. Define the term 'Geographical segment' as per AS – 17.

Answer:

A 'Geographical segment' is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risk and returns that are different from those of components operating in other economic environments. Factors for identification of geographical segments are:
(a) Significant difference in risk and rewards;
(b) Internal MIS and organization structure;
(c) Essential factors that defines a business segment.

AS -18: RELATED PARTY DISCLOSURE

1. Discuss the provision relating with Related party disclosures and the applicability under AS – 18.

Answer:

- **Type of disclosure under AS-18**
  (a) in case of related party relationship by virtue of significant influence (not control) e.g. those of associates, key management personnel, relatives, there is no need to disclose the related party relationship unless there has been actual transaction during the reporting period with such related parties.

  (b) in the event of transaction between related parties during the existence of a related party relationship(control or significant influence) the reporting enterprise should disclose:
    (i) the name of transacting related party
    (ii) description of the relationship between parties
    (iii) description of nature of transaction
    (iv) volume of transaction, either in amount or approximate proportions
    (v) any other element of the related party transactions necessary for understanding of financial statements(e.g. transfer of major asset taken at price different from normal commercial terms i.e. not at fair value)
    (vi) either in amount or proportion of outstanding items and provisions for doubtful debts pertaining to related parties on B/S date.
    (vii) amounts written off/back in the accounting period in respect of debts due from or to related parties.

- **Related party disclosures are applicable only to the following related party relationships:**
  1. enterprises that directly or indirectly through one or more intermediaries control or are controlled by or under common control with the reporting enterprise
  2. associates and joint ventures of the reporting enterprise and the investing party or venture in respect of which the reporting enterprise is an associate or joint venture.
  3. individuals owning directly or indirectly an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise and relatives of any such individual.
  4. key management personnel and relatives of such individuals.
  5. enterprise over which any person in (3) and (4) is able to exercise significant influence (including enterprise owned by directors or major shareholders of the reporting enterprise and enterprise that have a member of key management in common with the reporting enterprise).Related party transactions involve transfer of resources or obligations between related parties, regardless of whether or not a price is charged, e.g. use of logo/brand name provision of management services, providing financial guarantee use of common infrastructure etc.

AS -19: LEASES

1. X Ltd. sold machinery having WDV of ₹ 800 Lakhs to Y Ltd. for ₹ 900 Lakhs and the same machinery was leased back by B Ltd. to H Ltd. The Lease back is operating lease.
Comment if –
a) Sale price of ₹900 lakhs is equal to fair value
b) Fair value is ₹950 lakhs
c) Fair value is ₹800 lakhs and sale price is ₹900 lakhs
d) Fair value is ₹850 lakhs and sale price is ₹750 lakhs
e) Fair value is ₹750 lakhs and sale price is ₹790 lakhs
f) Fair value is ₹860 lakhs and sale price is ₹900 lakhs

Answer:

a) X ltd. should immediately recognize the profit of ₹100 lakhs in its books.
b) Profit ₹100 lakhs should be immediately recognized by X Ltd.
c) Profit of ₹100 lakhs is to be amortized over the lease period.
d) Loss of ₹ 50 lakhs to be immediately recognized by X Ltd. in its books provided loss is not compensated by future lease payment.
e) Loss of ₹50 lakhs (800-750) to be immediately recognized by X Ltd. in its books and profit of ₹40lakhs (790-750) should be amortized / deferred over lease period.
f) Profit of ₹60 lakhs (860-800) to be immediately recognized in its books and balance profit of ₹40lakhs (900-860) is to be amortized / deferred over lease period.

AS -20: EARNING PER SHARE (EPS)

1. What is Diluted EPS as per AS – 20?

Answer:

Diluted EPS indicates the potential variability or risk attached to the basic EPS as a consequence of the issue of potential equity shares and potential dilutive securities having significant impact on lowering EPS. However, no potential equity shares be included in the computation of any diluted per share amount in case of continuing loss from operation, even though the entity reports an overall net profit.

(i) Adjustments should be made both in numerator and denominator consequent upon the conversion of potential dilution to arrive at diluted EPS in keeping with the nature of conversion including tax implication thereon in the respective year.

(ii) Potential equity shares are:

(a) debt instruments/preference share convertible into equity shares

(b) share warrants

(c) employees and other stock option plans which entitles them to receive equity shares as part of their remuneration and other similar plans

(d) contingently issuable shares under contractual arrangements e.g. acquisition of a business/assets, loan converted to equity on default

(e) share application pending allotment if not statutorily required to be kept separately and is being utilized for business is treated as potential (dilutive) equity share.

AS-22: ACCOUNTING FOR TAXES ON INCOME

1. C Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2015, 2016and 2017 for ₹ 22,00,000, ₹ 32,00,000 and ₹42,00,000 respectively. However, for income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of ₹ 14,00,000, ₹ 36,00,000 and ₹ 46,00,000for the years 2015, 2016 and 2017 respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/liability for the years 2015, 2016 and 2017.

Answer:

C Limited

Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Deferred Tax Liability (balance)
2015	22,00,000	14,00,000	8,00,000	2,80,000
2016	32,00,000	36,00,000	4,00,000	1,40,000
2014	42,00,000	46,00,000	nil	nil
	96,00,000	96,00,000		

AS-23: ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS (CFS)

1. State the provision for non-applicability of AS-23 for Investment in Associates.

Answer:

These are the following situation where AS – 23 is not applicable:

1) Investment in associates are accounted for using the 'equity method' in the Consolidated Financial Statements except when,
   a) the investment is made and held exclusively with a view to subsequent disposal in the near future, or
   b) the associate operates under severe long-term restrictions that significantly impairs its ability to transfer funds to investor. Investments in such a situation is accounted for in accordance with AS-3 in Consolidated Financial Statements.

2) Equity method of accounting is also not applicable if
   a) it has no investment in Association
   b) it has investment in Association but has no subsidiaries, Consolidated Financial Statements is not required
   c) it has subsidiaries and associates but these are not material, hence Consolidated Financial Statements is not prepared.
   d) It is not listed enterprise hence not mandatory to present Consolidated Financial Statements or has not chosen voluntarily to present Consolidated Financial Statements.

2. X holds, 25% share in Y Ltd at a cost of ₹ 50 lakhs as on 31-03-2016. Y's shares capital and reserve is ₹ 200 Lakh. For the year ended 31-03-2016 Y made a profit of ₹ 8,00,000 and 50% distributed as dividend. Compute the value (carrying amount) as at 31.03.2016 to be shown in the Consolidated Financial Statements.

Answer:

	₹ in Lakhs
Cost of shares in Y Ltd.	50
Share of Reserve	50
Share of profit	02
	102
Less: dividend received	01
Value of investment as at 31.03.16	101

AS-24: DISCONTINUING OPERATION

1. What are the prerequisites conditions to determine discontinuing operation as per AS – 24?

Answer:

Prerequisites to determine 'discontinuing operation' –

1. The enterprise in term a single plan:
   a) disposing substantially in its entirety e.g. by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholder, or
   b) disposing in piecemeal manner e.g. selling off the assets-and settling its liabilities individually or
   c) terminating through abandonment
2. That represent, a separate major line of business or geographical area of operation, and
3. That can be distinguished operationally for financial reporting purpose.

AS-25: INTERIM FINANCIAL REPORTING

1. When it is required to prepare and present Interim Financial Report in comply withAS-25.

Answer:

As per Clause 41 of listing agreement the companies are required to publish the financial results on a quarterly basis. The standard itself does not categorize the enterprise or frequency of interim financial report and the time limit for presentation from the end of an interim period, but if it is required to prepare and present, it should comply with AS-25.

Instances for interim financial report:

(i) quarterly report to the board of directors or bank
(ii) in case of merger and amalgamation
(iii) for IPO purpose
(iv) for consolidation of parent and subsidiary when year ends are different
(v) for declaring interim dividend' Accounting for interim transaction:

(a) interim period is considered as integral part of annual accounting period e.g. annual operating expectations are estimated and then allocated to the interim period based on estimated sales or other parameters and results of subsequent interim periods are adjusted for estimation errors (integral approach)
(b) each interim period is considered as discrete and separate accounting period like a full accounting period e.g. no estimation or allocation and operating expenses are recognized in the concerned interim period irrespective of benefit accruing to other interim period (discrete approach).

AS – 26: INTANGIBLE ASSETS

1. Define the term 'Intangible Assets' as described in AS – 26.

Answer:

An intangible asset is an identifiable non-monetary asset, without physical substance held for production or supply of goods and services for rental to others or for administrative purposes.

Essential criteria for recognition of an intangible asset:

(a) identifiable: It must be separate from goodwill and the enterprise could rem. sell: exchange or distribute the future economic benefits attributable to the asset without disposing of future economic benefits that flow from other assets in the same revenue earning activity - but goodwill cannot be meaningfully transferred to a new owner without also selling the other assets or the operation of the business. e.g. patents, copy rights, license, brand name, import quota, computer software, lease hold right, marketing rights, technical knowhow etc.

(b) control: The enterprise has the power to obtain the future economic benefits, flowing from the underlying resources and also can restrict the access of others I to those benefits (not necessarily legal right and may be in some other way – I market and technical knowledge may give rise to future economic benefit).

(c) future economic benefits: An enterprise should asses the probability of future economic benefits using reasonable and supportable assumptions that represent best estimate of the set of economic conditions that will exist over the useful life of the asset on the basis of weight age to external evidence available at the time of initial recognition.

(d) Cost can be measured reliably :(i) Initially recognized at cost - purchase price, taxes duty and other directly attributable expenses to make the asset ready for its intended use, if acquired separately - purchase consideration in the form of cash or other monetary asset.

2. M.S.D. Ltd. is developing a new production process. During the financial year ending 31st March, 2016, the total expenditure incurred was ₹ 60 lakhs. This process met the criteria for recognition as an intangible asset on 1st September, 2015. Expenditure incurred till this date was ₹32 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2017 was ₹ 50 lakhs. As at 31st March, 2017, the recoverable amount of know-how embodied in the process is estimated to be ₹ 77 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to calculate:

(i) Amount to be charged to Profit and Loss A/c for the year ending 31st March, 2016 and carrying value of intangible as on that date.

(ii) Amount to be charged to Profit and Loss A/c and carrying value of intangible as on 31st March, 2017. Ignore depreciation.

Answer:

As per AS 26 'Intangible Assets'

(i) For the year ending 31.03.2016

(a) Carrying value of intangible assets as on 31.03.2016:

At the end of financial year 31st March 2016, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 28 lakhs (expenditure incurred since the date the recognition criteria were met, i.e., on 1st December 2015).

(b) Expenditure to be charged to Profit and Loss account: The ₹32 lakhs is recognized as an expense because the recognition criteria were not met until 1st December 2015. This expenditure will not form part of the cost of the production process recognized in the balance sheet.

(ii) For the year ending 31.03.2017

(a) Expenditure to be charged to Profit and Loss account:

	(₹ in lakhs)
Carrying Amount as on 31.03.2016	28
Expenditure during 2016 – 2017	50
Total book cost	78
Recoverable Amount	77
Impairment loss	01

₹1 lakh to be charged to Profit and loss account for the year ending 31.03.2017.

(b) Carrying value of intangible as on 31.03.2017:

	(₹ in lakhs)
Total Book Cost	78
Less: Impairment loss	01
Carrying amount as on 31.03.2017	77

AS-27: FINANCIAL REPORTING OF INTEREST IN JOINT VENTURE

1. Discuss the term 'Joint Venture' as per AS-27

Answer:

A joint venture is a contractual arrangement between two or more parties undertaking an economic activity, subject to joint control (control is the power to govern the financial and operating policies of an economic activity to obtain benefit from it).The arrangement may be:
(a) Jointly controlled operations
(b) Jointly controlled asset
(c) Jointly controlled entities

In the event an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary of that enterprise within the meaning of AS-2, it will be treated as joint venture as per AS-27. Joint control requires all the venturers to jointly agree on key decisions, else decision cannot be taken, as such even a minority holder (owner) may enjoy joint control.

AS-28: IMPAIRMENT OF ASSETS

1. What are the sources, based on which assessment for impairment of assets needs to be made?

Answer:

Assessment for impairment of assets needs to be made based on external or internal source of information.

External sources:

- Market value changes with passage of time or normal use (typewriter on invention of computer)
- Adverse effect in the light of technological, market, economic, or legal environment in which the enterprise operates.
- Change in market rate of interest or returns on investment affect the discount rates used to assess an asset value in use (if the effect is not a short-term phenomenon).
- Carrying amount of the net asset, exceeds its market capitalization (determined by future growth, profitability, threat of new products/entrants etc).

Internal sources:

- Obsolescence /physical damage is evident.
- Indication obtained internally that economic performance of an asset has worsened or likely to worse than expected.
- Continuous cash loss may indicate that one or more of the business division is impaired.

2. A Company acquired a machine for ₹ 5.6 crores on 1.1.2014. It has a life of 5 years with a salvage value of ₹ 30 lakhs. Apply the test of impairment on 31.3.2016:
(a) Present value of future cash flow ₹2.3 crores
(b) Net selling price ₹2.2 crores

Answer:

Carrying amount of the asset: [5.6 – (5.6 – 0.3) x 27/60] = 2.43 crores.
Time period for use of the asset: 1.1.2014 to 31.3.2016 = 27 months
Total life period of the asset = 5 years = 60 months.
Recoverable amount: being the higher of present value and net selling price = ₹ 2.3 crores.
Impairment Loss = ₹ (2.43 – 2.3) crores = ₹ 0.13 crores.

AS 29: PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

1. Write short notes on (A) Contingent liability (B) Contingent asset

Answer:

(A) contingent liability is:
- (a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- (b) a present obligation that arises from past events but is not recognized because:
  - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - (ii) a reliable estimate of the amount of the obligation cannot be made.

(B) A contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

Whereas, present obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not and possible obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable.

AS 31: FINANCIAL INSTRUMENTS: PRESENTATION

1. Briefly discuss about financial instrument as per AS – 31.

Answer:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
A financial asset is any asset that is:
- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
  - (i) to receive cash or another financial asset from another entity; or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
  - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Whereas, a financial liability is any liability that is:

(a) a contractual obligation:
  (i) to deliver cash or another financial asset to another entity; or
  (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
(b) a contract that will or may be settled in the entity's own equity instruments and is:
  (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity 's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

AS 32: FINANCIAL INSTRUMENTS: DISCLOSURES

1. State the provision regarding disclosure requirements of financial instruments as per AS – 32.

Answer:

Categories of financial assets and financial liabilities

The carrying amounts of each of the following categories, as defined in AS 30, should be disclosed either on the face of the balance sheet or in the notes:

(a) financial assets at fair value through profit or loss, showing separately
  (i) those designated as such upon initial recognition and
  (ii) those classified as held for trading in accordance with AS 30;
(b) held-to-maturity investments;
(c) loans and receivables;
(d) available-for-sale financial assets;
(e) financial liabilities at fair value through profit or loss, showing separately
  (i) those designated as such upon initial recognition and
  (ii) those classified as held for trading in accordance with AS 30; and
(f) financial liabilities measured at amortised cost.

Study Note – 2

Accounting of Business Combinations & Restructuring

Section – B

1. **Choose the correct alternative:**

(i) K Ltd. agreed to absorb S Ltd. S Ltd. has 120000 Equity Shares of ₹10 having intrinsic value of ₹24 each. If intrinsic value of K Ltd's equity share is ₹ 48 each, then how many equity shares should be issued by K Ltd. to S Ltd. to meet out the purchase consideration?

a) 60000 shares
b) 56000 shares
c) 45000 shares
d) 90000 shares

(ii) At the time of absorption of B Ltd by A Ltd., 10% debenture holders of ₹240000 of ₹ 100 each in B Ltd are to be paid off at 10% premium by 9% debentures in A Ltd. issued at a premium of 20%. How many debentures of ₹ 100 each are to be issued by A Ltd?

a) 2300
b) 2200
c) 2400
d) 2100

(iii) In case of amalgamation in the nature of purchase, Fixed Assets, Current Assets, Total Debts, Debit balance of Profit and Loss Account and Purchase consideration are ₹ 5120000, ₹ 2500000, ₹2260000, ₹440000, ₹ 4800000 respectively. The amount of capital reserve or Goodwill will be

a) ₹ 560000 (Capital Reserve)
b) ₹ 1000000 (Capital Reserve)
c) ₹ 120000 (Capital Reserve)
d) ₹ 1940000 (Goodwill)

(iv) P Ltd. agreed to absorb R Ltd. For this purpose R Ltd.'s 10000, 9% Preference shares are valued at ₹ 62.25 each and 130000 equity shares are valued at ₹ 16 each. If P Ltd. discharged purchase consideration by issuing its equity shares of ₹10 each which is having intrinsic value of ₹ 46 each, No. of equity shares issued by P Ltd. to R Ltd. will be

a) 54750
b) 58750
c) 63750
d) 48750

(v) At the time of absorption of B Ltd. by A Ltd., trade receivables of both companies shown in their Balance Sheets were ₹ 30 Lakhs and ₹ 16 Lakhs. On that date trade payable of B Ltd. includes payable to A Ltd. ₹ 5 Lakhs. After absorption, the amount of trade receivables will be shown in A Ltd's Balance Sheet as

a) ₹ 41 Lakh
b) ₹ 25 Lakh
c) ₹ 11 Lakh
d) ₹ 35 Lakh

Answer:

Question No.	i	ii	iii	iv	v
Answer	a	b	a	b	a

2. The following are the Balance Sheets of A Ltd. and B Ltd. as on 31st December, 2011

Share Capital:

Liabilities	A Ltd.(₹)	B Ltd.(₹)	Assets	A Ltd.(₹)	B Ltd.(₹)
Share Capital:			Land and Building	6,00,000	3,50,000
Equity Shares of ₹ 10 each	5,00,000	2,00,000	Investment: 4,000 Shares in B Ltd.	60,000	
10% Preference Share of ₹ 100	1,00,000	1,00,000	3,000 Shares in A Ltd.		80,000
Reserve and Surplus	2,00,000	1,50,000	Current Assets :		
12% Debentures	1,00,000	1,00,000	Stock	3,00,000	1,70,000
Current Liabilities:			Debtors	1,60,000	90,000
Sundry Creditors	3.40,000	1,60,000	Bills Receivable	50,000	10,000
Bills Payable	20,000	20,000	Cash at Bank	90,000	30,000
	12,60,000	7,30,000		12,60,000	7,30,000
Contingent Liability for Bill Discounted	20,000				

Land and Building of both the companies are to be revalued at 20% above book value. Both the companies are to pay 10% equity dividend, preference dividend having been already paid.

After the above transactions are given effect to, A Ltd. will absorb B Ltd., on the following terms:

a) 6 Equity shares of ₹ 10 each will be issued by A Ltd. at par against 5 shares of B Ltd.
b) 10% Preference shareholders of B Ltd. will be paid at 10% discount by issue of 11% preference shares of ₹ 100 each at par in A Ltd.
c) 12% Debenture holders of B Ltd. are to be paid at 8% premium by 13% Debentures in A Ltd. issued at 10% discount.
d) ₹ 20,000 is to be paid by A Ltd. to B Ltd., for liquidation expenses. Sundry Creditors of B Ltd. include ₹ 30,000 due to A Ltd., Bills receivable discounted by A Ltd. were all accepted by B Ltd.

Prepare: (1) Vendors Accounts and Investment Account and required journal in the books of A Ltd.
(2) Balance Sheet of A Ltd. after absorption.

Solution:

(1) In the books of A Ltd.

Dr. **Vendors Account** **Cr.**

Particulars	₹	Particulars	₹
To Equity Share Capital A/c	162000	By Business Purchase A/c	252000
To 11% Preference Share Capital A/c	90000		
	252000		

Dr. **Investment in B Ltd. Account** **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	60000	By Sundries (Cancellation on absorption)	60000
	60000		60000

Working Notes:

(1) Number of Additional Shares to be issued by A Ltd.

Particulars	Nos.
No of shares in B Ltd. Less. Held by A Ltd.	20,000 4,000
Held by outside shareholders	16,000
No. of shares to be issued to outside shareholders (16000/5)*6	19,200
Less. Already held by B Ltd.	3,000
Additional shares to be issued	16,200

(2) Calculation of Purchase Consideration

Particulars	₹
(i) For outside Shareholders (Equity Shares in A Ltd. of ₹ 10 each)	1,62,000
(ii) For 10% Preference Shareholders	
11% Preference Shares in A Ltd. of ₹ 100 each	90,000
	2,52,000

A Ltd

Journal Entry

Date	Particulars	L.F	Dr Amount	Cr Amount
Dec.31 2011	Business Purchase A/c …………………Dr. To Vendors A/c		2,52,000	 2,52,000
	Land and Building A/C…………Dr Stock A/C…………………………Dr Debtors A/C………………….……Dr		4,20,000 1,70,000 90,000	

	Bills Receivable A/C……..………Dr		10,000	
	Cash and Bank A/c……………..…Dr		13,000	
	To 12% Debentures in B Ltd A/c			1,08,000
	To Sundry Creditors A/c			1,60,000
	To Bills Payables A/c			20,000
	To Business Purchase A/C			2,52,000
	To Investment in B Ltd A/c			60,000
	To Capital Reserve A/c			1,03,000
	Vendors A/c……………..Dr.		2,52,000	
	To Equity Share Capital A/c			1,62,000
	To 11% Preference Share Capital A/c			90,000
	12% Debentures in B Ltd. A/c…………Dr		1,08,000	
	Capital Reserve A/c……………………..Dr		12,000	
	To 13% Debentures A/c			1,20,000
	Capital Reserve A/c ……………Dr		20,000	
	To Bank A/c			20,000

Balance Sheet as at 31st December, 2011

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds :		
(a) Share Capital	(1) (2)	8,52,000
(b) Reserves and Surplus		3,45,000
(c) Money Received against Share Warrants		
(2) Share Application Money Pending Allotment:		
(3) Non-current Liabilities:		
(a) Long-term Borrowings	(3)	2,20,000
(b) Deferred Tax Liabilities (Net)		
(c) Other Long-term Liabilities		
(d) Long-term Provisions		
(4) Current Liabilities:		
(a) Short-term Borrowings		
(b) Trade Payables	(4)	5,10,000
(c) Other Current Liabilities		
(d) Short-term Provisions		
Total		19,27,000
Assets		
(1) Non-current Assets:		
(a) Fixed Assets		
(i) Tangible Assets	(5)	11,40,000
(ii) Intangible Assets		
(iii) Capital Work-in-progress		

(iv) Intangible Assets under Development (b) Non-current Investments (c) Deferred Tax Assets (Net) (d) Long-term Loans and Advances (e) Other Non-current Assets		
(2) Current Assets:		
(a) Current Investments		
(b) Inventories	(6)	4,70,000
(c) Trade Receivables	(7)	2,80,000
(d) Cash and Cash Equivalents	(8)	37,000
(e) Short-term Loans and Advances		
(f) Other Current Assets		
Total		19,27,000

Notes to Accounts:

(1) Share Capital	
66200 equity shares of ₹ 10 each	6,62,000
11% preference shares	90,000
10% preference shares	1,00,000
	8,52,000
(2) Reserve and Surplus	
Profit and loss account (2,00,000-50,000+4,000)	1,54,000
Capital reserve (1,03,000 -12,000-20,000)	71,000
Revaluation Reserve	1,20,000
	3,45,000
(7) Trade Receivable	
Debtors	2,20,000
Bills receivable	60,000
	2,80,000

	Land and Building (5)	Stock(6)	Debtors	B.R	Bank	Creditors	B.P
Balance	6,00,000	3,00,000	1,60,000	50,000	24,000*	3,40,000	20,000
Taken over	3,50,000	1,70,000	90,000	10,000	13,000	1,60,000	20,000
	9,50,000	4,70,000	2,50,000	60,000	37,000	5,00,000	40,000
Add. Revaluation 20%	1,90,000						
Less: Mutual debt			30,000			30,000	
	11,40,000	4,70,000	2,20,000	60,000	37,000	4,70,000	40,000

* ₹ 90,000 (-) 50,000 Dividend (-) 20,000 Realisation exp.(+)Dividend from B Ltd. 24,000

3. B Ltd. and C Ltd. were competing companies both of which had incurred losses in recent year. Both companies were wound up and a new company A Ltd. was formed through the process of amalgamation to take over both the businesses.

The Balance Sheets of B Ltd. and C Ltd. immediately before their winding up were as follows:

Liabilities	B Ltd. (₹)	C Ltd. (₹)	Assets	B Ltd. (₹)	C Ltd. (₹)
Issued Capital: Shares of ₹ 10 each	1,00,000	60,000	Goodwill	----	10,000
Profit & Loss Account	-	640	Patents	2,500	8,000
Sundry Creditors	18,560	8,310	Plant	40,000	21,000
Bank Overdraft	6,050		Furniture	4,600	3,280
			Stock	42,460	16,990
			Debtors	15,630	9,550
			Cash	—	130
			Profit & Loss Account	19,420	—
	1,24,610	68,950		1,24,610	68,950

1. A Ltd. took over the floating assets of both companies at book values (except the cash of C Ltd.) and the fixed assets at the following valuations:

	B Ltd.	C Ltd.
Goodwill	1,000	1,000
Patents	500	2,000
Plant	27,000	11,000
Furniture	3,000	2,300

2. The consideration for the assets of B Ltd. was satisfied by the issue of 1,200 10% Preference Shares of ₹ 10 each and ₹ 64,490 in Equity Shares of ₹ 10 each of A Ltd. and the balance by payment of cash.
   For the assets of C Ltd., A Ltd. issued ₹ 10 equity shares of ₹ 34,300 and paid the balance by cash.

3. The liquidator of B Ltd. transferred the Preference Shares to a loan creditor for ₹ 12,000 to discharge his claim and the equity shares were distributed Pro rata among the shareholders of each of the liquidating companies, the cash being just sufficient to satisfy the creditors of each company and the expenses of liquidation which had been ₹ 500 for B Ltd. and ₹ 300 for C Ltd.

4. In order to provide necessary cash, A Ltd. issued 100, 11% Debentures of ₹ 100 each at ₹ 95 each and 1,800 10% Preference Shares of ₹ 10 each at par. These were fully paid.

Prepare the Opening Balance Sheet of A Ltd. Prepare statements showing cash positions (considering receipts and payments) of all the companies. Also show the Shareholders' A/C in the books of B and C Ltd.

Solution:

Notes:

1. For finding out cash positions, amounts received or paid by each company should be ascertained. For this purpose, at the least the Realization A/c and Creditors A/c [which have been discharged by the vendor companies] should be opened.
2. B Ltd. and C Ltd. discharged their creditors and paid liquidation expenses. B Ltd. had to pay off its own Bank Overdraft also.
3. Purchase consideration paid by cash by A Ltd. must be ascertained as this will be the starting point for making any other calculation.
4. Purchase consideration

	B Ltd. (₹)	C Ltd. (₹)
A. Take Over Basis		
Assets taken over:		
Goodwill	1,000	1,000
Patents	500	2,000
Plant	27,000	11,000
Furniture	3,000	2,300
Stock	42460	16,990
Debtors	15,630	9,550
	89,590	42,840
B. Discharged By :		
10% Preference Shares (given)	12,000	-----
Equity Shares (given)	64,490	34,300
Cash (Balancing Amount)	13,100	8,540
	89,590	42,840

5. Books of B Ltd.

Dr. Realization Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Patents A/c -	2,500	By Creditors A/c (Discount)	10
`` Plant A/c	40,000	By A Ltd. A/c (Purchase consideration)	89,590
`` Furniture A/c	4,600	By Shareholders A/c (loss)	16,090
`` Stock A/c	42,460		
`` Debtors A/c	15,630		
`` Cash A/c (Liquidation expenses)	500		
	1,05,690		1,05,690

Dr.	Creditors Account		Cr.
Particulars	Amount (₹)	Particulars	Amount (₹)
To 10% Prefer. Sh. in A Ltd. A/c	12,000	By Balance b/f	18,560
» Cash A/c [Note 7]	6,550		
» Realization A/c (Disc. Reed)	10		
	18,560		18,560

6.	Books of C Ltd.		
Dr.	Realization Account		Cr.
Particulars	Amount (₹)	Particulars	Amount (₹)
To Goodwill A/c	10,000	By A Ltd. A/c (Purchase consideration)	42,840
Patents A/c	8,000	By Shareholders A/c (loss)	26,340
Plant A/c	21,000		
Furniture A/c	3,280		
Stock A/c	16,990		
Debtors A/c -	9,550		
Creditors A/c	60		
Cash A/c (Liquidation expenses)	300		
	69180		69180

Dr.	Creditors Account		Cr.
Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash A/c [Note 7]	8,370	By Balance b/f	8,310
		» Realization A/c (Loss)	60
	8,370		8,370

7. Statements of Cash Positions of B Ltd. and C Ltd.		
	B Ltd. (₹)	C Ltd. (₹)
Balance Retained	-----	130
Cash Received out of Purchase consideration [Note 4]	13,100	8,540
	13,100	8,670
Less : Bank Overdraft	6,050	-----
	7,050	8,670
Less : Liquidation Expenses	500	300
Amounts paid to creditors	6,550	8,370

8. Statement of Cash Position of A Ltd.		
Particulars	Amount (₹)	Amount (₹)
A. Amount Received :		
Issue of 10% Preference Shares	18,000	
Issue of 11% Debentures [100 x ₹ 95]	9,500	
B. Amounts Paid:		27,500
B Ltd. [Note 4]	13,100	
C Ltd. [Note 4]	8,540	
		21,640
Balance		5,860

Balance Sheet of A Ltd. as at……………

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
Share Capital	1	1,28,790
2. Share Application Money Pending Allotment		---
3. Non-Current Liabilities		
Long-term Borrowings	2	10,000
4. Current Liabilities		----
Total		
		1,38,790
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	3	43,300
(ii) Intangible Assets	4	4,500
(b) Other Non-Current Assets	5	500
2. Current Assets		
(a) Inventories (Stock)		59,450
(b) Trade Receivables		25,180
(c) Cash and Cash Equivalents		5,860
Total		1,38,790

Notes to Accounts:

	₹	₹
1. Share Capital		000
Authorized Capital		
Issued and Subscribed Capital		
9,879 Equity Shares of ₹ 10 each fully paid	98,790	
3,000, 10% Preference Shares of ₹ 10 each issued as fully paid for consideration other than cash	30,000	
		1,28,790
2. Long-term Borrowings		
11% Debenture		10,000
3. Tangible Assets		
Plant	38,000	
Furniture	5,300	
		43,300
4. Intangible Assets		
Goodwill	2,000	
Patents	2,500	4,500
5. Other Non-Current Asset		500
Debenture Discount		
Note: Debenture Discount may be set off against Securities Premium Account. But there is no Securities Premium in this problem. So it has to be amortised. If any amount is to be amortised within 12 months from the Current Balance Sheet, that should be shown as 'Other Current Asset'. But if the amortisation is to be made not within next 12 months, it should be shown as 'Other Non-Current Asset'. Here it has been assumed that the amortisation will be made after 12 months.		

4. A Ltd. and B Ltd. were merged into AB Ltd. when their Balance Sheets stood as follows:

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Eq. Sh. Capital (₹ 10)	3,00,000	2,00,000	Investments	1,20,000	25,000
Securities Premium	15,000	10,000	Goodwill	30,000	10,000
General Reserve	20,000	10,000	Buildings	1,00,000	50,000
Profit & Loss A/c	50,000	—	Plant	2,00,000	1,00,000
Debenture Redemption Fund	40,000	—	Furniture	10,000	5,000
10% Debenture	1,00,000	—	Stock	85,000	45,000
Provident Fund (Employees)	30,000	20,000	Debtors	90,000	60,000
Depreciation Fund	40,000	20,000	Cash at Bank	50,000	20,000
Sundry Creditors	1,00,000	60,000	Preliminary Expenses	10,000	2,000
			Profit & Loss A/c	—	3,000
	6,95,000	3,20,000		6,95,000	3,20,000

The terms of amalgamation were as follows:

For A Ltd.:

1. **Equity Shareholders were issued 6 Equity Shares of ₹10 each of AB Ltd. issued at 10% Premium and 5, 6% Preference Shares of ₹ 10 each at par of AB Ltd, against surrender of every 10 equity shares.**
2. **AB Ltd. would take over Debentures, Creditors and Provident Fund liabilities.**
3. **A Ltd. would retain ₹ 5,000 out of its Bank balance of meeting its liquidation expenses and its Building would be valued at ₹ 1,00,000.**
4. **Before amalgamation, A Ltd. would declare and pay dividend at 10%.**

For B Ltd.:

1. **Goodwill to be valued at Nil.**
2. **Its liquidation expenses ₹ 3,000 are to be borne by AB Ltd.**
3. **Its assets to be revalued as stock ₹ 40,000, Investments ₹ 15,000 and Debtors ₹ 50,000, Other Assets and Liabilities being considered at their book values.**
4. **Equity Shareholders were issued Equity Shares of ₹10 each at par.**

AB Ltd. paid formation expenses ₹ 10,000 and issued 10,000 Equity Shares of ₹10 each at 10% Premium for cash. A Ltd. sold out one-fourth of the Equity Shares received from AB Ltd. at ₹12 per share for cash.

You are required to:

1. Give the Journal Entries and the Opening Balance Sheet of AB Ltd.

Solution:

Notes:

1. For A Ltd. the total payments made by AB Ltd. are given. As such the net assets taken over may or may not be separately calculated, Goodwill/Capital Reserve if any, arising from the payments, shall be found out as a balancing amount.
   For B Ltd. the takeover basis must be shown as requisite number of Equity Shares issued by AB Ltd. is to be found from that.
2. A Ltd. declared and paid 10% dividend on ₹ 3,00,000 before amalgamation. As a result its Profit & Loss A/c Balance and Cash at Bank should be taken as reduced by ₹ 30,000 each.
3. Liquidation expenses have been paid by A Ltd. out of amount retained out of Bank Balance. In case of B Ltd. such expenses are borne by AB Ltd.

4. **Calculation of Purchase Consideration.**

   (a) Payments made to A Ltd.

	Number	Rate (₹)	Value (₹)
Equity Shares in exchange of Equity Shares	6/10 x 30,000 = 18,000 Sh.	11	1,98,000
6% Prefer. Sh. in exchange of Equity Shares	5/10 x 30,000 = 15,000 Sh.	10	1,50,000
			3,48,000

(b) Net Assets taken over from B Ltd.		
	₹	₹
Total Assets taken over:		
Buildings	50,000	
Plant	1,00,000	
Furniture	5,000	
Stock	40,000	
Debtors	50,000	
Cash at Bank	20,000	
Investments	15,000	2,80,000
Less: Provident Fund	20,000	
Sundry Creditors	60,000	80,000
Payable by shares of ₹ 10 each		2,00,000
Add : Liquidation Expenses borne in Cash		3,000
		2,03,000

5. Profit and Loss A/C = ₹ 50000 – Dividend ₹ 30000 = ₹ 20000

Bank balance transferred = ₹ 50000 – Dividend ₹ 30000 –Retained ₹ 5000 = ₹ 15000

6. One-fourth of the equity shares received from AB Ltd. were sold for ₹ 12 each.

Sale proceeds = ¼ *18000*12 = ₹ 54000; Profit on sale = ¼ *18000*1 = ₹ 4500

Books of AB Ltd.

Journal Entries

Dr. *Cr.*

Date	Particulars	L.F	Amount	Amount
	Buildings A/c... Dr.		1,50,000	
	Plant A/c.. Dr.		2,00,000	
	Furniture A/c.. Dr.		10,000	
	Stock A/c .... Dr.		85,000	
	Debtors A/c..Dr.		90,000	
	Investments A/c .... Dr.		1,20,000	
	Bank A/c.. Dr.		15,000	
	To Provident Fund A/c			30,000
	» Sundry Creditors A/c			1,00,000
	» 10% Debenture A/c			1,00,000
	» Liquidator of A Ltd. A/c			3,48,000
	» Capital Reserve A/c (Bal. Amt.)			92,000
	[Sundry assets and liabilities taken over from A Ltd. for amalgamation]			
	Liquidator of A Ltd. A/c .... *Dr.*		3,48,000	
	To Equity Share Capital A/c			1,80,000
	» Share Premium A/c			18,000

	« 6% Preference Share Capital A/c [Purchase consideration discharged by issue of 6% Preference Shares and Equity Shares as per agreement]			1,50,000
	Buildings A/c.. *Dr.* Plant A/c.. *Dr.* Furniture A/c.. *Dr.* Stock A/c... *Dr.* Sundry Debtors A/c... *Dr.* Bank A/c... Dr. Investments A/c .... Dr. To Provident Fund A/c » Sundry Creditors A/c » Liquidator of B Ltd. A/c [Sundry Assets and liabilities taken over from B Ltd. for amalgamation]		50,000 1,00,000 5,000 40,000 50,000 20,000 15,000	 20,000 60,000 2,00,000
	Liquidator of B Ltd. A/c .... *Dr.* To Equity Share Capital A/c [Purchase consideration satisfied by issue of shares] Bank A/c.. *Dr.* To Equity Share Capital A/c * » Share Premium A/c [10,000 Shares of ₹ 10 each issued at 10% premium as per Board's Resolution No... dated....] Preliminary Expenses A/c .... *Dr.* To Bank A/c [Formation expenses paid] Goodwill A/c.. *Dr.* To Bank A/c [Expenses of B. Ltd. paid]		2,00,000 1,10,000 10,000 3,000	 2,00,000 1,00,000 10,000 10,000 3,000

Balance Sheet of AB Ltd. as at……………

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
Share Capital	1	6,30,000
Reserve and Surplus	2	1,07,000
2. Share Application Money Pending Allotment		
3. Non-Current Liabilities		
Long-term Borrowings	3	1,00,000
4. Current Liabilities	4	2,10,000
Total		
		10,47,000

II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	5	5,15,000
(ii) Intangible Assets		
(b) Non-Current Investment	6	1,35,000
2. Current Assets	7	3,97,000
Total		10,47,000

Notes to Accounts:

	₹	₹
1. Share Capital		000
Authorized Capital		
Issued and Subscribed Capital		
48000 Equity Shares of ₹ 10 each fully paid	4,80,000	
15,000, 6% Preference Shares of ₹ 10 each issued as fully paid	1,50,000	
2. Reserve and Surplus		
Capital Reserve (92000 – Set off 3000- Prel. Exp. 10000)		
Share Premium		6,30,000
3. Long-term Borrowings		
10% Debenture		
	79,000	
4. Current Liabilities	28,000	1,07,000
S. Creditors		
Provident Fund		1,00,000
5. Tangible Assets	1,60,000	
Buildings (150000+50000)	50,000	2,10,000
Plant (200000+100000)	2,00,000	
Furniture (10000+5000)	3,00,000	
	15,000	
6. Non-current Investment (120000+15000)	1,25,000	
7. Current Asset	1,40,000	5,15,000
Stock (85000+40000)	1,32,000	1,35,000
Debtors (90000+50000)		3,97,000
Bank (15000+20000+110000-10000-3000)		

5. **Bright Ltd. acquired the business of Clumsy Ltd. on 31st March, 2017 when the Balance Sheets of the two companies stood as:**

Liabilities	Bright Ltd. (₹)	Clumsy Ltd. (₹)	Assets	Bright Ltd. (₹)	Clumsy Ltd. (₹)
Share Capital:			Fixed Assets	5,00,000	50,000
5,000 Equity Shares of ₹ 100 each fully paid	5,00,000	----	Inventories	2,50,000	50,000
2,000 Equity Shares of ₹ 50 each fully paid		1,00,000	Cash and Bank	1,00,000	50,000
Reserves and Surplus	3,00,000	25,000			
Sundry Creditors	50,000	25,000			
	8,50,000	1,50,000		8,50,000	1,50,000

The shares of the companies quoted at the stock exchange on that date were : Bright Ltd. ₹ 160 and Clumsy Ltd. ₹ 45 per share. The terms of absorption were:

1. **Bright Ltd. to take over all assets and liabilities from Clumsy Ltd. except Cash and Bank balances;**
2. **The assets of Clumsy were considered 90% worth their book values;**
3. **Bright Ltd. would issue one equity share at market value for 5 Equity Shares of Clumsy Ltd. and pay the balance by cash.**
4. **On acquisition of the business of Clumsy Ltd. bonus shares would be issued in the ratio of one share for every two shares held.**
5. **The authorised Share Capital of Bright Ltd. would go up to ₹ 10,00,000 in shares of ₹ 100 each.**
6. **The balance of unissued shares to be issued at 40% premium.**
7. **The sundry creditors would be discharged in full out of collections made.**

Assuming that, all these arrangements were duly made, prepare the Balance Sheet of Bright Ltd.

Solution:

Working Notes:

1. Calculation of Purchase Consideration	
	₹
A. Take Over Basis:	
Sundry Assets taken over [90% of (₹ 50,000+50,000]	90,000
Less : Liabilities taken over	25,000
	65,000

B. Payment Basis :	
Issue of Shares in exchange of Shares [No. of Shares = 1/5 x2,000, Value = 400 x 160]	64,000
Less : Settlement by cash (Balance)	1,000
	65,000

2. Share Capital-structure of Bright Ltd. (after absorption)

Descriptions	Authorised	Issued as Purchase Consideration	Issued as Bonus	Existing	Issued for Cash	Remarks
No. of Shares	10,000 x ₹ 100	400 X ₹ 100	½ of 5,400 = 2,700 x ₹ 100	5,000 X ₹100	10,000-8,100 = 1,900 x ₹ 100	
Amount of Capital	10,00,000	40,000	2,70,000	5,00,000	1,90,000	
Share Premium		400 x ₹ 60 = 24,000	—	—	1,900x ₹ 40 = 76,000	Total Premium = 1,00,000
Total	10,00,000	64,000	2,70,000	5,00,000	2,66,000	1,00,000

3. Final Position of Cash and Bank balances of Bright Ltd.

	₹	₹
Balances as per last Balance Sheet		1,00,000
Add : Proceeds of share issue [Note 2]		2,66,000
		3,66,000
Less : Paid as Purchase Consideration [Note 1]	1,000	
Creditors paid off (as per instruction)	75,000	76,000
Balance to be taken to new Balance Sheet		2,90,000

Balance Sheet of Bright Ltd. as at 1st April 2017

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
Share Capital	1	10,00,000
Reserve and Surplus	2	1,30,000
2. Share Application Money Pending Allotment		
3. Non-Current Liabilities		
Long-term Borrowings		
4. Current Liabilities		
Total		11,30,000
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	3	5,45,000
(ii) Intangible Assets		
(b) Other Non-Current Assets		

2. Current Assets	4	5,85,000
Total		11,30,000

Notes to Accounts:

	₹	₹
1. Share Capital Authorized Capital Issued and Subscribed Capital 10000 Equity Shares of ₹ 100 each fully paid		000
		10,00,000
2. Reserve and Surplus		
General Reserve (300000 – Bonus Dividend 270000)	30,000	
Share Premium (Note 2)	1,00,000	1,30,000
3. Tangible Assets		
Fixed Asset (500000+90% of 50000)		5,45,000
7. Current Asset		
Stock (250000+ 90% of 50000)	2,95,000	
Cash at Bank (Note 3)	2,90,000	5,85,000

6. The Balance Sheets of Melody Ltd. and Symphony Ltd. as on 31st March, 2014 were as follows:

Liabilities	Melody Ltd. (₹)	Symphony Ltd (₹)	Assets	Melody Ltd. (₹)	Symphony Ltd (₹)
Share Capital (Shares of ₹ 10 each)	2,00,000	1,00,000	Plant & Machinery	80,000	40,000
Profit & Loss Account	60,000	30,000	Furniture & Fittings	40,000	15,000
Sundry Creditors	40,000	70,000	Investments		
			200 shares of Symphony Ltd.	25,000	---
			100 shares of Melody Ltd.	---	12,000
			Stock	70,000	40,000
			Debtors	65,000	73,000
			Cash at Bank	20,000	20,000
	3,00,000	2,00,000		3,00,000	2,00,000

The two companies agreed to amalgamate on the following terms:

1. **A new company is to be formed called Orchestra Ltd. The nominal value of shares of this company should be ₹ 10 each.**
2. **The Goodwill of the liquidating companies are to be valued as Melody Ltd. ₹ 50,000 and Symphony Ltd. ₹25,000.**

Prepare the Balance Sheet of Orchestra Ltd. immediately after the merger. Necessary calculations regarding mutual shareholdings are to be shown clearly.

Solution:

Points to be noted:

1. The purchase considerations are to be based on net assets.
2. As each company holds some shares of the other company, its value of the net assets is influenced by the value of net assets of the other company.

Working Notes:

1. Net Assets [Excluding inter-company investments]		
	Melody Ltd. (₹)	Symphony Ltd, (₹)
Total Assets taken over :		
Goodwill	50,000	25,000
Plant and Machinery	80,000	40,000
Furniture & Fittings	40,000	15,000
Stock	70,000	40,000
Debtors	65,000	73,000
Bank	20,000	20,000
Less : Sundry Creditors	3,25,000	2,13,000
Net Assets	40,000	70,000
	2,85,000	1,43,000

2. Net worth (including inter-**company investments)**

Melody Ltd. holds 200 shares out of 1,000 shares of Symphony Ltd. So, Rate of Shareholding = 200/1000 = 1/5

Similarly, Symphony Ltd. holds 100 out of 2,000 shares of Melody Ltd. So, Rate of shareholding =1/20

Net worth of Melody Ltd. = ₹ 2,85,000 + 1/5 th of the net worth of Symphony Ltd. and

Net worth of Symphony Ltd. = ₹ 1,43,000 + 1/20 th of the net worth of Melody Ltd-

Now, if net worth is denoted by x and y respectively for Melody Ltd. and Symphony Ltd., we may write that

x = 2,85,000 +1/5 of y……………..(i)

and y = 1,43,000 +1/20 of x………………(ii)

Solving the above simultaneous equations, we get, x = ₹ 316768 and y = ₹ 158838

3. Value of shares to be issued to outside shareholders:

Melody Ltd. = For 1,900 shares out of 2,000 shares = 3,16,768 x 19/20 = 3,00,930

Symphony Ltd. = For 800 out 1,000 shares = 1,58,838 x 8/10 = 1,27,070

So, Shares to be issued

To Melody Ltd. = 300930/10 = 30093

and To Symphony Ltd. = 127070/10 = 12707

Total Shares issued = 30093+12707 = **42,800**

Balance Sheet of Orchestra Ltd. as at April 1, 2014

Particulars	Note No.	Amount
EQUITY AND **LIABILITIES**		
1. Shareholders' Funds		
(a) Share Capital	1	4,28,000
(b) Reserves & Surplus		
2. Share Application **Money Pending Allotment**		
3. Non-Current Liabilities		
4. Current Liabilities		
(a) Trade Payables	2	1,10,000
Total		**5,38,000**
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	3	1,75,000
(ii) Intangible Assets	4	75,000
2. Current Assets		
(a) Inventories	5	1,10,000
(b) Trade Receivables	6	1,38,000
(c) Cash and Cash Equivalents	7	40,000
Total		**5,38,000**

Notes to Accounts:

1. Share Capital		
Authorised Capital		
Issued and Subscribed Capital		
42,800 Equity Shares of ₹ 10 each		4,28,000
(All these shares have been allotted as fully paid for consideration other than cash)		
2. Trade Payable - Sundry Creditors		1,10,000
3. Tangible (Fixed) Assets		
Plant & Machinery	1,20,000	
Furniture & Fittings	55,000	1,75,000
4. Intangible (Fixed) Assets		
Goodwill		75,000
5. Inventories		
Stock-in-Trade		1,10,000
6. Trade Receivables - Debtors		1,38,000
7. Cash and Cash Equivalents		
Cash at Bank		40,000

Study Note – 3

Group Financial Statements

Section – A

1. **Choose the correct alternative:**

(i) On 1st April 2017, H Ltd acquired 16000 shares out of 20000 equity shares of ₹10 each of S Ltd at ₹ 6,00,000. On that date balance of General reserve, Capital Reserve and Preliminary Expenses in S Ltd were ₹ 2,42,000, ₹3,20,000 and ₹ 70,000 respectively. The amount of cost of control will be

a) ₹ 40,000 (Goodwill)
b) ₹ 40,000 (Capital Reserve)
c) ₹ 46,400 (Goodwill)
d) ₹ 46,400 (Capital Reserve)

(ii) P Ltd. purchases 80% shares out of 80000 Equity shares of ₹ 10 each in Chandu Ltd. at ₹ 10,00,000. On that date the balance of Capital reserve, Securities Premium, General Reserve and Discount on issue of Debentures were ₹ 80,000, ₹1,20,000, ₹ 2,15,000 and ₹ 40,000 respectively. The amount of minority interest will be

a) ₹ 2,35,000
b) ₹ 2,15,000
c) ₹ 3,35,000
d) ₹ 3,15,000

(iii) P Ltd. acquired 80% equity shares of R Ltd. on 1st April 2016. On 31st March 2017, goods worth ₹ 80,000 purchased from P Ltd. were included in the stock of R Ltd. P Ltd. made a profit of 25% on sales. At the time of preparation of consolidated Balance Sheet the amount of unrealized profit on stock will be

a) ₹ 30,000
b) ₹ 16,000
c) ₹ 20,000
d) ₹ 2,200

(iv) V Ltd. acquired 2,000 equity shares of D Ltd. on April, 01, 2016 for a price of ₹ 2,00,000. D Ltd. made a net profit of ₹ 80,000 during the year 2016-17. The Share Capital of D Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the share of V Ltd. in the pre-acquisition profit of D Ltd. is ₹ 56,000, the amount of Goodwill/Capital Reserve to be shown in the Consolidated Balance Sheet as on March 31, 2013 is —

a) ₹ 44,000 (Capital Reserve)
b) ₹ 56,000 (Capital Reserve)
c) ₹ 44,000 (Goodwill)
d) ₹ 56,000 (Goodwill)

(v) N Ltd. acquire 60% of T Ltd.'s shares on April 2, 2015, the price paid was ₹2,80,000. T Ltd.'s Shareholder equity shares are as follows:

	₹
Equity Shares (Paid up)	1,00,000
Share premium	3,00,000
Retained Earning	1,00,000
	5,00,000

The Minority interest will be

a) ₹ 2,00,000
b) ₹ 3,00,000
c) ₹ 3,10,000
d) ₹ 2,10,000

Solution:

(i) (c); (ii) (a); (iii) (c); (iv) (b); (v) (a)

2. M Ltd. is a holding company and N Ltd. and O Ltd. are subsidiaries of M Ltd. Their Balance Sheets as on 31.12.2013 are give below: (Amount in ₹)

Liabilities	M Ltd	N Ltd	O Ltd	Assets	M Ltd	N Ltd	O Ltd
Share Capital	3,00,000	3,00,000	1,80,000	Fixed Assets	60,000	1,80,000	1,29,000
Reserves	1,44,000	30000	27,000	Investments:			
Profit and Loss	48,000	36,000	27,000	Shares in N Ltd	2,85,000		
Account				Shares in O Ltd.	39,000	1,59,000	
Sundry				Stock in Trade	36,000		
Creditors	21,000	15,000		Sundry Debtors	78,000	63,000	96,000
O Ltd. Balance	9,000			N Ltd. Balance	24,000		
M Ltd. Balance		21,000		M Ltd. Balance			9,000
	5,22,000	4,02,000	2,34,000		5,22,000	4,02,000	2,34,000

The following particulars are given:

(i) The share capital of all companies is divided into shares of ₹ 10 each.
(ii) M Ltd. held 24,000 shares of N Ltd. and 3,000 shares of O Ltd.
(iii) N Ltd. held 12,000 shares of O Ltd.
(iv) All these investments were made on 30.06.2013.
(v) On 31.12.2012, the position was as shown below: (Amount in ₹)

	N Ltd	O Ltd
Reserve	24,000	22,500
Profit & Loss Account	12,000	9,000
Sundry Creditors	15,000	3,000
Fixed Assets	1,80,000	1,29,000
Stock in trade	12,000	1,06,500
Sundry Debtors	1,44,000	99,000

(vi) The whole of stock in trade of N Ltd. as on 30.06.2013 ₹12,000 was later sold to M Ltd. for ₹ 13,200 and remained unsold by M Ltd. as on 31.12.2013.

(vii) Cash in transit from N Ltd. to M Ltd. was ₹ 3,000 as at the close of the year.

You are required to prepare a Consolidated Balance Sheet of M Ltd. and its subsidiaries N Ltd. and O Ltd. as at 31.12.2013.

Solution:

Consolidated Balance Sheet of M Ltd. with subsidiaries N Ltd. And O Ltd. (As an 31st March, 2014)

Particulars		Note No.	Amount (₹)
I. **EQUITY AND LIABILITIES**			
(1) Shareholders' Funds			
(a) Share Capital		1	3,00,000
(b) Reserves and Surplus		2	2,10,915
(C) Minority Interest			1,13,460
(2) Current Liabilities			
(a) Sundry Creditor (21,000 + 15,000)			
(b) Inter Co. Debt	30,000		
Contra	(30,000)		36,000
Total			**6,60,375**
II. **ASSETS**			
(1) Non Current Assets			
(a) Fixed Assets		3	3,69,000
(b) Goodwill		4	16,575
(2) Current Assets			
(a) Stock (36,000-Unrealised Profit i.e. 1,200)			34,800
(b) Sundry debtor			2,37,000
(c) Cash in Transit			3,000
Total			**6,60,375**

[Relevant Notes]

Note No: 1. Share Capital (₹)	
Authorized, Issued, Subscribed and Paid-up Share Capital:-	
30,000 Equity Shares of ₹10 Each	3,00,000
Total	**3,00,000**
Note No: 2. Reserves and Surplus	
Reserves	1,47,975
Profit & Loss A/c	62,940
Total	**2,10,915**

Note No: 3. Tangible Assets	
Fixed Assets	3,69,000
Total	**3,69,000**
Note No: 4. Intangible Assets	
Goodwill	16,575
Total	**16,575**

Working Notes:

(i) Position on 30.06.2013 (Amount in ₹)

	N Ltd.		**O Ltd.**	
Reserves P & L A/c Reserves P & L A/c				
Balance as on 31.12.2013	30,000	36,000	27,000	27,000
Less: Balance as on 31.12. 2012	24,000	12,000	22500	9,000
Increase during the year	6,000	24,000	4500	18,000
Estimated increase for half year	3,000	12,000	2250	9,000
Balance as on 30.06.2013	27,000	24,000	24750	18,000

(ii) Analysis of Profit of O Ltd. (Amount in ₹)

	Capital Profit	Revenue Reserve	Revenue Profit
Reserve on 30.06.2013	24,750		
Profit and Loss A/c on 30.06.2013	18,000		
Increase in reserves		2,250	
Increase in profit			9,000
Total	42,750	2,250	9,000
Less: Minority Interest (1/6)	7,125	375	1500
Balance	35,625	1,875	7500
Shares of M Ltd. (1/6)	7,125	375	1500
Shares of N Ltd. (4/6)	28,500	1,500	6000

(iii) Analysis of Profit of N Ltd. (Amount in ₹)

	Capital Profit	Revenue Reserve	Revenue Profit
Reserve on 30.06.2013	27,000		
Profit and Loss A/c on 30.06.2013	24,000		
Increase in reserves		3,000	
Increase in profit			12,000
Share in O Ltd.		1,500	6,000
Total	51,000	4,500	18,000
Less: Minority Interest (1/5)	10,200	900	3,600
Shares of M Ltd. (4/5)	40,800	3,600	14,400

(iv) Cost of Control (Amount in ₹)

Investment in N Ltd.	2,85,000	
O Ltd.	1,98,000	
Less: Paid up value of investment in		4,83,000
N Ltd.	2,40,000	
O Ltd	1,50,000	
Less: Capital profits in		(3,90,000)
N Ltd.	40,800	
O Ltd.	35,625	
		(76,425)
Goodwill		16,575

(v) Minority Interest (Amount in ₹)

Share Capital:		
N Ltd.	60,000	
O Ltd.	30,000	
		90,000
Share of profit and reserve (pre and post acquisition)		
N Ltd.	14,700	
O Ltd.	9,000	23,700
Less: Provision for unrealized profit (20% of 2,400)		(240)
		1,13,460

(vi) Reserves M Ltd.

Balance as on 31.12. 2013	1,44,000
Shares in - N Ltd.	3,600
O Ltd.	375
Total	**1,47,975**

(vii) Profit and Loss A/c M Ltd.

Balance as on 31.12. 2013	48,000
Share in — N Ltd.	14,400
O Ltd.	1,500
Total	**63,900**
Provision for Unrealized profit on stock: [80% of (26,400 - 24,000)]	960
Total	**62,940**

3. The Balance Sheet of Big Ltd., Small Ltd. and Little Ltd. as at 1st March, 2013 are given below:

	Big Ltd.	Small Ltd.	Little Ltd.
Equity and Liabilities			
Shareholders' Funds			
Share Capital			
Equity Shares of ₹ 10 each, fully paid up	1,00,000	50,000	30,000
Reserves and Surplus			
General Reserve	30,000	25,000	20,000
Profit and Loss A/c	25,000	20,000	15,000
Current Liabilities			
Trade Payables	17,500	15,000	20,000
Big Ltd.		7,500	2,500
Total	1,72,500	1,17,500	87,500
Assets			
Non-current Assets			
Tangible Assets			
Plant and machinery	40,000	55,000	57,500
Non-current investments (at cost)			
Equity shares in Small Ltd.	45,000		
Equity shares in Little Ltd.	20,000	30,000	
Current Assets			
Inventories	30,000	17,500	17,500
Trade receivables	17,500	10,000	7,500
Small Ltd:	9,000		
Little Ltd.	3,500		
Cash and cash equivalents	7,500	5,000	5,000
Total	1,72,500	1,17,500	87,500

(i) Big Ltd. held 4000 shares of Small Ltd. and 1800 shares of Little Ltd.

(ii) Small Ltd. held 1800 shares of Little Ltd.

(iii) All investments were made on July 2012

(iv) The following balances were there on July 2012:

	Small Limited	Little Limited
Reserve	12,500	7,500
Profit and Loss A/c	15,000	12,500

(v) Small Ltd. invoiced goods to Big Ltd. at cost + 25% in December 2012. The closing stock of Big Ltd. includes goods with invoice value ₹ 3,000.

(vi) Little Ltd. sold to Small Ltd. an equipment costing ₹ 12,000 at a profit of 25% on selling price on January 2013. Depreciation at 10% p.a. was provided by Small Ltd. on this equipment.

(vii) Big Ltd. proposes dividend at 10%.

Prepare the Consolidated Balance Sheet of the group as at 31 March 2013 by the direct approach. Workings should form part of the answer.

Solution:

(a) Consolidated Balance Sheet of Big Ltd. and its subsidiaries Small Ltd. and Little Ltd. as at 31st March, 2013

Notes to Accounts: Note -1: Share Capital

Reconciliation of Share Capital For Enquity Share

	Particulars	Note No.	Amount (₹ in Lakhs)
1.	Equity and Liabilities		
	(a) Share Capital	1	1,00,000
	(b) Reserves and Surplus	2	78,710
	1. Minority Interest (W.N. 4)		26,790
	2. Current Liabilities		
	(a) Trade payables	3	52,500
	(b) Short- term provisions	4	10,000
	Total (1 +2 + 3)		2,68,000
II.	Assets		
	1. Non- Current Assets		
	Fixed Assets		
	- Tangible Assets	5	1,48,600
	2. Current Assets		
	(a) Inventories	6	64,400
	(b) Trade receivables	7	35,000
	(c) Cash and cash equivalents	8	17,500
	(d) Other current assets	9	2,500
	Total (1 +2)		2,68,000

Notes to Accounts:

Note -1: Share Capital

	As on 31st March, 2013 (₹)
Authorized, Issued, Subscribed and paid-up Share capital: 10,000 Equity Shares of ₹ 10 each fully paid	1,00,000
Total	1,00,000

Reconciliation of Share Capital

For Enquiry Share

	As at 31st March, 2013	
	Nos.	Amount (₹)
Opening Balance as on 01 .04.12	10,000	1,00,000
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share		
issued other than cash)		
Less: Buy Back of Share		
Total	10,000	1,00,000

Note 2. Reserve & Surplus

	As on 31st March, 2013
Capital Reserve (W.N. 3)	12,000
Revenue Reserve (W.N. 7)	49,750
Profit and Loss A/c (W.N. 6)	16,960
Total	78,710

Note 3. Trade Payables

	As on 31st March, 2013
Sundry Creditors (17,500 + 15,000 + 20,000)	52,500
Total	52,500

Note 4. Short -term provisions

	As on 31st March, 2013
Proposed dividend	10,000
Total	10,000

Note 5. Tangible Assets

		As on 31st March, 2013
Fixed Assets less depreciation — Big Ltd.	40,000	
Small Ltd.	55,000	
Little Ltd.	57,500	1,52,500
Less: Unrealised Profit (W.N. 5)		3,900
Total		1,48,600

Note 6. Inventories

	As on 31st March, 2013
Stock (30,000 + 17,500 + 17,500)	65,000
Less: Unrealised Profit	600
Total	64,400

Note 7. Trade Receivables

	As on 31st March, 2013
Debtors (more than six months considered good)- (17,500+ 10,000+ 7,500)	35,000
Total	35,000

Note 8. Cash and Cash equivalents

	As on March, 31SI 2013
Cash and Bank Balance (7,500 + 5,000 + 5,000)	17,500
Total	17,500

Note 9. Other Current Assets

	As on March, 31st 2013
Bills receivables — (9,000 + 3,500)	12,500
Less.: Mutual debts (7,500 + 2,500)	10,000
Total	2,500

Working Notes:

1. Analysis of Profit of Little Ltd.

Particulars	Capital Profits (₹)	Revenue Reserves (₹)	Revenue Profits (₹)
Reserve on 01.07.2012	7,500		
Profit and Loss A/c on 01.07.2012	12,500		
Increase in Reserves		12,500	
Increase in Profit			2,500
	20,000	12,500	2,500
Less: Minority Interest (10%)	(2,000)	(1,250)	(250)
	18,000	11,250	2,250
Share of Big Ltd. (30%)	6,000	3,750	750
Share of Small Ltd. (60%)	12,000	7,500	1,500

2. Analysis of Profit of Small Ltd. (by direct approach)

Particulars	Capital Profits (₹)	Revenue Reserves (₹)	Revenue Profits (₹)
Reserve on 01.07.2012	12,500		
Profit and Loss A/c on 01 .07,201 2	15,000		
Increase in Reserves		12,500	
Increase in Profit		-	5,000
	27,500	12,500	5,000
Share in Little Ltd.		7,500	1,500
	27,500	20,000	6,500
Less: Minority Interest (20%)	(5,500)	(4,000)	(1,300)
Share of Big Ltd. (80%)	22,000	16,000	5,200

3. Cost of Control:

Particulars	**Amount**	**Amount**
Invest in Small Ltd.		45,000
Invest in Little Ltd.		50,000
		95,000
Less: Paid up value of Investment		
In Small Ltd.	40,000	
In Little Ltd.	27,000	67,000
Capital Profit		

In Small Ltd. In Little Ltd.	22,000 18,000	 40,000
Capital Reserve		12,000

4. Minority Interest

Particulars	Small Ltd.	Little Ltd.
Share Capital	10,000	3,000
Capital Profit	5,500	2,000
Revenue Reserves	4,000	1,250
Revenue Profit	1,300	250
	20,800	6,500
Less: Unrealized profit on stock (20%of ₹6,000 x 25/125)	120	
Unrealized profit on equipment (10% of ₹ 7,800)		390
	20,680	6,110

5. Unrealized Profit on equipment sold

Selling Price (12000 *100/75) Less: Cost Profit Unrealized Profit = ₹ (4,000-4,000 x 10/100 x 3/12) = ₹ 3,900	16,000 12,000 4,000

6. Profit and Loss Account - Big Ltd.

Particulars	(₹)
Balance Less: Proposed dividend	25,000 (10,000)
	15,000
Add: Share in Small Ltd. Share in Little Ltd.	5,200 750
	20,950
Less: Unrealized profit on equipment (90% of ₹ 7,800)	(3,510)
	17,440
Less: unrealized profit on stock (₹ 6,000 x 25/125 x 80%)	(480)
	16,960

7. Revenue Reserves - Big Ltd.

Balance Share in Small Ltd Share in Little Ltd.	30,000 16,000 3,750
	49750

4. The following is an abstract of the Balance Sheets of H Ltd., S Ltd. and D Ltd. as on March 31, 2012:

Particulars	H Ltd	S Ltd	D Ltd
Liabilities:			
Share Capital:			
Equity Shares of ₹ 10 each fully paid	**10,00,000**	**5,00,000**	**3,00,000**
Reserves and Surplus:			
Reserves	**90,000**	**1,00,000**	**72,000**
Profit & Loss A/c	**1,00,000**	**20,000**	**51,000**
Current Liabilities & Provisions:			
Creditors	**30,000**	**30,000**	**10,000**
	12,20,000	**6,50,000**	**4,33,000**
Assets:			
Fixed Assets	**5,50,000**	**3,00,000**	**4,00,000**
Investments:			
37500 shares in S Ltd.	**5,00,000**	**—**	**—**
7500 shares in D Ltd.	**1,00,000**	**—**	**—**
20,000 shares in D Ltd.	**—**	**2,80,000**	**—**
Current Assets, Loans & Advances:			
Stock	**60,000**	**50,000**	**28,000**
Cash at Bank	**10,000**	**20,000**	**5,000**
	12,20,000	**6,50,000**	**4,33,000**

H Ltd. purchased the shares in S Ltd. and in D Ltd. on September 30, 2011, and S Ltd. also purchased the shares in D Ltd. on the same day. The following are the balances at the beginning of the year (1.4.2011):

	S Ltd.	D Ltd.
Reserves	**90,000**	**60,000**
Profit & Loss A/c	**10,000**	**8,400**

You are to assume that profits accrue uniformly every month.

Required:

Prepare a Consolidated Balance Sheet of H Ltd: and its Subsidiaries as at March 31, 2012.

Solution:

Consolidated Balance Sheet As at 31st March, 2012

Particulars	**Note No.**	**Amount**
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	10,00,000
(b) Reserves & Surplus	2	2,17,975
(c) Minority Interest		1,94,800
2. Current Liabilities (60,000+60,000+20,000)		70,000
Total		14,82,775

II. Assets		
1. Non Current Assets		
Fixed Assets		
(a) Tangible Assets		12,50,000
(b) Intangible Assets – Goodwill	**3**	59,775
2. Current Assets		
(a) Stock (1,20,000 + 1,00,000 + 56,000)		1,38,000
(b) Cash at Bank (20,000 + 40,000 +10,000)		35,000
Total		14,82,775

Notes to Accounts:

	As on 31st March, 2012 (₹)
Note -1: Share Capital	
(a) Authorised Share Capital:	
(b) Issued, Subscribed & fully paid-up (1,00,000 shares of ₹10 each)	10,00,000
Total	**10,00,000**
Note - 2: Reserves & Surplus	
General Reserve	98,250
Surplus	1,19,725
Total	2,17,975
Note -3: Tangible Asset	
Fixed Assets of H Ltd.	5,50,000
Fixed Assets of S Ltd.	3,00,000
Fixed Assets of D Ltd.	4,00,000
Total	12,50,000

Working Notes:

(1) Analysis (Amount in ₹)

Particulars	Capital Profits	Revenue Reserves	Revenue Profits
(i) D Ltd.:			
Reserve as on 1.4.2011	60,000		
Profit & Loss as on 1.4.2011	8,400		
Increase in Reserve during the year	6,000	6,000	
Increase in P &L during the year	21,300		21,300
	95,700	6,000	21,300
Less: Share of H Ltd. (1/4)	23,925	1,500	5,325
Less Minority interest (1/12)	7,975	500	1,775
Shares of S Ltd.	1,500	4,000	14,200

Particulars	Capital Profits	Revenue Reserves	Revenue Profits
(ii) S Ltd.:			
Reserve as on 1.4.2011	90,000		
Profit & Loss A/c	10,000		
Balance as on 1.4.2011	5,000		
Increase in Reserve during the year 2011-12	5,000	5,000	
Increase in P&L A/c during the year 2011-12			5,000
From D Ltd.		4,000	14,200
	1,10,000	9,000	19,200
Less Minority interest (1/4)	27,500	2,250	4,800
Shares of S Ltd.	82,500	6,750	14,400

(2) **Cost of Control (Amount in ₹)**

Cost of Investment in S Ltd.		5,00,000
Cost of Investment in D Ltd.		3,80,000
		8,80,000
Paid up Value of Shares in S Ltd.	3,75,000	
Paid up Value of Shares in D Ltd.	2,75,000	
Capital Profit in S Ltd.	82,500	
Capital Profit in D Ltd.	87,725	8,20,225
Goodwill		59,775

(3) **Minority Interest**

	S Ltd	C Ltd
Shares Capital	1,25,000	25,000
capital Profits	27,500	7,975
Revenue Reserve	2,250	500
Revenue Profit	4,800	1,775
	1,59,550	35,250

(4)

	Reserves (₹)	Profit & Loss (₹)
H. Ltd. Balance	90,000	1,00,000
Shares in S Ltd.	6,750	14,400
Shares in D. Ltd.	1,500	5,625
	98,250	1,19,725

5. Following are the summarized Balance Sheets of A Ltd., B Ltd. and C Ltd. as on 31.03.2015.

Liabilities	A Ltd. (₹)	B Ltd. (₹)	C Ltd. (₹)	Assets	A Ltd. (₹)	B Ltd. (₹)	C Ltd. (₹)
Equity Share Capital (₹10	10,00,000	5,00,000	4,00,000	Shares in B Ltd.	6,00,000	Nil	Nil
P/L Balance	3,00,000	2,00,000	1,00,000	Shares in C Ltd.	50,000	3,92,000	Nil
10%Debentures (₹100)	Nil	1,00,000	Nil	Debentures in B Ltd.	1,00,000	Nil	Nil
Current Liability	3,00,000	1,50,000	90,000	Fixed Assets	4,00,000	2,50,000	3,50,000
				Stock	2,00,000	2,00,000	1,00,000
				Debtors	2,00,000	1,00,000	1,00,000
				Cash	50,000	8,000	40,000
	16,00,000	9,50,000	5,90,000		16,00,000	9,50,000	5,90,000

Additional information:

1. A Ltd acquired 30000 shares in B Ltd. on 1.4.2014 and further 10000 shares on 1.10.2014. A Ltd. also acquired 80% debentures of B Ltd. on 1.4.2014.
2. A Ltd acquired 2000 shares in C Ltd. on 1.4.2014 and further 2000 shares on 1.10.2014.
3. B Ltd acquired 28000 shares in C Ltd. on 1.4.2014 and further 4000 shares on 1.1.2015.
4. All the companies have proposed a dividend @ 10% on 31.03.2015.
5. P/L balances of B Ltd. and C Ltd. on 1.4.2014 were ₹100000 and ₹50000 respectively.
6. All the companies have earned profit evenly during the year.

   You are required to prepare a Consolidated Balance Sheet as on 31.3.2015.

Notes:

1. Share of holding company and minorities

	Date	B Ltd.	C Ltd.
Share of A Ltd	1.4.2014	30000/50000 = 3/5	2000/40000 =1/20
	1.10.2014	10000/50000 = 1/5	2000/40000 = 1/20
		= 4/5	= 1/10
Share of B Ltd.	1.4.2014	---------	28000/40000 = 7/10
	1.1.2015		4000/40000 = 1/10
			=8/10
Share of Minorities		1/5	1/10

2. Analysis of Profit (Amount in ₹)

   C Ltd.

	Capital Profit	Revenue Profit
P/L up to 1.4.2014	50,000	
P/L after 1.4.2014 (100000-50000)		50,000
	50,000	50,000
Less. Share of A Ltd. (1/10)	5,000	5,000
	45,000	45,000
Less. Share of Minorities (1/10)	5,000	5,000

Apparent Share of B Ltd. (8/10)	40,000	40,000
Add/Less. Adjustment for understatement of capital profit and overstatement of revenue profit for 4000 shares purchased on 1.1.2015 (50000*9/12*4000/40000)	3,750	(3,750)
Final share of B Ltd.	43,750	36,250

Final share of A Ltd from C Ltd.

	Capital Profit	Revenue Profit
Apparent share of A Ltd from C Ltd	5,000	5,000
Add/Less. Adjustment for understatement of capital profit and overstatement of revenue profit for 2000 shares purchased on 1.10.2014 (50000*6/12*2000/40000)	1,250	(1,250)
Final share of A Ltd.	6,250	3,750

B Ltd.

	Capital Profit	Revenue Profit
P/L up to 1.4.2014	1,00,000	
P/L after 1.4.2014 (200000-100000)		1,00,000
Add. Share from C Ltd	43,750	36,250
	1,43,750	1,36,250
Less. Share of Minorities (1/5)	28,750	27,250
Apparent Share of B Ltd. (8/10)	1,15,000	1,09,000
Add/Less. Adjustment for understatement of capital profit and overstatement of revenue profit for 10000 shares purchased on 1.10.2014 (100000*6/12*10000/50000)	10,000	(10,000)
Final share of B Ltd.	1,25,000	99,000

3. Calculation of Goodwill/ Capital Reserve (Amount in ₹)

	₹	₹
Cost of investment:		
By A in B	6,00,000	
By A in C	50,000	
By B in C	3,92,000	10,42,000
Less. Face value of shares held		
By A in B	4,00,000	
By A in C	40,000	
By B in C	3,20,000	
	1,25,000	(7,60,000)
Less. Share of capital profit	6,250	
From B		
From C		(1,31,250)
Goodwill		1,50,750

4. Minority Interest (Amount in ₹)

	B Ltd	C Ltd
Face value of shares	1,00,000	40,000
Share of capital profit	28,750	5,000
Share of revenue profit	27,250	5,000
	1,56,000	50,000

Total Minority interest = 2,06,000

5. Consolidated Profit and Loss: (Amount in ₹)

	₹	₹
Balance of A Ltd.		3,00,000
Add. Share of revenue profit		
From B	9,90,000	
From C	3,750	1,02,750
		4,02,750
Less. Cost of investment in debentures	1,00,000	
Less. Face value of debentures	80,000	20,000
		3,82,750

Consolidated Balance Sheet of A Ltd. and its subsidiaries (Amount in ₹)

As at 31.03.2015

Particulars	₹
I. Equity and Liabilities:	
a. Shareholders Fund	
Equity Share Capital (₹10)	10,00,000
Consolidated Profit and Loss	3,82,750
b. Minority Interest	2,06,000
c. Non-current Liabilities	
10% debentures (100000-80% of 100000)	20,000
d. Current Liability (300000+150000+90000)	5,40,000
Total	21,48,750
II. Assets:	
a. Non-current Assets	
(i) Tangible Assets	
Fixed Assets	10,00,000
(ii) Intangible Assets	
Goodwill	1,50,750
b. Current Assets	
Inventories (200000+200000+100000)	5,00,000
Debtors (200000+100000+100000)	4,00,000
Cash and Cash Equivalent (50000+8000+40000)	98,000
Total	21,48,750

Note: Contingent Liability for Proposed Dividend:

A Ltd. (1000000*10%)	1,00,000
Minorities of B Ltd. = (100000*10%)	10,000
Minorities of C Ltd. = (40000*10%)	4,000
	1,14,000

6. The following is an abstract of the Balance Sheet as on 31st March, 2013 of H LTD. and its two Subsidiaries (B LTD. and C LTD).

Particulars	H Ltd.	B Ltd.	C Ltd.
Liabilities:			
Share Capital:			
Authorised and Issued Equity Shares of ₹100 each fully paid	**25,00,000**	**12,50,000**	**5,00,000**
Reserves and Surplus:			
Capital Reserve	**2,50,000**	**75,000**	**50,000**
Revenue Reserve	**5,00,000**	**3,75,000**	**3,00,000**
Current liabilities & Provisions:			
Creditors	**10,00,000**	**5,00,000**	**1,50,000**
Income Tax	**2,50,000**	**1,75,000**	**1,50,000**
	45,00,000	**23,75,000**	**11,50,000**
Assets:			
Fixed Assets (at cost less depreciation)	**16,00,000**	**8,00,000**	**1,50,000**
Investments:			
Shares in B Ltd. at cost	**22,50,000**		
Shares in C Ltd. at cost	**2,50,000**	**5,00,000**	**—**
Stock	**1,00,000**	**4,50,000**	**3,50,000**
Debtors	**2,00,000**	**5,25,000**	**5,75,000**
Bank Balance	**1,00,000**	**1,00,000**	**75,000**
	45,00,000	**23,75,000**	**11,50,000**

Additional Information:

(a) B Ltd. acquired 3000 shares in C Ltd. on 01.4.2011 when the balance on Capital Reserve had been ₹50,000 and Revenue Reserve ₹ 1,75,000.

(b) H Ltd. purchased 10000 shares in B Ltd. on 01.4.2012 when the latter's balance on Consolidated Revenue Reserve had been ₹ 2,75,000. The Balance of Capital Reserve in B Ltd. at that time was ₹75,000.

(c) H Ltd. also acquired 1500 shares in C Ltd. on 01.4.2012 when the balance on Capital Reserve had been ₹ 50,000 and Revenue Reserve ₹ 1,75,000.

Required:

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiaries as on March 31, 2013 together with consolidation schedules.

Solution:

H Ltd. and its subsidiaries B Ltd. and C Ltd.

Consolidated Balance Sheet As on 31st March, 2013

Particulars	Note No.	Amount
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	25,00,000
(b) Reserve & Surplus	2	9,75,500
(c) Minority Interest		4,52,000
2. Current Liabilities		
(a) Creditor		16,50,000
(b) Income Tax		5,75,000
Total		61,52,500
II. Assets		
1. Non Current Assets		
Fixed Assets		
- Tangible Fixed Assets		25,50,000
- Intangible Fixed Assets		11,27,500
2. Current Assets		
(a) Stock		9,00,000
(b) Debtors		13,00,000
(c) Bank Balance		2,75,000
Total		61,52,500

Notes to Accounts:

	As on 31st March, 2013
Note No: 1. Share Capital (₹)	
((a) Authorised Share Capital: 25,000 Equity Shares @ ₹100 each	
(b) Issued, Subscribed & Paid-up Capital: (25,000 Equity Shares @ ₹100 each)	25,00,000
Total	25,00,000
Note No: 2. Reserves and Surplus	
Capital Reserve	2,50,000
Revenue Reserve	7,25,500
Total	9,75,500

Working Notes:

1. Analysis of Profit of C Ltd:

	Capital Profit (₹)	**Revenue Profit (₹)**
(a) From the view point of H Ltd:		
Capital Reserve as on 01.04.2012:	50,000	

Revenue Reserve as on 01 .04.201 2: Increase in Revenue Reserve	1,75,000 —	 1,25,000
	2,25,000	1,25,000
Share of H Ltd. (3/10)	62,500	37,500
(b) Minority Interest in C Ltd. Capital Reserve (1/10): Revenue Reserve (1/10):		 5,000 30,000
		35,000
(c) From the view point of B Ltd: Capital Reserve as on 01.04.2011: Revenue Reserve as on 01 .04.2011: Increase in Revenue Reserve	 50,000 75,000 —	 2,25,000
	1,25,000	2,25,000
Share of B Ltd. (3/5)	75,000	1,35,000

Share of Capital Profit of B in C will be taken to cost of control. However, share of Revenue Profit of B Ltd. in C Ltd. will be divided between Capital and Revenue from the point of view of H Ltd. as follows:

Increase in Capital Reserves of C Ltd. from 01.04.2011 to 01.04.2012 (1,75,000 — 75,000)	1,00,000
Increase in Capital I Revenue Reserves of C Ltd. from 01.04.2012 to 31.03.2013 (3,00,000 - 1,75,000)	1,25,000

The derived Revenue profits of ₹ 1,35,000 of B Ltd. from C Ltd. will therefore be divided between Capital and Revenue in the ratio of 20 : 25 i.e., 4 : 5
Capital Profit : 1,35,000 x 4/9 = ₹ 60,000
Revenue Profit : 1,35,000 x 5/9 = ₹ 75,000

2. Analysis of profit of B Ltd. from the view point of H Ltd.

Particulars	**Capital Profit (₹)**	**Revenue Profit (₹)**
Consolidated Reserve on 01.04.2012: (including ₹ 60,000 from C Ltd., its own being only ₹ 2,15,000). Capital Reserve 01.04.2012 Increase in Revenue Reserved since 01 .04.2012 i.e. (3,75,000 – 2,15,000) Derived Revenue Profit from C Ltd:	2,75,000 75,000	— 1,60,000 75,000
 Less: Minority Interest (1/5):	3,50,000 70,000	2,35,000 47,000
H Share of B Ltd.	2,80,000	1,88,000

3. Cost of Control: **(₹)**

Amount Paid for Shares by H Ltd.: In B Ltd. Amount Paid for Shares by H Ltd.: In C Ltd. Amount Paid for Shares by B Ltd. : In C Ltd.		22,50,000 2,50,000 5,00,000

		30,00,000
Less: Paid up Value of Shares 3,00,000+10,00,000+1,50,000:	14,50,000	
Capital Profit in C Ltd.		
Share of H Ltd.:	67,500	
Share of B Ltd.:	75,000	
Share of H Ltd. in Capital Profit of B Ltd.:	2,80,000	18,72,500
Goodwill:		11,27,500

4. Consolidated Revenue Reserve

Revenue Reserve of H Ltd.:	5,00,000
Share of H Ltd. in C Ltd.:	37,500
Share of H Ltd. in B Ltd.:	1,88,000
	7,25,500

5. Minority Interest

Paid up value of Shares	
In B Ltd.	2,50,000
In C Ltd	50,000
Share of Capital Profits	
In B Ltd	70,000
In C Ltd.	5,000
Share of Revenue Profits	
In B Ltd.	47,000
In C Ltd.	30,000
	4,52,000

Study Note – 4

Recent Trends in Financial Reporting

Section – A

1. **Answer the following questions:**

(a) Multiple choice questions:

(i) Three pillars of sustainability are?
   (a) People
   (b) Planet
   (c) Profit
   (d) All of these

(ii) What is not a part of sustainability?
   (a) Social sustainability
   (b) Political sustainability
   (c) Economic sustainability
   (d) Economic sustainability

(iii) Sustainability means?
   (a) A balancing act of economic factor
   (b) Environment factor balancing
   (c) Social factor balancing
   (d) All of these

(iv) Which was the year of articulation of the Triple Bottom Line concept?
   (a) 1998
   (b) 1997
   (c) 1996
   (d) 1994

(v) Triple Bottom Line (TBL) means?
   (a) Recording
   (b) Operating result
   (c) Last line
   (d) All of these

(vi) What are the challenges for implementation of Triple Bottom Line reporting?

- **(a) Awareness of relevant issue of TBL**
- **(b) Understanding stakeholder requirement**
- **(c) Determining performance indicators**
- **(d) All of these**

(vii)Forms of Triple Bottom Line reporting?

- **(a) Overall strategic objective**
- **(b) Current capacity of reporting**
- **(c) Prioritization of stakeholder requirement**
- **(d) All of these**

(viii) Who are the users of the Triple Bottom Line reporting?

- **(a) Government**
- **(b) Businesses**
- **(c) Non-Profit Organizations**
- **(d) All of these**

(ix) What are the benefits of Triple Bottom Line reporting?

- **(a) Identification of potential cost savings**
- **(b) Reduced risk profile**
- **(c) Reputation enhancement**
- **(d) All of these**

(x) What are the challenges of Triple Bottom Line reporting?

- **(a) Calculation of TBL**
- **(b) Presentation of TBL**
- **(c) Interpretation of TBL**
- **(d) None of these**

Answer:

Question No	i	ii	iii	iv	v	vi	vii	viii	ix	x
Answer	d	b	d	b	d	d	d	d	d	a

Section- B

2. Answer the following questions

(a) Discuss the concept of Triple Bottom Line (TBL) reporting

Answer:

The triple bottom line reporting has extended the traditional reporting framework to consider the social, economic and environmental performance of the business. It says that the reporting should include the social, environmental and financial performance of an organization. TBL refers to the publication of economic, environmental and social information of a business in an integrated manner so that it can reveal the actions across these three dimensions of a company's performance. TBL reporting of an organization is the reporting on three different 'bottom lines' that are quite distinct, but related to one another. These are discussed below:

- 'Income Statement' is the first bottom line. It is the measure of operating profits of the business.
- The second bottom line is organization's 'People Account'. It measures the social responsibility of an organization in its operation.
- 'Planet Account' is the third bottom line of an organization. It measures environmental responsibility of an organization.

The full cost of operation of a business will be considered if the company prepares the TBL report.

(b) What are the benefits of TBL reporting?

Answer:

The advantages of triple bottom line reporting are discussed below:

1) **Reputation and Brand enhancement:** Corporate reputation is the perception of the stakeholders of a company. Communication with stakeholders regarding environmental, economic and social issues plays an important role in their perceptions about the organization. It will protect and promote the corporate reputation.
2) **Securing a social license for operation:** The organization will continue its operation by getting informal support from the community and stakeholders. It is called 'license to operate'. A link between success of continuing business and 'license to operate' is needed to be recognized, especially in the resource sector. To secure and maintaining the 'license to operate', continuous communication with stakeholders is very important. Communities and stakeholders are generally more supportive to those companies which communicate the environment, social and economic performance of the companies.
3) **Attraction and retention of high quality employees:** The social, environmental and economic factors are always considered by the employees of an organization to decide whether they will work with it or not. The publication of a TBL report plays a significant role in 'employer in choice' which enhances the employees' loyalty, reduces labour turnover and draws high quality employees.

4) **Improve access to the stock market:** The investors are considering the environment and social factors in their decision making process. More investment and more stakeholders' activity is the indication of growth in social responsibility of that organization. The publication of BTL report ensures that the company is aligning its communication with their stakeholders. It is the evidence that the organization is responding to the investors' requirements. Therefore, TBL reporting enhances the attractiveness of the company in the investment market.
5) **Establish position as a preferred supplier:** A company can be preferred as a good supplier if it obtains a differential position in the market. So, the communication of TBL information to the stakeholders helps an organization to get a differential position in the market.
6) **Reduction of risk profile:** TBL reporting on the economic, social and environmental in the performance of an organization has an impact on the views of market participants about the company's exposure to risk and management of such risk. TBL report demonstrates the company's commitments to effectively manage the economic, social and environmental factors and to communicate its performance in these areas. The communication of TBL information plays an important role in the company's overall risk management strategy.
7) **Identification of potential cost savings:** TBL information is the collection, collation and analysis of data regarding the resources and materials used and the assessment of business processes. It helps to better identifying the opportunities for cost savings through more efficient use of resources and materials.
8) **More scope for innovation:** The research and development activities will help to create innovative products and services with expectations of stakeholders. Through the TBL reporting a company can connect with the stakeholders and can understand their priorities and concern.
9) **Aligning stakeholders need with management focus:** External reporting of information always enhances the attention of management on the integrity of the data as well as continuous improvement of the reported facts.
10) **A sound basis for stakeholder dialogue:** TBL reports help an organization to create a strong platform for appealing in conversation with the stakeholders. Proper perception of the stakeholders' requirements and association of business performance with those requirements is essential to business success. TBL information demonstrates the company's promises to manage all of its impact to stakeholder. This helps to establish a sound basis for stakeholders' discussion.

(c) What are the prerequisites for the implementation of TBL report?

Answer:

TBL report would have the relevance for its stakeholders if it is associated to the company's overall business strategy. A decision to move to full TBL reporting should be taken seriously. It involves major resources. So, it must have the senior management endorsement and commitment. A half hearted approach is likely to be worse than not adapting it all.

Strategy for implementation: There are many important issues for consideration in the development and implementation of TBL reports. These issues are as followings:

(i) The strategic business objective should clearly definite of the role of TBL reporting

(ii) Establishment of the resource and cost requirement;
(iii) Awareness of associated legal implications;
(iv) Proper risk perception involved in publishing TBL information.

Key challenges of implementation: The key challenges for the implementation of the TBL report framework are as follows:
(i) Awareness of relevant issues associated with TBL reporting;
(ii) Understanding stakeholder requirements;
(iii) Association of TBL reporting with the objectives and risks;
(iv) Determining and measuring performance indicators.

(d) Who are the users of TBL reporting?

Answer:
The TBL reporting is used by the following agencies:
(i) **Businesses:** The TBL information and its core value of sustainability have become persuasive in the business world. It accumulates subjective evidence of greater long term profitability. For example, reducing waste from packaging can also reduce costs. These approaches are followed by the firms like General Electric, Unilever, Proctor, and Gamble, 3M among others.
(ii) **Nonprofit Organizations:** Many non-profit organizations have adopted the TBL reporting. They have partnership with the private firms to address the sustainability issue that affects mutual stakeholders. Companies recognize that association with nonprofit organizations makes good business sense, particularly those nonprofit organizations whose goals are of economic prosperity, social well being and environmental protection.
(iii) **Government:** State, regional and local Government are increasing the adapting the TBL reporting and parallel considering sustainability assessment frameworks as decision making and performance monitoring tools.

(e) Discuss the relationship between the financial reporting and TBL reporting.

Answer:
The financial reporting and TBL reporting has the following relations:
- **Origin:** The origination of financial reporting is prior to that of TBL reporting. The latter being just a few decades old.
- **Nature:** It is mandatory for corporate to prepare and present their financial reports whereas the preparation of TBL reports is voluntary.
- **Scope:** The TBL reporting is broader in scope whereas financial reporting is included in the TBT reporting of an organization. The TBT reporting considers social and environmental performances in addition to the financial performance of the organization.
- **Contents:** The information contained within BLT reporting is of environmental and social and financial performances whereas financial reporting includes only financial performance of an organization.

Study Note – 5

Valuation, Accounting and Reporting of Financial Instruments and Others

Section – A

1) Answer the following questions

Multiple choice questions:

(i) What is a financial asset?
- (a) Cash
- (b) An Equity instrument
- (c) Contractual right to receive cash
- (d) All of these

(ii) What is a financial instrument?
- (a) A contract
- (b) Financial assets
- (c) Financial liability or Equity
- (d) All of these

(iii) What is Hedging?
- (a) Reduce uncertainty
- (b) Increase uncertainty
- (c) Increase liability
- (d) None of these

(iv) What is not a hedging relationship?
- (a) Fair value hedge
- (b) Cash flow hedge
- (c) Fund flow hedge
- (d) Hedge of a net investment in a foreign operation

(v) Where does the goodwill, create an impression?
- (a) In the mind of customers
- (b) In the mind of creditors
- (c) Both customers and creditors
- (d) None of these

(vi) What is purchased goodwill?

(a) When payment is made in excess of net asset purchased
(b) When less payment is made of net asset purchased
(c) Both of the above
(d) None of these

(vii)What is net asset?

(a) Total tangible assets
(b) Total current assets
(c) Total fixed assets plus total current assets
(d) Total fixed assets plus total current assets minus total current liabilities

(viii) How do you record latent goodwill?

(a) Recorded as an asset
(b) Not recorded as an asset
(c) Both of the above
(d) None of these

(ix) What is PE ratio?

(a) MPS/EPS
(b) EPS/MPS
(c) MPS/Profit
(d) EPS/Net Profit

(x) What is super profit?

(a) Capital employed – Average capital employed
(b) Normal profit
(c) Actual profit – Normal profit
(d) Capitalized value of profit – Intangible Assets

Answer:

Question No	i	ii	iii	iv	v	vi	vii	viii	ix	x
Answer	d	d	a	c	a	a	d	b	a	c

Section – B

Answer the following questions:

(a) What is a financial asset?

Answer:

A financial asset means the followings:

- Cash
- Equity instruments of other organizations e.g. Investment in shares
- A contractual right to receive cash or to exchange financial assets or liabilities with other enterprise under the potentially favourable conditions to the enterprise.

(b) How do you classify the financial assets?

Answer:

The financial assets can be classified as under:

- **Held for trading:** Financial assets are held for trading at fair value through profit and loss accounts. It includes derivatives also.
- **Held to maturity:** Assets have a fixed maturity. The entity has a positive intention and ability to hold the asset till maturity.
- **Loans & receivables:** Assets with fixed payments (determinable and which are not quoted in the market)
- **Available for sale:** These are those assets which are not classified under any of the above categories (residual).

(c) What are the factors affecting the valuation of shares?

Answer:

There are many factors which have an impact on the valuation of shares. These are mentioned below:

(i) The nature of business of the company.
(ii) The past performance of the company.
(iii) Economic conditions of the nation.
(iv) Other political and economic issues such as possibility of nationalization, excise duty on product manufactured etc.
(v) Demand and supply of shares of the company.
(vi) Income earning capacity of the company.
(vii) The solvency of the company i.e. sufficiency of assets over liabilities.
(viii) Proportion of liabilities and capital.

(ix) Rate of proposed dividend and previous profits of the company.
(x) Earning from other related shares of the stock exchange.

(d) How the income of the NBFCs is recognized?

Answer:

The income of the NBFCs is recognized as under:

(i) Based on the accounting principle income of NBFCs is recognition.
(ii) Incomes such as interest, discount received, hire charges, lease rentals or any other charges on Non-Performing Assets (NPA) shall be recognized after it is actually realized. Any such income recognized before the asset become NPA and stay unrealized shall be reversed. RBI also requires that income recognized before asset becoming NPA should be reversed in the financial year in which such asset becomes NPA.
(iii) The NBFCs should recognize the income from dividend on shares and units of mutual funds on cash basis. When the company has declared the dividend in the annual general meeting and right to receive the same has been established then such dividend can be recognized on an accrual basis.
(iv) Income from Government securities or bonds and debentures or bonds of companies may be taken into account on accrual basis when it is paid regularly and there is no arrear.
(v) Income from securities of companies or public sector undertakings may be taken into account on accrual basis when such interest payment and repayment of the security has been guaranteed by the Central Government.

(e) What are the conditions for applying Hedge accounting?

Answer:

A Hedge relationship can be accounted for if the following conditions are satisfied:

(i) There is formal designation and documentation of the hedging relationship, entity's risk management objective and strategy for undertaking the hedge when the hedge is setting up. This document should include the followings: identification of the hedging instrument, nature of the risk of the hedge transaction and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the fair value or cash flows attributable to the hedging risk.
(ii) Hedging will be highly effective in offsetting the changes in fair value or cash flows attributable to the hedged risk and that is consistent with the originally documented risk management strategy for that hedging relationship.
(iii) Forecast the transaction of the hedge must be highly probable for cash flow hedging. It must present an exposure to variations in cash flows which will ultimately affect profit or loss.
(iv) When the fair value or cash flows attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured then the effectiveness of the hedge can also be reliably measured.

(v) The hedge is assessed on continuing basis. It is determined to have highly effectiveness throughout the financial reporting periods for which the hedge has been selected.

(f) Ram purchases the following Equity Index option and the seller/Writer of this option is Laxman.

Date of purchase	**28.03.2017**
Type of option	**S&P CNX Nifty - Call**
Expiry date	**31.05.2017**
Premium per unit	**₹ 21**
Contract multiplier (no. of units)	**2500**
Margin per unit	**₹ 180**
Strike price	**₹ 920**

Margin calculated by SPAN on 29.03.2017 is ₹ 560000; on 30.03.17 is ₹ 380000 and on 31.03.17 is ₹ 410000. The prevailing premium rate for the above option on 31.03.17 is ₹ 60 per unit.

You are asked to give the journal entries in the books of both the parties. Also show the balance sheet (extract) as on 31.03.17.

Solution:

In the books of Ram
Journal entries

Date	Particulars	Dr. (₹)	Cr. (₹)
28.03.17	Equity stock option premium a/c Dr. To Bank a/c (Being premium paid @ ₹ 21 per unit for 2500 units)	52,500	 52,500
31.0317	Profit & Loss a/c Dr. To Provision for loss on Equity stock option a/c (Being provision made for loss on for loss on Equity stock option a/c to the extent of ₹ 5 per unit for 2500 units)	12,500	 12,500

Balance Sheet of Ram as on 31.03.17 (extract)

Particulars	₹	₹
Current Assets:		
Equity index option premium	52,500	
(-) Provision for loss	12,500	40,000

In the books of Laxman

Journal entries

Date	Particulars	Dr. (₹)	Cr. (₹)
28.03.17	Bank a/c Dr. To Equity stock option premium a/c (Being premium received ₹ 21 on 2500 units on sale of stock option.)	52,500	 52,500
28.03.17	Equity index option margin a/c Dr. To Bank a/c (Being initial margin paid on the option contract at ₹ 180 per unit for 2500 units)	4,50,000	 4,50,000
29.03.17	Equity index option margin a/c Dr. To Bank a/c (Being further margin collected by the stock exchange as per SPAN)	1,10,000	 1,10,000
30.03.17	Bank a/c Dr. To Equity index option margin a/c (Being excess margin received as per SPAN)	1,80,000	 1,80,000
31.03.17	Equity index option margin a/c Dr. To Bank a/c (Being further margin collection by the stock exchange as per SPAN)	30,000	 30,000

Balance Sheet as on 31.03.17 (Extract)

Particulars	₹
Equity and Liabilities:	
Current Liabilities:	
Equity stock option premium	52,500
Assets:	
Current Assets:	
Equity index option margin	4,10,000

(g) On 1.04.17 Tata Ltd. Issued ₹ 30,00,000. 6% convertible debenture of face value of ₹ 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31.03.21 or these may be converted into ordinary share at the option of the holder the interest rate for the equivalent debentures without conversion rights would have been 10%.

Being compounded financial instrument, you are asked to separate equity and debt portion as on 1.04.17.

The present value of ₹ 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

End of the year	6%	10%
1	0.94	0.91
2	0.89	0.83
3	0.84	0.75
4	0.79	0.68

You are required to computer the value of embedded derivatives.

Solution:

Statement showing computation of Liabilities and Equity Components

Year	Cash flow (₹)	PV@ 10%	Amount (₹)
2018-19	1,80,000	0.91	1,63,800
2019-20	1,80,000	0.83	1,49,400
2020-21	1,80,000	0.75	1,35,000
2021-22	34,80,000	0.68	23,66,400
Value of liabilities			28,14,600
Value of equity (Balancing Figure)			1,85,400
			30,00,000

Journal entries

Particulars		Dr. (₹)	Cr. (₹)
Bank a/c	Dr.	30,00,000	
To Convertible Debentures a/c (liabilities)			28,14,600
To Convertible Debentures a/c (equity)			1,85,400

Convertible Debenture a/c (liability)

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
2018-19	To Bank a/c	1,80,000	2018-19	By Bank a/c	28,14,600
	To Balance c/d	29,16,060		By Interest a/c	2,81,460
		30,96,060			30,96,060
2019-20	To Bank a/c	1,80,000	2019-20	By Balance b/d	29,16,060
	To Balance c/d	30,27,666		By Interest a/c	2,91,606
		32,07,666			32,07,666
2020-21	To Bank a/c	1,80,000	2020-21	By Balance b/d	30,27,666
	To Balance c/d	31,50,433		By Interest a/c	3,02,767
		33,30,433			33,30,433
2021-22	To Bank a/c	1,80,000	2021-22	By Balance b/d	31,50,433
	To Bank/Equity a/c	32,85,476		By Interest a/c (Bal. Fig.)	3,15,043
		34,65,476			34,65,476

(h) X Ltd brought a machinery for ₹ 50,00,000 during the financial year and installed it immediately. The price charged by the vendor included excise duty (CENVAT credit available) of ₹ 5,00,000. During this year, X Ltd also produced excisable goods on which excise duty chargeable is ₹ 4,50,000. Show the journal entries describing the CENVAT credit treatment. At what amount should machinery be capitalized?

Solution:

In the books of X Ltd.

Journal entries

Particulars	Dr. (₹	Cr. (₹)
Machinery a/c Dr. CENVAT credit receivable (capital goods) a/c Dr. CENVAT credit deferred (capital goods) a/c Dr. To Asset vendor/ Bank a/c (Being machinery brought recorded, including immediate CENVAT credit available of 50%, balance 50% (assumed) credit available in subsequent years)	45,00,000 2,50,000 2,50,000	 50,00,000
Exercise duty a/c Dr. To CENVAT credit receivable (capital goods) a/c (Being set off of CENVAT credit during the year)	2,50,000	 2,50,000
Exercise duty a/c Dr. To Bank a/c (Being balance exercise duty payable ₹ 4,50,000, ₹ 2,50,000 set off, now justify settled)	2,00,000	 2,00,000
Subsequent financial years CENVAT credit receivable (capital goods) a/c Dr. To CENVAT credit deferred (capital goods) a/c (Being transfer of balance CENVAT credit available on capital goods)	 2,50,000	 2,50,000

Balance Sheet as on……. (extract)

Assets	₹
Non-Current Assets: **Fixed assets:** Tangible- Machinery at cost	 45,00,000
Other Non-Current Assets:	2,50,000

(i) On 1.06.16, a registered dealer acquired a plant for ₹ 93,60,000 which includes State VAT of ₹ 3,60,000. As per the State VAT Act, the input VAT on capital goods is adjustable in 36 equal monthly installments beginning from 1st July of the year. During the financial year, the dealer has set off a sum of ₹ 25,000 from the VAT credit receivable on capital goods, against the VAT payable on the sales made by him. The dealer charges 10% p.a. depreciation on plant.
Show the accounting treatment of the above.

Solution:

Journal entries

Particulars	Dr. (₹)	Cr. (₹)
Plant a/c Dr. VAT credit deferred (capital goods) a/c Dr. To Bank/ Asset vendor a/c (Being plant acquired and input tax paid thereon)	90,00,000 3,60,000	 93,60,000
VAT credit receivable (capital goods) a/c Dr. To VAT credit deferred (capital goods) a/c (Being VAT credit available on capital goods for the current period i.e. 1st July to 31st March = ₹ 3,60,000*9/36= ₹ 90,000)	90,000	 90,000
VAT payable a/c Dr. To VAT credit receivable (capital goods) a/c (Being set off of VAT credit against liability for VAT payment)	25,000	 25,000
Depreciation a/c Dr. To Plant a/c (Being depreciation on machinery= (₹ 90,00,000*10%*10/12)	7,50,000	 7,50,000

Balance Sheet as on 31st March end of the financial year (includes)

Assets		₹
Non-Current Assets		
Fixed Assets:		
Tangible- Plant	90,00,000	
(-) Depreciation	7,50,000	82,50,000
Other Non-Current Assets:		
VAT credit receivable (capital goods) a/c		2,70,000
VAT credit receivable (capital goods) a/c		65,000

(j) A NBFC has the following classified advances as on 31.03.18 which is the closing date.

Particulars	**₹ (in lakhs)**
Standard Assets	**15,300**
Sub-Standard Assets	**1,450**
Secured positions of doubtful debts:	
- Up to 1 year	**510**
- 1 year to 3 years	**100**
- More than 3 years	**50**
Unsecured portions of doubtful debts	**120**
Loss Assets	**65**

Compute the provisions to be made against the above classified advances on that date.

Solution:

Particulars	Advance Amount (₹ in lakhs)	Provision (%)	Provision Amount (₹ in lakhs)
Standard Assets	15,300	Nil	Nil
Sub- Standard Assets	1,450	10%	145
Secured positions of doubtful debts:			
Up to 1 year	510	20%	102
1 year to 3 years	100	30%	30
More than 3 years	50	50%	25
Unsecured portions of doubtful debts	120	100%	120
Loss Assets	65	100%	65
Total			487

(k) A NBFC has the following classified advances as on 31.03.17 which is the closing date.

Particulars	₹
Standard Assets	**50,00,000**
Sub-Standard Assets	**3,00,000**
Secured positions of doubtful debts:	
- Up to 1 year	**1,50,000**
- 1 year to 3 years	**80,000**
- More than 3 years	**30,000**
Unsecured portions of doubtful debts	**1,00,000**
Loss Assets	**45,000**

Compute the provisions to be made against the above classified advances on that date.

Solution:

Particulars	Advance Amount (₹ in lakhs)	Provision (%)	Provision Amount (₹ in lakhs)
Standard Assets	50,00,000	Nil	Nil
Sub- Standard Assets	3,00,000	10%	30,000
Secured positions of doubtful debts:			
Up to 1 year	1,50,000	20%	30,000
1 year to 3 years	80,000	30%	24,000
More than 3 years	30,000	50%	15,000
Unsecured portions of doubtful debts	1,00,000	100%	1,00,000
Loss Assets	45,000	100%	45,000
Total			2,44,000

(I) Following information is available about Z Ltd.

Balance Sheet of Z Ltd. as on 30.06.17

Liabilities	₹	Assets	₹
Share capital:		Land and buildings	1,10,000
2000 shares @ ₹ 100 each	2,00,000	Plant and machinery	1,30,000
General reserve	40,000	Patents and trade marks	20,000
Profit & loss a/c	32,000	Stock	48,000
Sundry creditors	1,28,000	Debtors	88,000
Income tax reserve	60,000	Bank	52,000
		Preliminary expenses	12,000
	4,60,000		4,60,000

The revalued figures of land & building ₹2,40,000; goodwill at ₹ 1,60,000; and plan at ₹ 1,20,000. Out of the total debtors, it is found that debtors of ₹ 8,000 are bad. The profit of the company have been as 2015 – ₹ 80,000, 2016 - ₹90,000 and 2017 - ₹1,06,000.

The rate of depreciation on Plant and machinery @ 15% and on land and building @ 10%.
25% of profit is transferred to general reserve. Similar type of companies earns 10% of the value of their shares.
Determine the value of shares of the company under: (i) intrinsic value method (ii) yield value method (iii) fair value method.

Solution:

(i) Intrinsic value method:

Particulars	₹
Sundry Assets:	
Land and buildings	2,40,000
Goodwill	1,60,000
Plant and machinery	1,20,000
Patent and trademarks	20,000
Stock	48,000
Debtors less bad debt	80,000
Bank	52,000
	7,20,000
(-) Sundry Creditors	1,28,000
Net assets	5,92,000
No. of shares	2,000
Value per share (₹5,92,000/2,000)	₹ 296

(ii) Yield value method

Particulars	₹
Total profits of last three years (₹80,000+90,000+1,06,000)	2,76,000
(-) bad debts	8,000
	2,68,000
Average profit (₹2,68,000/3)	89,333
(+) Depreciation on plant & machinery @ 15% on ₹10,000	1,500
(-) Additional depreciation on land & buildings @ 10% on ₹ 1,30,000	13,000
Average maintainable profit	77,833
(-) Transfer to reserve @ 25% on ₹77,833	19,458
Profit available for dividend	58,375

Expected rate of dividend:

Profit available for dividend/Share capital*100 = ₹ 58,375/2,00,000*100 = 29.187%

Yield value of per share:

Expected rate of dividend/ Normal rate of return*paid up value of each share= 29.187%/10%*₹100 = ₹ 291.87

Fair value method:

Fair value of each share = (Intrinsic value + Yield value)/2 = (296+291.87)/2 = ₹293.94

(m) AB Ltd has furnished the following information:

Share capital: 200000 equity shares @ ₹ 10 each fully paid.

Profit after tax, dividend declared and retained earnings:

Year	Profit after tax (₹)	Dividend declared (₹)	Retained earnings (₹)
2017	**7,10,000**	**3,40,000**	**3,70,000**
2016	**6,00,000**	**3,00,000**	**3,00,000**
2015	**4,00,000**	**2,60,000**	**1,40,000**

Normal rate of return is 12%. Normal earning of similar company in the same industry is 15%.

You are asked to compute the value of shares if (i) only a few shares are sold (ii) majority shares are sold.

Solution:

(i) The company has consistently maintained a growth trend from2015 to 2017; profits are to be weighted in the ratio of 1:2:3 – the greatest weight is given to last year.

Since only a few shares are to be sold, the shares should be valued on the basis of dividend declared and expected normal rate of return.

Year (A)	Dividend declared (₹) (B)	Share capital (₹) (C)	Rate of dividend (₹) (D=B/C*100)	Weights	Weighted dividend rates
2015	2,60,000	20,00,000	13%	1	13
2016	3,00,000	20,00,000	15%	2	30
2017	3,40,000	20,00,000	17%	3	51
				6	94

Weighted average rate of dividend ratio = 94/6*100 = 15.67%

Therefore the yield values of each equity share:
Weighted average rate of dividend/Normal rate of dividend*paid up value of each equity share = 15.67/12*10 = ₹ 13.06.

(ii) Then majority of shares are to be sold are to be sold, the share should be valued on the basis of weighted average profit and expected normal earrings of the similar companies in the same industry.

Computation of weighted earnings

Year (A)	Earnings (₹) (B)	Weights (C)	Weighted Earnings (₹) (D= B*C)
2015	4,00,000	1	4,00,000
2016	6,00,000	2	12,00,000
2017	7,10,000	3	21,30,000
		6	37,30,000

Weighted average earnings = ₹ 37,30,000/6 = ₹ 6,21,667

Weighted average rate of earnings = ₹ 6,21,667/20,00,000*100 = 31% (approx)

Value of each equity share=
(Weighted average rate of earnings/Normal return)* paid up value of each equity share
= (31/15)*10 = ₹ 20.67.

(n) From the following information, calculate the value of goodwill under capitalization of average profit method:
Capital employed ₹1,40,000, Normal rate of profit 10%, Net profit before taxation (tax rate 40%) 1st year: ₹ 2,20,000; 2nd year: ₹2,80,000; 3rd year: ₹2,60,000; 4th year: ₹3,00,000; 5th year: ₹2,75,000.
Non- trading income of ₹10,000 and debenture interest ₹20,000 on an average is included in profit and loss account.

Solution:

Average profit = ₹ (2,20,000+2,80,000+2,60,000+3,00,000+2,75,000)/5 = ₹2,67,000

Computation of Average Maintainable Profit (After Tax)

Particulars	₹
Average profit	2,67,000
(+) Debenture interest	20,000
	2,87,000
(-) Trading income	10,000
Profit before tax:	**2,77,000**
(-) tax @40%	1,10,800
Profit after tax	**1,66,200**

Total value of the firm = (Average maintainable profit/Normal rate of return)*100
=(1,66,200/10)*100
= ₹16,62,000

Goodwill = Total value of the firm – Capital employed =16,62,000 – 14,00,000 = ₹**2,62,000**

(o) Das & Co, a partnership farm, has the following the particulars

1. **Average capital employed in the business is ₹7,00,000**
2. **Net profit of the firm for the last three years: ₹1,07,600; ₹90,700; ₹1,12,500**
3. **Market rate of interest on investments 8%.**
4. **Rate of risk return on capital invested in business 2%.**
5. **Fair remuneration to the partners for their services ₹12,000 per annum.**
6. **The profit included non-recurring profits on average basis of ₹1,000 out of which it was considered that even non-recurring profits had a tendency to be recurring at an average rate of ₹600 per year.**
7. **Sundry assets of the firm ₹7,50,000 and current liabilities is ₹30,000.**

Determine the value of goodwill of firm under the following method:
(I) 3 years' purchase of super profit method
(II) Capitalization of super profit method.

Ignore taxation.

Solution:

Average profit = ₹(1,07,600+90,700+112,500)/3 = ₹1,03,600.

Computation of Super Profit

Particulars	₹
Average profit	1,03,600
(+) Partners' remuneration	12,000
	91,600
(-) Non-recurring income (₹1,000- ₹ 600)	400
	91,200
(-) Normal return on capital employed (10% * ₹7,00,000)	70,000
Super profit	21,200

(1) Value of Goodwill = Super profit*No. of years' purchase = ₹21,200*3 = ₹63,600

(2) Valuation of goodwill= (Super profit/Normal rate of return)*100 = (21,200/10)*100 = ₹2,12,000.

(p) The balance Sheet of XYZ Ltd. for 2016 and 2017 the following position

liabilities	**2016 (₹)**	**2017 (₹)**	**Assets**	**2016 (₹)**	**2017 (₹)**
Paid-up capital:			**Land & buildings**	**1,30,000**	**1,25,000**
Equity shares	**1,00,000**	**1,50,000**	**Plant & machinery**	**60,000**	**85,000**
8% Preference share	**50,000**	**70,000**	**Investment**	**40,000**	**40,000**
General reserve	**80,000**	**80,000**	**Sundry debtors**	**60,000**	**50,000**
Profit & loss account	**50,000**	**1,50,000**	**Cash at bank**	**75,000**	**2,40,000**
7% debentures	**60,000**	**60,000**			
Sundry creditors	**25,000**	**30,000**			
	36,50,000	**5,40,000**		**3,65,000**	**5,40,000**

Compute the value of goodwill on the basis of the following information:

(a) Last five years' profit are given below which are arrived at before charging interest on debenture, payment of preference dividend after charging depreciation and payment of tax. No dividend of equity shares was paid in those years.
2013-₹1,00,000; 2014-₹1,20,000; 2015 -₹1,10,000; 2016-₹10,000; 2017- ₹1,05,000

(b) Under voluntary retirement scheme the company spent ₹95,000 in 2016.

(c) Before 1st January, 2016 the company had no investments. On that date, it invested ₹40,000 in 10% Government bonds at face value. Profits for 2016 and 2017 include interest on Government bond.

(d) The reasonable return on capital employed is 12%.

(e) The goodwill is to be valued on 3 years' purchase of super profit. (Assumed tax rate is 5%.)

Solution:

Computation of adjusted profit (after tax)

Particulars	2013 (₹)	2014 (₹)	2015 (₹)	2016 (₹)	2017 (₹)
Profit after tax (given)	1,00,000	1,20,000	1,10,000	10,000	1,05,000
(+) VRS Expenses (Net of Tax)	-	-	-	47,500	-
(-) Interest on investment (Net of Tax)	-	-	-	(2,000)	(2,000)
Adjusted profit after tax	**1,00,000**	**1,20,000**	**1,10,000**	**55,500**	**1,03,000**

Average profit after tax= (1,00,000+1,20,000+1,10,000+55,500+1,03,000)/5 =97,700

Computation of capital employed

Particulars	2016 (₹)	2017 (₹)
Total assets (excluding investment)	3,25,000	5,00,000
(-) Trade creditors	25,000	30,000
Capital employed	3,00,000	4,70,000

Average Capital Employed = (opening capital employed + closing capital employed)/2
= (3,00,000+4,70,000)/2 = ₹38,50,000

Computation of average Super profit

Particulars	₹
Adjusted average trading profit after tax	97,700
(-) Normal return on average capital employed (12%* ₹ 3,85,000)	46,200
Super profits	51,500

Value of goodwill = 3 years' purchase of super profits = ₹51,500*3 = ₹1,54,500.

Study Note – 6

Share Based Payment

Section – A

Answer the following questions

(a) Multiple choice questions:

(i) How can 'Employee Stock Option' be offered?
- (a) A special resolution in the general meeting
- (b) An ordinary resolution in the general meeting
- (c) A resolution in the board meeting
- (d) None of these

(ii) To whom 'Employee Stock Option' can be offered?
- (a) Employee of the company only
- (b) Officer of the company only
- (c) Whole time directors of the company only
- (d) All of these

(iii) What is the eligibility of an employee who is a promoter to exercise the option?
- (a) Eligible to participate in 'Employee Stock Purchase Scheme'
- (b) Not eligible to participate in 'Employee Stock Purchase Scheme'
- (c) Eligible to participate in 'Employee Stock Purchase Scheme' if permitted by the Board of Directors
- (d) Eligible to participate in 'Employee Stock Purchase Scheme' if permitted by shareholders in General Meeting.

(iv) What are the types of share based payment transaction?
- (a) Equity settled share based payment transaction
- (b) Cash settled share based payment transaction
- (c) Share based payment transaction with cash alternatives
- (d) All of these

(v) What are the types of share based payment plans?
- (a) Employee stock option plan
- (b) Employee stock option purchase plan
- (c) Stock appreciation rights
- (d) All of these

(vi) What are the important terms of employee share based payment plan?
(a) Grant
(b) Intrinsic value
(c) Vesting Period
(d) All of these

(vii)Where does 'Employee Stock Option Outstanding' appear?
(a) Profit and loss A/C
(b) Balance sheet as a negative item as a part of net worth
(c) Balance sheet as a part of net worth
(d) Profit and loss appropriation A/C

(viii) How do you calculate the value of the option?
(a) No. of option exercise *(market price – exercise price)
(b) No. of option exercise *(market price – fair price)
(c) No. of option granted *(market price – exercise price)
(d) No. of option granted *(market price – fair price)

(ix) What is the minimum lock in period of share issued under ESOS from the date of allotment?
(a) One year
(b) Two years
(c) Three years
(d) None of these

(x) What is the minimum period between the grant of option and vesting of option?
(a) One year
(b) Two years
(c) Three years
(d) None of these

Answer:

Question No	i	ii	iii	iv	v	vi	vii	viii	ix	x
Answer	a	d	b	d	d	d	c	c	a	a

Section – B

Answer the following questions

(a) Write a short note on Share based payment system:

Answer:

A share-based payment is a transaction in which the entity receives goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other instruments of the equity.

Employee share-based payments are incentive payments to employees in the form of shares. It also includes a cash incentive which is linked with value of shares. The payment in the form of shares generally involves grant of options to employee to subscribe shares of the employer's enterprise at a concessional price, called the exercise price.

The employees gain the excess of the market price over the specified exercise price of shares at the time of exercise. In case of employee share-based payments in the form of cash incentive, the excess of market price on specified future date and a stated price is paid in cash. In either case, the value of the incentive depends on the increased share value, which is the generally accepted indicator and financial successor of a business. By linking incentives with value of shares, the employees' share-based payment plans effectively integrate the personal goals of employees with the goal of the organization.

The day a share-based payment plan is announced and accepted by employees is called the grant day. The day when the employees become entitled to such payments, is called the vesting day. The period between these two dates is called the vesting period. To qualify for the incentives, the employees put in their efforts during the vesting period to fulfill specified vesting conditions, e.g. reaching a specified sales/profit target. Exercise date is the date when an option is exercised by paying the exercise price.

The value of share based payment depends on the market value of shares on the vesting date or exercise date. Hence, it cannot be known with certainty before these dates. Nevertheless, since the share based payments are payments for services rendered by the employees during the vesting period, the value of share based payment should be recognized as an expense during the vesting period, i.e. before value of such payments is known with certainty.

Two principal issues involved in accounting for employee share based payments are:

- Problem of valuation of shares based payments before vesting date
- Problem of allocation of the estimated value of share based payment for a particular accounting period during the vesting period for recognition as expense.

(b) What are the types of share based payment transactions?

Answer:

The share based payment transactions are of three types. These are discussed below:

(i) **Equity-settled share based payment transactions:** As per the condition of its own equity instruments, the entity receives services under this type of share based payment system. It has no obligation to settle the transaction with the supplier.

(ii) **Cash-settle share based transactions:** Under this type of share based payment system, the entity purchases services by incurring liabilities based on the price or value of the equity instruments of the entity or other group entity.

(iii) **Share-based payment transactions with cash alternatives:** Under this type of share based payment system, the entity has a choice of issuing shares or paying cash. The entity shall recognize a liability when it settles the liability in cash. On the other hand, when the entity issues shares rather than paying cash for the settlement then the value of the liability should be transferred to equity.

(c) ABC Ltd. granted 1500 options (equity shares of ₹10 each) on 1st April 2014 @ ₹ 80 when the market price was ₹160. The vesting period was 3 years. The maximum exercise period was 1 year. All the 1500 options were exercised by the employees on 30th October, 2017.

Pass the necessary journal entries in the books of ABC Ltd.

Answer:

In the books of ABC Ltd.

Journal entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31.03.15	Employee compensation expenses a/c Dr To Employee stock option outstanding a/c (Being the amortization of deferred compensation over 3 years on straight line basis)	40,000	 40,000
31.03.16	Employee compensation expenses a/c Dr To Employee stock option outstanding a/c (Being the amortization of deferred compensation over 3 years on straight line basis)	40,000	 40,000
31.03.17	Employee compensation expenses a/c Dr To Employee stock option outstanding a/c (Being the amortization of deferred compensation over 3 years on straight line basis)	40,000	 40,000
30.10.17	Bank a/c (1500*₹80) Dr. Employee stock option outstanding a/c Dr. To Equity share capital a/c To Securities premium a/c (Being 1500 options are exercised)	1,20,000 1,20,000	 15,000 2,25,000

Balance of Employee Compensation Expense A/c to be transferred to Profit & Loss Statement at the end of respective year.

Working Note:

Value of option = No. of options * (market price – exercise price) = 1500*(160 - 80) = 1,20,000

Amortization amount over three years i.e. ₹ 1,20,000/3 = ₹ 40,000 per year.

(d) A Company granted 2000 shares to the employees under ESOS at ₹ 75 (face value ₹ 10; market value ₹ 165) on 1.04.14. The company allowed 3 years for vesting the option and 1 year maximum exercise period. All the options are exercised on 30.09.17.

Show the required journal entries.

Solution:

In the books of ……..

Journal entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31.03.15	Employee compensation expenses a/c Dr	60,000	
	To Employee stock option outstanding a/c		60,000
	(Being the amortization of deferred compensation over 3 years on straight line basis)		
31.03.16	Employee compensation expenses a/c Dr	60,000	
	To Employee stock option outstanding a/c		60,000
	(Being the amortization of deferred compensation over 3 years on straight line basis)		
31.03.17	Employee compensation expenses a/c Dr	60,000	
	To Employee stock option outstanding a/c		60,000
	(Being the amortization of deferred compensation over 3 years on straight line basis)		
30.09.17	Bank a/c (2000*₹75) Dr.	1,50,000	
	Employee stock option outstanding a/c Dr.	1,80,000	
	To Equity share capital a/c		20,000
	To Securities premium a/c		3,10,000
	(Being the issue of 2000 equity shares of ₹ 10 each at a premium of ₹ 155 each as a result of exercising options)		

Working Note:

Value of option = 2000 *(165 - 75) = ₹ 1,80,000

Amount of amortization = ₹ 1,80,000/3 = ₹ 60,000 per year.

(e) TATA Co. grants 1250 options on 1.04.14 at ₹ 80 when market price is ₹200 and face value is ₹10. The vesting period is 3 years. The maximum exercise period is 1 year. 450 unvested options lapse on 1.05.16. 800 options are exercised 31.08.17.

Pass the required journal entries and also show Employee compensation expenses a/c and Employee stock option outstanding a/c.

Solution:

Option discount per share = 200-80 = ₹ 120

Annual amortization:

	31.3.15	31.3.16	31.3.17
Outstanding options	1250	1250	800
Balance of Outstanding ESO required at the end of the year	1250*120*1/3 = 50,000	1250*120*2/3= 100,000	800*120= 96,000
Less. Opening balance	nil	50,000	100,000
Expense to be recognised	50,000	50,000	(4,000)

In the books of TATA Co.

Journal entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31.03.15	Employee compensation expenses a/c Dr	50,000	
	To Employee stock option outstanding a/c		50,000
	(Being the amortization of deferred compensation over 3 years on straight line basis)		
31.03.16	Employee compensation expenses a/c Dr	50,000	
	To Employee stock option outstanding a/c		50,000
	(Being the amortization of deferred compensation over 3 years on straight line basis)		
31.03.17	Employee stock option outstanding a/c Dr	4,000	
	To Employee compensation expenses a/c		4,000
	(Being the amortization of deferred compensation over 3 years on straight line basis)		
31.08.17	Bank a/c (800*₹80) Dr.	64,000	
	Employee stock option outstanding a/c Dr.	96,000	
	To Equity share capital a/c		8,000
	To Securities premium a/c		1,52,000
	(Being the exercise of 800 options)		

Employee compensation expenses a/c

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
31.03.15	To ESO outstanding a/c	50,000	31.03.15	By Profit & Loss a/c	50,000
		50,000			50,000
31.03.16	To ESO outstanding a/c	50,000	31.03.16	By Profit & Loss a/c	50,000
		50,000			50,000
31.03.17	To Profit & Loss a/c	4,000	31.03.17	By ESO outstanding a/c	4,000
		4,000			4,000

Employee stock option outstanding a/c

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
31.03.15	By Balance c/d	50,000	31.03.15	By Employee compensation expenses a/c	50,000
		50,000			50,000
31.03.16	To Balance b/d	1,50,000	1.04.15 31.03.16	By Balance b/d By Employee compensation expenses a/c	50,000 50,000
		1,00,000			1,00,000
31.03.17	To Employee compensation expenses a/c To Balance c/d	4,000 96,000	1.04.16	By Balance b/d	1,00,000
		1,00,000			1,00,000
31.08.17	To Securities premium a/c	96,000	01.04.17	By Balance b/d	96,000

(f) X Ltd. granted 15000 options at ₹ 40 to its employees under Employee Stock Option Scheme (ESOS). The face value of each option was ₹ 10 and its market price at that time was ₹ 120. Two years were the vesting period. All the employees exercised their options fully.
Show the necessary journal entries.

Solution:

In the books of X Ltd.

Journal entries

Date	Particulars	Dr. (₹)	Cr. (₹)
?	Employee compensation expenses a/c Dr. To Employee stock option outstanding a/c (Being compensation expenses of 15000 options recognized as expenses amortized on straight line based over two years)	6,00,000	 6,00,000
	Profit & Loss a/c Dr.	6,00,000	

	To Employee compensation expenses a/c (Being employee compensation expenses transferred to Profit & Loss a/c)		6,00,000
	Employee compensation expenses a/c Dr. To Employee stock option outstanding a/c (Being compensation expenses of 15000 options recognized as expenses amortized on straight line based over two years)	6,00,000	 6,00,000
	Profit & Loss a/c Dr. To Employee compensation expenses a/c (Being employee compensation expenses transferred to Profit & Loss a/c)	6,00,000	 6,00,000
	Bank a/c Dr. Employee stock option outstanding a/c Dr. To Equity share capital a/c To Securities premium a/c (Being issue of 15000 equity shares of ₹ 10 each at a premium of ₹ 110 per share out of exercise of employee stock option as per Boards' Resolution dated……)	6,00,000 12,00,000	 1,50,000 16,50,000

Working Note:

Value of option = No. of options * (market price – exercise price) = 15,000*(120 - 40) = 12,00,000

Amortization amount over two years i.e. ₹ 12,00,000/2 = ₹ 6,00,000 per year.

(g) Hero Co. offered 100 shares to each of its 400 employees at ₹ 25 per share on 1.04.17. The employees are given a month to accept the shares. The shares issue under the plan shall be subject to lock in period to transfer for three years from the grant date i.e. 30.04.17. The market price of shares on that date is ₹ 30 per share.

Due to restriction in transfer, the fair value shares issued under the plan is estimated at ₹ 28 per share. Up to 30.04.17, 50% of the employee accepted the offer and paid ₹ 25 per share acquired. Face value of each share is ₹ 10.

Record the journal for the issue of shares.

Solution:

In the books of Hero Co.

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
30.04.17	Bank a/c Dr. Employee compensation expenses a/c Dr. To Equity share capital a/c (20000* ₹10) To Securities premium a/c (20000* ₹18) (Being 200 employees exercised the option @ ₹ 100 each)	5,00,000 60,000	 2,00,000 3,60,000

Working Note:

Fair value of options = (₹ 28 - ₹25) = ₹3

Offer accepted by employees 50%*400 = 200

No. of shares to be issued = 200*100 = 20000

Value of option = 20000* ₹3 = ₹60000.

(h) A Ltd. issued 2000 shares on 1.04.17 under ESPS at ₹ 100 when the market price is ₹ 200 and the face value is ₹ 10 per shares.
Pass the journal entries to record the transaction.

Solution:

In the books of A Ltd.

Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
1.04.17	Bank a/c (2000*100)	Dr.	2,00,000	
	Employee compensation expenses a/c	Dr.	2,00,000	
	To Equity share capital a/c (2000* ₹10)			20,000
	To Securities premium a/c (2000* ₹190)			3,80,000
	(Being the issue of 2000 shares under ESPS at a price of ₹ 100 each when the market price is ₹ 200 each)			

(i) T. Ltd granted options to its employees for 12,000 shares of ₹ 100 each on 01-10-2015 under employee stock option plan. Grant price is ₹ 140 and the market price on 01-10-2015 is ₹ 188.
Other particulars are given below:

- **Vesting period – 2 years and Exercise period – 6 months.**
- **01.12.2015: 1,500 options lapsed.**
- **01.07.2016: 1,500 options lapsed**
- **01.06.2017: 2,000 options lapsed**
- **Within 31.03.2018: options for 6,800 shares exercised. (market price on the date of exercise ₹ 205)**

Show all the necessary Journal entries in the books of T. Ltd.

Solution:

Option discount per share = 188-140 = ₹ 48

Amortization on different dates:

	31.3.16 (6 months)	31.3.17(12 months)	30.9.17(6 months)
Outstanding options on above date	12000-1500=10500	10,500-1,500=9,000	9,000-2,000=7,000
Balance of Outstanding ESO required as on the above date	10500*48*6/24 = ₹ 126,000	9000*48*12/24= ₹ 216,000	7000*48= ₹ 336,000
Less. Opening balance	nil	₹ 126,000	₹ 216,000
Expense to be recognised	₹ 126,000	₹ 90,000	₹ 120,000

Journal entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31.03.16	Employee compensation expenses a/c Dr. To Employee stock option outstanding a/c (Being compensation expenses on 10,500 options @ 48 each recognized and amortized on straight line based over two years)	126,000	 126,000
	Profit & Loss a/c Dr. To Employee compensation expenses a/c (Being transfer of employee compensation expenses to Profit & Loss a/c)	126,000	 126,000
31.03.17	Employee compensation expenses a/c Dr. To Employee stock option outstanding a/c (Being compensation expenses of 9,000 options @ 48 recognized and amortized on straight line based over two years as reduced by existing balance)	90,000	 90,000
	Profit & Loss a/c Dr. To Employee compensation expenses a/c (Being employee compensation expenses transferred to Profit & Loss a/c)	90,000	 90,000
30.09.17	Employee compensation expenses a/c Dr. To Employee stock option outstanding a/c (Being compensation expenses of 7,000 options recognized and amortized on straight line based over two years as reduced by existing balance)	120,000	 120,000
31.03. 18	Bank a/c Dr. Employee stock option outstanding a/c Dr. To Equity share capital a/c To Securities premium a/c (Being issue of 6,800 equity shares of ₹ 100 each at a premium of ₹ 88 per share out of exercise of employee stock option as per Boards' Resolution dated……)	952,000 326,400	 680,000 598,400
	Employee stock option outstanding a/c Dr. To Employee compensation expenses a/c (Being reversal of ESO outstanding on lapse of 200 vested options)	9,600	 9,600
	Profit & Loss a/c Dr. To Employee compensation expenses a/c (Being balance of employee compensation expenses transferred to Profit & Loss a/c)	110,400	 110,400

Study Note – 7

Reporting through XBRL (Extended Business Reporting Language)

Section – A

Answer the following questions:

(a) Multiple choice questions:

(j) XBRL stands for what?
(a) Extended
(b) Business Reporting
(c) Language
(d) All of these

(ii) XML stands for what?
(a) Extensible
(b) Markup
(c) Language
(d) All of these

(iii) What is related to Taxonomy?
(a) Dictionary
(b) Environment
(c) Society
(d) All of these

(iv) What are the benefits of XBRL?
(a) Automated data processing
(b) Data review
(c) Reporting quality
(d) All of these

(v) What are the features of XBRL?
(a) Testable business rules
(b) Strong software support
(c) Clear definition
(d) All of these

(vi) A company needs to submit cost audit report to Central Government as per:
- (a) Section 146 (6) of Companies Act 2013
- (b) Section 147 (6) of Companies Act 2013
- (c) Section 148 (6) of Companies Act 2013
- (d) None of these

(vii)Which institution is not under XBRL?
- (a) RBI
- (b) SEBI
- (c) IRDAI
- (d) None of these

(viii) Who are the users of XBRL?
- (a) Companies
- (b) Investors
- (c) Non-Profit Organizations
- (d) All of these

(ix) What are the requirements for XBRL reporting?
- (a) Listing of companies
- (b) Paid up share capital at least 5 crores.
- (c) Turnover of the company should be at least crore
- (d) All of these

(x) Which companies are exempted from XBRL?
- (a) Banking companies
- (b) Insurance companies
- (c) Power sector companies
- (d) All of these

Answer:

Question No	i	ii	iii	iv	v	vi	vii	viii	ix	x
Answer	d	d	d	d	d	c	c	d	d	d

Section- B

Answer the following questions:

(a) Discuss the Meaning of XBRL.

Answer:

XBRL stands for extended business reporting language. It helps in electronic communication of business and financial data that brings revolution to the business reporting across the world. The four terms of XBRL are briefly discussed below:

(i) **Extensible:** It means the user can extend the application of a particular business data beyond its original anticipated idea. The major benefit is that the extensive use can be indomitable by the users. It is not just the person who simply prepares the business data. This is achieved by adding human and machine readable tags.

(ii) **Business:** It is relevant to any type of business transaction. It is to be noted that XBRL highlights the financial statements of all kinds of organizations.

(iii) **Reporting:** The purpose behind promoting the use of XBRL is that all the companies should prepare their financial statements in a consolidated manner using the specified format.

(iv) **Language:** XBRL is based on 'Extensible Markup Language' (XML). It is one of a family of "XML" languages which is a standard means of communicating information between businesses and the internet. It prescribes the way in which the data can be "marked-up" or "tagged" to make it more meaningful to human readers as well as to computers-based system.

(b) Write a note on – Myths regarding XBRL

Answer:

The myths regarding XBRL are discussed below:

(i) **XBRL is not a set of Accounting Standards:** XBRL does not represent a set of accounting standards. It remains the choice of the regulatory standards bodies. XBRL represents the content of reporting standards.

(ii) **XBRL is not a chart of accounts:** It is not just a comprehensive common chart of accounts. It formulates on the company's chart of accounts with regard to its specific business details. XBRL can implement a structure through which data could be transmitted between different software applications. It might be used within an organization's operational structure.

(iii) **XBRL is not a GAAP translator:** It does not provide any means to facilitate a drill down of existing GAAP information into lower levels of information. It would be essential for translating financial statements from one GAAP to another. The business-reporting document contains the same GAAP information in an XBRL format or an MS word or PDF format.

(iv) **XBRL is not a proprietary technology:** XBRL is accessible to public. It is freely licensed.

(v) **XBRL is not a Transaction Protocol:** XBRL deals with business reporting information but it does not confine data at the transaction level. It is chosen to deal with the issues like generation and usage of information contained within business reports and begins at the accounting classification level.

(c) Discuss the features of XBRL reporting.

Answer:

XBRL reporting system has many features. There are discussed as follows:

Clear Definitions: XBRL allows taxonomies which confine the sense enclosed in all of the reporting conditions, used in a business report. It also captures the relationships between all of the conditions. Taxonomies are developed by regulators, accounting standards setters, government agencies and other expert groups. They define information to be reported upon. XBRL does not bound the information is defined. It is a language that can be used and extended as per requirements.

(1) **Testable Business Rules:** XBRL allows the formation of business rules that speaks what can be reported. Business rules can be logical or mathematical, or both. These business rules can be used to:
   (i) Prevent the communication of poor quality information to a regulator or third party, by the preparer of the report in draft stage.
   (ii) Prevent the acceptance of poor quality information by a regulator or third party, by the receiver of information. Business reports that fail to comply with the serious rules can be sent back to the preparer for review and resubmission.
   (iii) Identify or highlight doubtful information and take prompt action to rectify and justify it.
   (iv) Creation of ratios, aggregations and other value added information, based on the basic data.

(2) **Multi-lingual Support:** XBRL allows preparing concept and definitions in as many languages as necessary. Translations of definitions can also be added by third parties. It means that it is possible to display a range of reports in a different language without any additional work. The XBRL has the ability to open up reports automatically to diverse communities.

(3) **Strong Software Support:** The large and small vendors support the XBRL by a very wide range of software. It allows the broad chain of stakeholders to work with the standard.

(d) Write a note on - Users of XBRL.

Answer:

XBRL is the international standard for digital reporting. It offers benefits to those who creates, transmits and analyzes information. XBRL is used in many ways to achieve different purposes. The significant users of XBRL include:

(1) **Companies:** Companies are obligatory to present significant information to various stakeholders and to accurately communicate information amongst them.

(2) **Not-for-profit Organizations:** presently, many nonprofit organizations, like universities, municipalities etc. has opted for reporting under XBRL format.

(3) **Accountants:** Accountants use XBRL reporting system for the preparation and analysis of the financial statement for their client's reporting requirements.

(4) **Analysts:** Analysts want to realize the relative risks and performances.

(5) **Investors:** Investors require comparing potential investments and understanding the underlying performance of the existing investments.

(6) **Regulatory Authorities:** The different regulatory authorities that use XBRL are as follows:

- Financial regulators want significant performance and risk information about the institutions for their regulation.
- Securities regulators and stock exchanges need to analyze the performance and compliance of listed companies and securities. They also need to ensure that this information is available in markets for the investors.
- Business registrars need to receive and publish the available range of data about private and public companies including annual financial statements.

(7) **Government agencies:** The Government agencies are trying to simplify the businesses reporting process, reducing red tape through harmonizing data definitions or consolidating reporting obligations and improving reporting by standardizing the way of consolidating the transactional reports.

(8) **Tax authorities:** The tax authorities want financial statements and other compliance information from companies to process and review their corporate tax affairs.

(9) **Statistics and monetary policy authorities:** These authorities need financial performance information from many organizations.

(10) **Specialist Data Providers:** Specialist data providers use published information for the purpose of comparisons, ratings and other value added information about products of various market participants.

(e) Discuss the benefits of XBRL reporting.

Answer:

The benefits of XBRL reporting are disused below:

(1) **Automated Data Processing:** The XBRL offers major benefits to the preparers and the users of financial information by way of exchanging and processing it automatically by the software. XBRL identification tags eliminate the requirement of the data entry operator.

(2) **More accurate and efficient:** XBRL system makes the reporting more accurate and efficient by using comprehensive definitions and accurate data tags. Such data tags allow the preparation, validation, publication, exchange, consumption and analysis of business information of all kinds.

(3) **Data Review:** An organization can automatically validate data, received electronically through XBRL by the use software. The software helps to analyze the data and to identify problems that can be examined by the accountants and auditors.

(4) **Improved reporting quality:** XBRL provides more data integrity and uniformity. It also increases transparency of financial records of public companies to view it by 'interested' parties.

(5) **Interchangeable:** The XBRL information is interchangeable between different information systems in entirely different organizations. This allows for the exchange of business information across a reporting chain. The users can rely on information processing through XBRL. They intend to report information, share information, publish information and allow straight through.

(6) **Cost and time savings:** Now a day, all companies use Portable Document Format (PDF) format for reporting to the regulators. It has inherent limitations. Moreover, the costs of sending, receiving, storing, validating and auditing the financial records in this format is comparatively higher. XBRL reduces the involvement of time and cost.

(7) **Tagging of transactions:** In addition to allowing the exchange of various business reports, XBRL has the capability to allow the tagging of transactions. It can be aggregated into XBRL reports. These transactional capabilities allow the XBRL system to exchange and analysis of significant quantities of supporting data. XBRL allows the unique tags to be associated with reported facts, which leads to the following advantages:

- Publishing of reports with the confidence that the information contained in them can be consumed and analyzed accurately;
- Testing of the reports against a set of business and logical rules for capturing and avoiding mistakes at their source;
- Using the information in the manner that is suitable to the users' requirement. It includes using different languages, alternative currencies and their preferred style.
- Providing confidence to the users to conforms to a set of sophisticated predefined definitions.

Study Note – 8

Government Accounting in India

Section – A

(1) How do you differentiate Commercial accounting from Government Accounting?

Answer:

Government accounting may be defined as an accounting system used is government institution for the purpose of recording desisting, summarizing and communicating the financial information regarding the collection and utilization of public funds and properties.

Commercial accounting is meant for business organization. It includes not only the maintenance of accounting records but also the preparation of financial statements.

The profit maximization is the motive of a commercial unit maximization of welfare is the objective of a state; hence the objective of the government accounting may be loss minimization.

(2) What are the different types of expenditure under government accounting?

Answer:

The government accounting seeks to provide information on different expenditures. It is mandating in nature that the expenditure scanting authority (legislature) has the right to know whether the expenditures have been made as per rules. The government expenditures are classified under sectors, major heads, minor heads, such heads and detailed heads of account.

Expenditure of the central Government**:**
(i) Civil expenditure,
(ii) Defense expenditure
(iii) Granter is aid to states.

Expenditure of the State governments –
(i) Development expenditures
(ii) Non- development expenditures.

(3) How do you classify the accounts heads under Government Accounting?

Answer:

The government accounting comprises three categories of accounts and each category is subdivided into major heads of accounts.

Types of Accounts

Consolidated Fund	Contingency Fund	Public Accounts
Revenue & Expenditure Heads Capital receipts & Disbursement heads Public Debt and Loans.		Debt and Deposit division Remittance division

(4) Write a short note on Public Accounts.

Answer:

Public Accounts consist of money raised through loan, advances and deposits for which the government undertakes the laities of refunding at some future date. Some of the money receipts like provident fund or deposits in the Panchayat may initially be kept in the remittance and suspense account for final remittance to the consolidated fund or for retaining by the public Accounts itself.

(5) What is the purpose of contingency fund?

Answer:

The contingency fund is meant for contingencies like earthquake, floods, foreign aggression etc. Advances from this fund are made for the purposes of meeting unforeseen expenditures. The fund remains at the disposal of the president of India.

(6) What are important parts of consolidated fund?

Answer:

The consolidated fund commits of three divisions, Viz. (i) revenue divisions, (ii) capital divisions and (iii) Public debt divisions.

(i) Revenue divisions: revenue receipts and expenditures are share here.
Example of revenue receipts: (a) general Services (b) Social Services (c) economic services (d) Grants in aid.

(ii) Capital Division: It consists of capital receipts and capital expenditure.

(iii) Public Debt division: It consists of all loans raised. Taken granted as also all advances obtained and granted. Since there are loans (raised/granted) they are concerned with repayment or recovery respectively.

(7) What is the role of the comptroller and Auditor general of India (ICAI)?

Answer:

The role of the CAGI are:

(i) He is to advise the President of India as the form in which account of both the centre and the state are to be kept.

(ii) He is to check that the amounts granted or authorized by the legislation, have been spent.

(iii) He is to submit his audit reports to the president.

(iv) He is to audit all transactions of the union and of the states relations to contingency funds and public Accounts.

(8) What is the role of public Accounts Committee?

Answer:

The Public Accounts Committee (PAC) is constituted by the parliament or state legislature to scrutinize the revenue and expenditure of public monies by the executive branch of the government. The PAC actually examines the reports of Accounts submitted by the comptroller and Auditor general of India to the president for the purpose of auditing of the revenue and the expenditure of the government of the C & AG on government account.

(9) How the PAC is constituted?

Answer:

The PAC Consists of not more than 22 members comprising 15 members ducted by Lokshabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajaya Sabha elected by that because in like member. So the PAC is a joint committee of the two house viz. Loksobha and Rajya Sobha.

(10) What is the purpose of IGAS and IGRFS?

Answer:

The Government Accounting Standard Advisory Board (GASAB) formulate and recommends (i) Indian Government Accounting standards (IGASs) and (ii) Indian Government financial reporting Standards (IGFRSs) with view to improve standards of government accounting and financial reporting respectively. The IGASs and IGFRSs have been developed for cash basis accounting and accrual basis of accounting respectively. The objective of such standards is to enhance the quality of decision making and public accountability.

(11) Till date, how many IGAS and IGFRSs have been developed by GASAB?

Answer:

The prescribed Indian Government Accounting standards (IGASs) are:
(i) IGAS 1: Guaranties Given by Governments: Disclosure Requirements.
(ii) IGAS – 2: Accounting and classification of Grants in aid.
(iii) IGAS – 3: Loans and Advances made by governments.

The other proposed IAGS are
- IAGS – 7: Foreign currency transaction and loss/gain by exchange rate variations.
- IAGS – 10: Public debt and other liabilities of Governments disclosure requirements.

The Prescribed IGFRSs are -
(i) IGFRS – 1: Presentation of Financial statements
(ii) IGFRS – 2: Property, plant & Equipments.
(iii) IGFRS – 3: Revenue from Government Exchange Transaction
(iv) IGFRS – 4: Inventories
(v) IGFRS – 5: Contingent liabilities and contingent asset: Disclosure requirements.

(12) Discuss the objective of IGAS – 7

Answer:

The objective of IGAS–7 is to provide accounting and disclosure requirement of foreign currency transaction and financial effects of exchange rate variations enters of loss or gain in the financial statement. Also deals with the requirements of disclosure of foreign currency external debts and the rates applied for disclosure.

(13) What is the object of IGAS – 2?

Answer:

The objectives of IGAS – 2 are to prescribe
- The principles for accounting and classification of grants in aid in the financial statement of government both as a grantor as well as a grantee.
- Practical solutions to remove any difficulty experiences in adherence to the appropriate principles of accounting and classification of grants–in-aid by way of appropriate disclosure in the financial Statement of the government.

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