FINAL EXAMINATION

GROUP IV

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2011

Paper- 16 : ADVANCED FINANCIAL ACCOUNTING & REPORTING

Time Allowed : 3 Hours **Full Marks :** 100

The figures in the margin on the right side indicate full marks.

Part A questions are compulsory. Attempt all *of them.*

Part B has seven questions. Attempt any five *of them.*

Please : *(1) Write answers to all parts of a question together.*
(2) Open a new page for answer to a new question.
(3) Attempt the required number of questions only.
(4) Indicate in the front page of the answer book the question attempted.

PART A (25 Marks)

Q. 1.(a) In each of the cases given below, one out of four alternatives is correct. Indicate the correct answer (= 1 mark) and give your workings/reasons briefly (= 1 mark) :

(i) RAJASTHALI Ltd. ordered 16,000 kg. of certain material at ` 160 per unit. The purchase price includes excise duty ` 10 per kg. in respect of which full CENVAT credit admissible. Freight incurred amounted to ` 1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg. and consumed 13,600 kg. of material. The cost of inventory as per AS 2 will be

A. ` 3,20,644
B. ` 3,01,644
C. ` 3,07,800
D. None of these

(ii) BANSAL & JINDAL CONSTRUCTION Co. undertook a contract on 1st January, 2011 to construct a building for ` 80 lakhs. The company found on 31st March, 2011 that it had already spent

` 58,50,000 on the construction. Prudent estimate of additional cost for completion was ` 31,50,000. Contract Value to be recognized as turnover in the final accounts for the year ended 31st March, 2011 as per AS 7 (revised) will be

A. ` 80 lakhs

B. ` 10 lakhs

C. ` 52 lakhs

D. None of these

(iii) Moon Ltd. entered into agreement with Sun Ltd. for sale of goods of ` 8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2011. On the same day, Sun Ltd. entered into another agreement with Moon Ltd. to resell the same goods at ` 10.80 lakhs on 1st August, 2011. The pre-determined reselling price covers the holding cost of Sun Ltd. Treatment as per AS 9 in the books of Moon Ltd.

A. Sales A/c will be credited with ` 9,60,000

B. Advance from Sun Ltd. A/c will be credited with ` 9,60,000

C. Financing Charges A/c will be debited with ` 1,20,000

D. None of these

(iv) PRARTHANA Ltd. is in engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ` 6 lakhs. It contributes ` 5 lakhs annually for its pension schemes. The average remaining life of the employee is estimated to be 6 years. As per AS 15 (Revised)

A. Surplus of ` 6 lakhs in the pension scheme on its actuarial valuation is required to be credited to the Profit and Loss Statement for the current year

B. Surplus of ` 6 lakhs can be spread over the next 2 years by reducing the annual contribution to ` 2 lakhs instead of ` 5 lakhs

C. Surplus of ` 6 lakhs is to be spread over the average remaining life of the employees of 6 years by crediting to the Profit and Loss Statement of each year

D. None of these

(v) M/s. XYZ Ltd. has three segments namely X, Y, Z. The total assets of the Company are: Segment X ` 1.00 crore, Segment Y ` 3.00 crores and Segment Z ` 6.00 crores. Deferred tax assets included in the assets of each Segments are: X ` 0.50 crore, Y ` 0.40 crore and Z ` 0.30 crore. As per AS 17

A. X, Y and Z are reportable segments

B. Only X and Y are reportable segments

C. Only X and Z are reportable segments

D. Only Z and Y are reportable segments

(vi) NIKITA Limited wishes to obtain a machine costing ` 30 lakhs by way of lease. The effective life of the machine is 15 years, but the company requires it only for the first 5 years. It enters into an agreement with Ashok Ltd., for a lease rental of ` 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. Treatment as per AS 19 in the books of Lessee

A. Lease payments should be recognized as an expense in the Statement of Profit and Loss on a straight line basis over the lease term

B. Finance Charges included in Lease payments should be recognized as an expense in the Statement of Profit and Loss

C. Depreciation of ` 2,00,000 p.a. should be recognized as an expense in the Statement of Profit and Loss

D. None of these

(vii) RAKESH BEHARI Ltd. has provided the following information:

Depreciation as per accounting records ` 2,00,000, Depreciation as per income tax records ` 5,00,000. Unamortized preliminary expenses as per income tax records ` 30,000, Tax rate 50%. There is adequate evidence of future profit sufficiency. As per AS 22 Deferred Tax Asset/ Liability to be recognized will be

A. ` 1,50,000 (DTA)

B. ` 15,000 (DTL)

C. ` 1,35,000 (Net DTL)

D. None of these

(viii) Mr. Rajiv Gupta, CEO of Indraprastha Co-operative Bank reports quarterly and estimates an annual income of ` 100 crores. Assume tax rates on first ` 50 crores at 30% and on the balance income at 40%. The estimated quarterly incomes are ` 7.5 crores, ` 25 crores, ` 37.5 crores and ` 30 crores. The tax expenses to be recognized in the last quarter as per AS 25 is

A. ` 9 crores

B. ` 10.5 crores

C. ` 12 crores

D. None of these

(ix) S. S. CORPORATE SECURITIES Ltd. is showing an intangible asset at ` 72 lakhs as on 01.04.2011 and that an item was acquired for ` 96 lakhs on 01.04.2008 and that the item was available for use from that date. It has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. As per AS 26

A. ` 4.8 lakhs should be adjusted against the current year's profits

B. ` 4.8 lakhs should be adjusted against the opening balance of revenue reserves

C. ` 9.6 lakhs should be adjusted against the opening balance of revenue reserves

D. None of these

(x) An asset of PELF FINSTOCK Ltd. does not meet the requirements of environment laws which have been recently enacted. The asset has to be destroyed as per the law. The asset is carried in the Balance Sheet at the year end at ` 6,00,000. The estimated cost of destroying the asset is ` 70,000. Impairment Loss to be recognized as an expense immediately in the Statement of Profit and Loss as per AS 28 is

A. ` 6,00,000

B. ` 6,70,000

C. NIL

D. None of these [2×10=20]

(b) ANNA Ltd. purchased an oil well for $ 200 million. It estimates that the well contains 500 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 20,000 barrels of oil during the first year, how much depletion expense should be recognized as per IFRS 6? [5]

Answer 1. (a)

(i) — **C**.

Revised cost per kg. = [25,60,000 – 1,60,000 + 1,40,160]/(16,000 kg.× 98%) = 162

Cost of Closing inventory = (15,500 kg – 13,600 kg) × 162 = ` 3,07,800

(ii) — **C.**

Contract work in progress (58,50,000/90,00,000) × 100 = 65% Proportion of total contract value to be recognized as turnover = 65% of ` 80,00,000 = ` 52,00,000.

(iii) — **B.**

In the given case, Moon Ltd. concurrently agreed to repurchase the same goods from Sun Ltd. on 1st February, 2011. Also the re-selling price is pre-determined and covers purchasing and holding costs of Sun Ltd. Hence, the transaction between Moon Ltd. and Sun Ltd. on 1st February, 2011 should be accounted for as financing rather than sale. The resulting cash flow of ` 9.60 lakhs(` 8 lakhs + 20% of ` 8 lakhs) received by Moon Ltd., cannot be considered as revenue as per AS 9 "Revenue Recognition" and hence should be treated as Advance from Sun Ltd.

(iv) — **A.**

According to para 92 of AS 15 (Revised) "Employee Benefits", actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense.

(v) — **D.**

According to AS 17 "Segment Reporting", Segment Assets do not include income tax assets. Therefore, the revised total assets are 8.8 crores [10 crores - (0.5+0.4+0.3)].

Segment X holds total assets of 0.5 crore (1 crore – 0.5 crore); Segment Y holds 2.6 crores (3 crores - 0.4 crores); and Segment Z holds 5.7 crores (6 crores - 0.3 crores).

Thus, Only Z and Y hold more than 10% of the total assets and hence, only Y and Z are reportable segments.

(vi) — **A.**

The given lease agreement is an Operating Lease since :

(a) the present value of minimum lease payment amounts [` 10.08 lakhs (i.e. ` 3 lakhs × 3.36)] is substantially less than the fair value of leased asset (i.e ` 30 lakhs.)

(b) the lease term (5 years) is substantially less than economic life of the asset (15 years)

As per AS 19 'Leases', a lease will be classified as Finance Lease if at the inception of the lease, the present value of minimum lease payment amounts to at least substantially equal to the fair value of leased asset.

Therefore, Lease payments under an Operating Lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

(vii) —**C.**

Deferred tax liability = 50%(5,00,000 – 2,00,000) = 1,50,000

Deferred tax asset = 50% of 30,000 = 15,000

Net Deferred tax liability = 1,35,000

(viii) — **B.**

Tax expense : 30% on ` **50 crores** = 15 crores and 40% on remaining ` **50 crores** = **20 crores**

Weighted average annual income tax rate [35 crores /100 crores) × 100] = 35%

∴ Total tax = ` (15 + 20) crores = ` 35 crores

Weighted average annual income tax rate [**35 crores/100 crores)** × 100] = 35%

Tax expense to be recognised in Quarter IV = ` 30 crores x 35% = ` 10.5 crores

(ix) — **B.**

As per para 63 of AS 26 "Intangible Assets", the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.

The company has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. The period of 12 years is more than the maximum period of 10 years specified under AS 26. Accordingly, The company would be required to restate the carrying amount of intangible asset as on 1.4.2011 at ` 96 lakhs less ` 28.8 lakhs (` 9.6 lakhs × 3 years) = ` 67.2 lakhs. If amortisation had been as per AS 26, the carrying amount would have been ` 67.2 lakhs. The difference of ` 4.8 lakhs i.e. (` 72 lakhs – ` 67.2 lakhs) would be required to be adjusted against the opening balance of revenue reserves. The carrying amount of ` 67.2 lakhs would be amortised over 7 (10 less 3) years in future.

(x) — **A.**

As per AS 28 "Impairment of Assets", Impairment Loss is the amount by which the carrying amount of an asset exceeds its recoverable amount, where, recoverable amount is the higher of an asset's net selling price and its value in use. In the given case, recoverable amount will be nil [higher of value in use (nil) and net selling price (` 70,000)]. Thus impairment loss will be calculated as ` 6,00,000 [carrying amount (` 6,00,000) - recoverable amount (nil)]. Therefore, asset is to be fully impaired and impairment loss of ` 6,00,000 has to be recognized as an expense immediately in the statement of Profit and Loss as per para 58 of AS 28.

Answer 1. (b)

As per IFRS 6 "Exploration for and Evaluation of Mineral Resources", depletion rate and depletion expense can be computed as:

Depletion rate = Current period production/Total barrels of production = 20,000 barrels/500,000,000 barrels = 0.00004.

Depletion expenses for the first year = Purchase price × Depletion rate = $200,000,000 × 0.00004 = $ 8,000.

PART B (75 Marks)

Q. 2. READ & LEARN Ltd. is engaged in the business of manufacture of electric passenger cars. Its Balance Sheet as at 31.03.2011 is as under :

Liabilities	` (Lakh)	Assets	` (Lakh)
Equity Shares of ` 10 each	1,500	Gross Fixed Assets	1,500
General Reserve	500	*Less:* Depreciation till date	(500)
12% Term Loan from Bank	500	Investment:	
Creditors	210	Non-trade	300
Provision for Tax	10	Trade	90
Proposed Dividend	140	Current Assets:	
		Overseas Debtors (1 $ = INR 42)	420
		Indian Debtors	400
		Stock in Trade	350
		Cash and Bank Balances	300
	2,860		2,860

Additional Information :

(a) The closing exchange rate for the U.S. dollar was INR 48. There was a loss for the year ended 31.03.2011 owing to write down of cost of acquisition of non-trade investments by 4%. There was no other transaction under non-trade investments during the year.

(b) Current year depreciation charged on historical cost was ` 100 lakhs. Current cost of Fixed Assets is determined at ` 2,000 lakhs.

(c) While current cost of Closing Stock is ` 367, that of the Opening Stock was ` 200 lakhs against its historical cost of ` 148 lakhs. The market value of Non-Trade Investments at the year end was ` 300 lakhs. The overseas debtors made settlements in U.S. $ only.

(d) The industry average rate of return on current Cost of Capital employed is 12% on long-term debt, and 15% on equity. The opening balance in General Reserve was ` 150 lakhs. While prevailing tax rate is 30%, such rate is expected to decline by 5%.

Required : Using the above information you are required to arrive at value of the goodwill of the company under Equity and Long-Term Fund approaches and also show the leverage effect on Goodwill. [15]

Answer 2.

		` in lakhs
Future Maintainable Profit		
Profit made in the current year :		
Increase in Reserves (` 500 lakhs – ` 150 lakhs)	350.00	
Add : Proposed Dividend	140.00	
Profit after tax	490.00	
Add back: Income tax $\left(\frac{490 \times 30\%}{70\%}\right)$	210.00	**700.00**
Less : Additional depreciation required (W.N.1)	81.82	
Adjustment for change in revaluation of stock (opening and closing) (W.N.2)	35.00	116.82
		583.18
Add : Debtors' adjustment- exchange gain (W.N. 3)		60.00
Add : Loss on non trade investment [` lakhs (300 × 100/96) – 300]		12.50
		655.68
Less : Tax @ 25%		(–)163.92
Profit after tax under equity approach		**491.76**
Add Back: Interest on term loans (net of taxes) [` 500 lakhs × 12% × 75%]		45.00
Profit after tax under long term fund approach		**536.76**

Capital Employed		` in lakhs
Assets as per Balance Sheet		2,860.00
***Less* :** Non-trade investments		300.00
		2,560.00
***Add* :** Current cost adjustments:		
Net increase in fixed assets costs [` (2000* – 1100) lakhs - ` 81.82 lakhs]	818.18	
Increase in the value of Closing Stock (` 367 lakhs - ` 350 lakhs)	17.00	
Increase in the value of Debtors	60.00	895.18
		3,455.18
* It is assumed that current cost of fixed assets amounting ` 2,000 lakhs is determined on 1.4.2010.		
***Less* :** External Liabilities:		
Sundry Creditors	210.00	
Provision for tax	10.00	
12% Term Loan	500.00	720.00
Capital employed under equity approach		2,735.18
***Add* :** 12% Term loan		500.00
Capital employed under long term fund approach		**3,235.18**

Valuation of Goodwill

Equity approach

	` in lakhs
Capitalized value of future maintainable profit of ` 491.76 @ 15%	3,278.40
Less : Capital employed under equity approach	2,735.18
Goodwill under equity approach	**543.22**

* Goodwill has been computed on the basis of closing capital employed

Long term fund approach	` in lakhs
Capitalised value of future maintainable profit of ` 536.76 @ 12%	4,473.00
Less : Capital employed under long term fund approach	3,235.18
Goodwill under long term fund approach	**1,237.82**

Leverage effect on goodwill

The adverse leverage effect on Goodwill is ` 694.60 lakhs (` 1,237.82 lakhs - ` 543.22 lakhs). The company has a low leverage ratio and its goodwill value is lower under equity approach as compared to that under the long term fund approach.

Working Notes :

1. Shortfall in depreciation		` in lakhs
Current cost of Fixed Assets as on 1.4.2010		2,000
Value of fixed assets as per Balance Sheet on 31.3.11	1,000	
Add back : Depreciation for 2010-11	100	
Cost of fixed assets on 1.4.2010	1,100	
Depreciation rate (100/1,100) × 100 = 9.091%		
Revised amount of depreciation (` 2,000 lakhs × 9.091%)		181.82
Less : Depreciation already charged		100.00
Additional depreciation to be provided		**81.82**

2. Stock adjustment	` in lakhs
Increase in current cost of opening stock ` (200-148) lakhs	52
Increase in current cost of closing stock ` (367-350) lakhs	17
Stock adjustment	**35**

3. Debtors' adjustment	**` in lakhs**
Overseas Debtors in US$ = 420/42 = $10 lakhs	
Overseas Debtors in INR at the end of the year($ 10 × ` 48)	480
Less : Balance Sheet value of overseas debtors	420
Gain due to change in exchange rate	**60**

Q. 3. (a) From the following data, compute the Economic Value Added of EASY Ltd.:

Share Capital	` 1,600 crores
Long-term Debt	` 320 crores
Interest	` 32 crores
Reserve and Surplus	` 3,200 crores
Profit before Interest and Tax	` 1,432 crores
Tax Rate	30%
Beta Factor	1.05
Market Rate of Return	14%
Risk Free Rate	10%

[7]

(b) DIFFICULT Ltd. has given a 12.50% fixed rate loan to its subsidiary EASY Ltd. DIFFICULT Ltd. measures this loan at an amortised cost of ` 2,50,000. DIFFICULT Ltd. has plans to hive off the receivables at a later stage and as a measure to safeguard against fall in value of its dues enters into a pay-fixed, receive floating interest rate swap to convert the fixed interest receipts into floating interest receipts. DIFFICULT Ltd. designates the swap as a Hedging instrument in a fair value hedge of the Loan Asset.

Over the following months, market interest rate increases and DIFFICULT Ltd. earns interest income of ` 25,000 on the loan and ` 1,000 as net interest payments on the swap. The fair value of the Loan Asset decreases by ` 5,000 while that of the Interest Rate Swap increases by ` 5,000. You are informed that all conditions required for the Hedge Accounting are satisfied.

Required: Pass Journal Entries, with suitable narrations in the books of DIFFICULT Ltd. to record the above transactions. [8]

Answer 3. (a)

Computation of Economic Value Added

Particulars	` in crores
Net operating profit after tax (Refer working note 5)	980.0
Add : Cost of debt (7% of ` 320 crores)	22.4
	1002.4
Less : Cost of capital (13.75% of ` 5,120 crores)	704
Economic Value Added	**298**

Working Notes :

1. **Cost of Equity** = Risk Free Rate + Beta factor × (Market Rate – Risk Free Rate)
   = 10 + 1.05 (14 – 10) = **14.2%**

2. **Cost of Debt** = Interest (1-Tax Rate)/ Debt = 32(1 – .30)/320 = **7%**

3. **Capital Employed** = Share Capital + Reserve and Surplus + Long-term Debt
   = 1600 + 3200 + 320 = **5120**

4. **WACC** = [(4800 × 14.2%) + (320 × 7%)]/5120 = **13.75%**

5. **Net Operating Profit after Tax** = 1432 – 32 – 420 = **980**

Answer 3. (b)

Journal Entries in the Books of DIFFICULT LTD

Particulars		*Dr.* (`)	*Cr.* (`)
Cash A/c To Interest A/c (Being the receipt of interest income on the loan asset)	Dr.	25,000	 25,000
Derivative A/c To Hedging gain A/c (Being increase in the fair value of the interest rate swap)	Dr.	5,000	 5,000
Hedging loss A/c To Loan to EASY LTD A/c (Being decrease in the fair value of loan to EASY LTD attributable to the hedged risk recorded)	Dr.	5,000	 5,000
Cash A/c To Interest A/c (Being the entry to record the interest settlement of the swap)	Dr.	1,000	 1,000

Q. 4. The Balance Sheet of H Ltd. and S Ltd. as on the date of last closing of accounts are as under :

Liabilities	H Ltd. as at 31.03.2011 `	S Ltd. as at 31.12.2010 `	Assets	H Ltd. as at 31.03.2011 `	S Ltd. as at 31.12.2010 `
Share Capital (Equity Shares of ` 10 each)	11,00,000	5,00,000	Fixed Assets (at Cost) *Less* : Depreciation	8,45,000 (1,95,000)	5,26,500 (1,21,500)
Accumulated Profits & Reserves	4,50,000	2,05,000	<u>Investments :</u> 40,000 Shares in S Ltd.	8,00,000	-
15% ` 100 Non-convertible Debentures		3,00,000	1,000 Debentures in S Ltd. Inventories	1,50,000 2,00,000	- 3,50,000
Accounts Payble	4,80,000	2,80,000	Accounts Receivable	2,50,000	4,65,000
Other Liabilities	1,00,000	40,000	Cash & Bank	2,30,000	3,55,000
Tax Provision	1,50,000	2,50,000			
Total	**22,80,000**	**15,75,000**	**Total**	**22,80,000**	**15,75,000**

The following information is also available :

(a) On 8th February, 2011 there was a fire at the factory of S Ltd., resulting in inventory worth ` 20,000 being destroyed. S Ltd. received 75 per cent of the loss as insurance.

(b) The same fire resulted in destruction of a machine having a written down value of ` 1,00,000. The Insurance company admitted the Company's claim to the extent of 80 per cent. The machine was insured at its fair value of ` 1,50,000.

(c) On 13th March, 2011, H Ltd. sold goods costing ` 1,50,000 to S Ltd. at a mark-up of 20 per cent. Half of these goods were resold to H Ltd. who in turn was able to liquidate the entire stock of such goods before closure of accounts on 31st March, 2011. As on 31st March, 2011, S Ltd.'s accounts payable show ` 60,000 due to H Ltd. on the two transactions.

(d) H Ltd. acquired the holdings in S Ltd. on 1st January, 2009 when the reserves and accumulated profits of S Ltd. stood at ` 75,000.

(e) Both companies have not provided for tax on current year profits. The current year taxable profits are ` 33,000 and ` 66,000 for H Ltd. and S Ltd. respectively. The tax rate is 33%.

(f) The incremental profits earned by S Ltd. for the period January, 2011 to March, 2011 over that earned in the corresponding period in 2010 was ` 56,000. Except for the profits that resulted from the transactions with H Ltd. in the aforesaid period, the entire profits have been realised in cash before 31st March, 2011.

Required : Prepare a Consolidated Balance Sheet of H Ltd. and its Subsidiary as at 31st March, 2011. [15]

Answer 4.

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as on 31.03.2011

Liabilities	`	Assets		`
Share Capital (Equity shares of ` 10 each)	11,00,000	Fixed Assets at Cost (W.N. 7)	12,41,500	
		Less : Depreciation (W.N. 7)	2,86,500	9,55,000
Minority Interest (W.N. 4)	1,50,844	Goodwill (W.N 3)		3,90,000
Accumulated Profits & Reserves (W.N. 5)	5,67,486	**Current Assets** :		
15% ` 100 Non-Convertible Debentures (` 3,00,000 - ` 1,00,000)	2,00,000	Inventories (W N. 8)		6,05,000
		Accounts Receivable (W.N. 6)		6,55,000
		Insurance claim Receivable		1,20,000
Accounts Payable (W.N. 6)	7,60,000	Cash & Bank (2,30,000 + 3,96,000)		6,26,000
Other Liabilities (` 1,00,000 + ` 40,000)	1,40,000			
Tax Provision (1,50,000 + 2,50,000 + 21,780 + 10,890)	4,32,670			
Total	**33,51,000**	**Total**		**33,51,000**

Working Notes :

1. **Adjustments to Balance Sheet of S Ltd. and its Adjusted Balance Sheet**

		`
(i)	Inventories as on 31.12.2010	3,50,000
	Add : Unsold Stock = $\left(\frac{\text{`}1{,}50{,}000\times120\%}{2}\right)$	90,000
		4,40,000
	Less : Cost of inventory destroyed in fire	20,000
	Inventories as on 31.3.2011	**4,20,000**
(ii)	Incremental profits earned in January, to March, 2011 over corresponding period in 2010	
	Total incremental profit earned in January- March, 2011	56,000
	Less : Earned on transaction with H Ltd. [W.N(viii)]	30,000
	Balance of profits realised in cash	**26,000**
(iii)	Cash and Bank Balance as on 31.12.2010	3,55,000
	Add : Insurance Claim received	15,000
	Incremental profits realised [W.N(ii)]	26,000
	Cash and Bank Balance as on 31.3.2011	**3,96,000**
(iv)	Fixed assets as on 31.12.2010	4,05,000
	Less : Written down value of machine destroyed	1,00,000
	Fixed Assets as on 31.3.2011	**3,05,000**

(v)	Insurance Claim Receivable = 80% of ` 1,50,000		1,20,000
(vi)	Accounts Payable as on 31.12.2010		2,80,000
	Add : Amount payable to H Ltd.		60,000
	Accounts Payable as on 31.3.2011		**3,40,000**
(vii)	Accumulated profits and Reserves as on 31.12.2010		2,05,000
	Less : Tax Provision = 33% of ` 66,000		21,780
	Less : Goods destroyed in Fire after adjusting claim received		5,000
	Add : Profit on sale of goods [W.N.(viii)]		30,000
	Incremental profits realised in cash in Jan-March 2011 over prior period		26,000
	Additional amount receivable from Insurance Company over written down value for machine destroyed [1,20,000 – 1,00,000]		20,000
	Accumulated profits and Reserves as on 31.3.2011		**2,54,220**
(viii)	Profit made by S Ltd. on transaction with H Ltd. :		
	Cost of goods sold from H to S Ltd.		1,50,000
	Add : Mark up of 20% (profit of H Ltd.)		30,000
	Purchases by S Ltd. payable to H Ltd.	(A)	**1,80,000**
	Less : 50% unsold		90,000
	Cost of goods sold back to H Ltd.		90,000
	Balance payable to H Ltd. after 50% goods were sold back	(B)	60,000
	Sales price charged by S Ltd.. for selling 50% of the goods	(A-B)	1,20,000
	Less : Cost of these goods to S Ltd.		90,000
	Profit on sale of 50% goods to H Ltd.		**30,000**

(ix) **Balance Sheet of S Ltd.as at 31.3.2011**

Liabilities	`	Assets		`
Share Capital (Equity shares of ` 10 each)	5,00,000	Fixed Assets (at cost) [` 5,26,500 – ` 1,30,000]	3,96,500	
Accumulated Profits and Reserves	2,54,220	*Less* : Depreciation [` 1,21,500 – ` 30,000]	91,500	3,05,000
15% Non-convertible Debentures	3,00,000			
Accounts Payable	3,40,000	Inventories		4,20,000
Other Liabilities	40,000	Accounts Receivable		4,65,000
Tax provision (` 2,50,000 + ` 21,780)	2,71,780	Insurance Claim Receivable		1,20,000
		Cash and Bank		3,96,000
	17,06,000			**17,06,000**

2. **Analysis of Accumulated Profits and Reserves of S Ltd.**

Particulars	**Pre-acquisition** `	**Post-acquisition** `
Profits and Reserves	75,000	1,79,220
Share of H Ltd. (80%)	60,000	1,43,376
Minority Interest (20%)	15,000	35,844

3. **Calculation of Goodwill/Cost of Control :**

		`
Amount paid for shares in S Ltd.		8,00,000
Amount paid for 1,000 debentures		1,50,000
		9,50,000
Less : Nominal Value of shares acquired	4,00,000	
Nominal Value of debentures acquired	1,00,000	
80% share in pre-acquisition profits	60,000	5,60,000
Goodwill		**3,90,000**

4. **Minority Interest**

Share Capital (20%)	1,00,000
20% of Profits and Reserves of S Ltd. (15,000 + 35,844)	50,844
	1,50,844

5. **Accumulated Profits and Reserves in the Consolidated Balance Sheet**

Balance given	4,50,000
Add : 80% Share in Revenue Reserves (2,54,220–75,000) of S Ltd.	1,43,376
Less : Unrealised profits on inventory [` 1,50,000 × 20% × ½]	15,000
Less : Provision for taxation 33% on ` 33,000	10,890
	5,67,486

6. **Accounts Payable and Accounts Receivable in Consolidated Balance Sheet**

Accounts payable as per Balance Sheet of H Ltd.	4,80,000
Accounts payable as per Balance Sheet of S Ltd [W.N. 1(vi)]	3,40,000
	8,20,000
Less : Inter company dues set off	60,000
Balance of Accounts Payable (for Consolidated Balance Sheet)	**7,60,000**
Accounts Receivable as per Balance Sheet of H Ltd.	2,50,000
Accounts Receivable as per Balance Sheet of S Ltd. [W.N. 1(ix)]	4,65,000
	7,15,000
Less : Inter company dues	60,000
Balance of Accounts Receivable (for Consolidated Balance Sheet)	**6,55,000**

7. **Fixed Assets and accumulated Depreciation in Consolidated Balance Sheet**

WDV of Fixed Assets of S Ltd. as per Balance Sheet (given in question)	4,05,000
Accumulated depreciation	1,21,500
% of Depreciation (1,21,500/ 4,05,000)	30
Original Cost of Destroyed Asset (W.D.V. of ` 1,00,000)	1,30,000
Original Cost of Fixed Assets of H Ltd. as per Balance sheet (given in question)	8,45,000
Original Cost of Fixed Assets of S Ltd. as per Balance Sheet (given in question)	5,26,500
	13,71,500
Less : Original Cost of Destroyed Asset of S Ltd.	1,30,000
Original Cost of Fixed Assets for Consolidated Balance Sheet	**12,41,500**
Accumulated Depreciation	
As per Balance Sheet of H Ltd. (given in question)	1,95,000
As per Balance Sheet of S Ltd. (given in question)	1,21,500
	3,16,500
Less:Accumulated Depreciation on Destroyed asset	30,000
Accumulated Depreciation for Consolidated Balance Sheet	**2,86,500**

8. **Inventories :**

As per Balance Sheet of H Ltd.	2,00,000
Balance in S Ltd. Balance Sheet [W.N. 1(i)]	4,20,000
	6,20,000
Less : Unrealised Profits on closing inventory	15,000
Balance in Consolidated Balance Sheet	**6,05,000**

Q. 5. Small Ltd. and Little Ltd. two companies in the field of speciality chemicals, decided to go in for a follow on Public Offer after completion of an amalgamation of their businesses. As per agreed terms, initially a new company Big Ltd. will be incorporated on 1st January, 2012 with an authorized capital of ` 2 crore comprising of 20 lakh equity shares of ` 10 each. The holding company would acquire the entire shareholding of Small Ltd. and Little Ltd. and in turn would issue its shares to the outside holders of these shares. It is also agreed that the consideration would be a multiple of the average P/E ratio for the period 1st January, 2011 to 31st March, 2011 times the rectified profits of each company, subject to necessary adjustments for complying with the terms of the share issue.

The following information is supplied to you :

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

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

(a) The profits of the respective companies would be adjusted for half the value of contingent liabilities as on 31st March, 2011.

(b) Debtors of Small Ltd. include an irrecoverable amount of ` 2 lakh against which ` 1 lakh was recovered but kept in Advance account.

(c) Little Ltd. had omitted to provide for increased FOREX liability of US $ 10,000 on loan availed in the Financial Year 2007-08 for purchase of Machinery. The machinery was acquired on 1st January, 2008 and put to use in Financial Year 2008-09. The additional liability arose due to change in exchange rates and is arrived at in conformity with the prevailing provisions of AS 11. The exchange rate is US $ 1 = INR 50.

(d) Small Ltd. has omitted to invoice a sale that took place on 31st March, 2011 of goods costing ` 2,50,000 at a mark-up of 15 per cent. Instead the goods were considered as part of closing inventory.

(e) Closing Inventory of ` 45 lakhs of Little Ltd. as on 31st March, 2011 stands under-valued by 10 per cent.

(f) Contingent Liabilities of Small Ltd. and Little Ltd. as on 31st March, 2011 stands at ` 5 lakhs and ` 10 lakhs respectively.

The terms of the share issue are as under :

(1) Shares in Big Ltd. will be issued at a premium of ` 13 per share for all external shareholders of Small Ltd. The Premium will be ` 15 per share for shares in Big Ltd. issued to all external shareholders of Little Ltd.

(2) No shares in Big Ltd. will be issued in lieu of the investments (inter-company holdings) of both companies. Instead the shares so held shall be transferred to Big Ltd. at the close of the Financial Year ended 31st March, 2012 at Par Value consideration payable on the date of transfer.

(3) Big Ltd. would in addition, to the issue of shares to outside shareholders of Small Ltd. and Little Ltd. make a preferential allotment on 31st March, 2012 of 2 lakhs ordinary shares at a premium

of ` 28 per share to Virgin Capital Ltd. (VCL). These shares will not be eligible for any dividends declared or paid till that date.

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

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

(6) The prevailing Income Tax Rate is 25 per cent.

Required : Compute the number of shares to be issued to the Shareholders of each of the companies and prepare the Projected Profit and Loss Account for the period from 1st January, 2012 to 31.03.2012 of Big Ltd. and its Balance Sheet as on 31st March, 2012. [15]

Answer 5.

Computation of number of shares issued :

Calculation of Rectified Profits and Purchase consideration :

Small Ltd.

Particulars	`	`
Given profits		50,00,000
Less : Irrecoverable Debtors	1,00,000	
50% Contingent Liability	2,50,000	3,50,000
		46,50,000
Add : Profit on omitted sale (15% of ` 2,50,000)		37,500
		46,87,500
Less : Debenture Interest		2,00,000
		44,87,500
Less : Income Tax @ 25%		11,21,875
Profits after Tax (PAT)		**33,65,625**
Less : Preference Dividend (10% of ` 2,00,00,000)		20,00,000
Rectified Profits		13,65,625
Average PE ratio = 10		
Total consideration for all equity shareholders		1,36,56,250
(Average PE ratio × Profit)		
Less : 10% there-of for Shareholders of Little Ltd.		13,65,625
Balance available for other shareholders of Small Ltd.		**1,22,90,625**

Little Ltd.

Particulars	`	`
Given profits		25,00,000
Less : Increase in FOREX liability (US$10,000 × 50)	5,00,000	
50% Contingent Liability	5,00,000	10,00,000
		15,00,000
Add : Undervaluation of inventory (45,00,000 × 10/90)		5,00,000
		20,00,000
Less : Debenture interest		2,00,000
		18,00,000
Less : Income Tax @ 25%		4,50,000
Profits after Tax (PAT)		**13,50,000**
Less : Preference Dividend (10% of ` 20,00,000)		2,00,000
Rectified Profis		11,50,000
Average PE ratio = 8		
Total consideration for all Equity Shareholders (Average PE ratio × Profit)		92,00,000
Less : 10% thereof for Shareholders of Small Ltd.		9,20,000
Balance available for other Shareholders of Little Ltd.		**82,80,000**

Statement showing Disposal of Purchase Consideration

Particulars	**Small Ltd.**	**Little Ltd.**	**Total**
Number of shares [Purchase consideration/ (Face Value + Securities Premium)]	**5,34,375**	**3,31,200**	**8,65,575**
	`	`	`
Share Capital	53,43,750	33,12,000	86,55,750
Securities Premium	69,46,875	49,68,000	1,19,14,875
Purchase Consideration	**1,22,90,625**	**82,80,000**	**2,05,70,625**

Projected Profit and Loss Account of Big Ltd.
for the period 1 st January to 31st March, 2012

		`
Dividends received from Subsidiaries (12,00,000 + 5,00,000)		17,00,000
Less : Management expenses	14,00,000	
Interest on Bank O/D	90,000	14,90,000
Net profit for the period		2,10,000
Less : Proposed Dividend (2% of Rs.86,55,750)		1,73,115
Balance of Profit and Loss Account carried forward		**36,885**

Projected Balance Sheet of Big Ltd. as on 31st March, 2012

Liabilities	`	Assets	`
Equity Share Capital		Investments	
Authorised		Shares in Subsidiaries (W.N. 4)	2,65,70,625
20 lakhs shares of Rs.10 each	2,00,00,000	Current Assets	
Issued & Paid up		Cash at Bank (W.N. 3)	36,885
10,65,575 shares of ` 10 each (out of the above 8,65,575 shares have been issued for consideration other than cash)	1,06,55,750	Miscellaneous Expenditure Preliminary expenses	 16,00,000
Reserves & Surplus			
Securities Premium (1,19,14,875 + 56,00,000)	1,75,14,875		
Profit and loss Account	36,885		
	2,82,07,510		**2,82,07,510**

Working Notes :

1. **Shares issued by Big Ltd. to Virgin Capital Ltd. (VCL)**

Number of shares issued	2,00,000
	`
Face Value of Share Capital @ ` 10 each	20,00,000
Securities Premium @ ` 28 each	56,00,000
Total cash received from VCL	**76,00,000**

2. **Overdraft of Big Ltd. as on 31.3.2012**

	`
Towards Incorporation expenses i.e. preliminary expenses	16,00,000
Towards Management expenses	14,00,000
Total Bank Overdraft availed	**30,00,000**
Interest @ 18% p.a. for 2 months	90,000

3. **Bank balance of Big Ltd. as on 31.3.2012**

Bank Account of Big Ltd.

Date	Particulars	`	Date	Particulars	`
01.02.2012	To Overdraft	30,00,000	01.02.2012	By Incorporation expenses	16,00,000
31.03.2012	To VCL	76,00,000	31.03.2012	By Management expenses	14,00,000
31.03.2012	To Dividend		31.03.2012	By Interest on Overdraft	90,000
	Small	12,00,000	31.03.2012	By Overdraft	30,00,000
	Little	5,00,000	31.03.2012	By Dividend paid	1,73,115
			31.03.2012	By Shares in Small Ltd. (bought from Little Ltd.)	40,00,000
			31.03.2012	By Shares in Little Ltd. (bought from Small Ltd.)	20,00,000
				By Balance c/d (Balancing figure)	36,885
		1,23,00,000			**1,23,00,000**

4. **Investments of Big Ltd. in Projected Balance Sheet**

	`
Purchase consideration paid for acquiring shares of outside holders of -	
– Small Ltd	1,22,90,625
– Little Ltd.	82,80,000
Consideration paid in cash (for acquiring cross holdings)	
From Small Ltd. (shares of Little Ltd.)	20,00,000
From Little Ltd. (shares of Small Ltd.)	40,00,000
	2,65,70,625

Q. 6. PRARTHANA Ltd. is in the business of making sports equipment. The company operates from Thailand. To globalise its operations, PRARTHANA Ltd. has identified PIYUSH Ltd. an Indian company, as a potential take over candidate. After due diligence of PIYUSH Ltd. the following information is available :

(a) Cash Flow Forecasts (` in crore) :

Year	10	9	8	7	6	5	4	3	2	1
PIYUSH Ltd.	24	21	15	16	15	12	10	8	6	3
PRARTHANA Ltd.	108	70	55	60	52	44	32	30	20	16

(b) The net worth of PIYUSH Ltd. (` in lakhs) after considering certain adjustments suggested by the due diligence team reads as under :

Tangible		750
Inventories		145
Receivables		75
		970
Less : Creditors	165	
Bank Loans	250	(415)
Represented by Equity Shares of ` 1,000 each		555

Talks for takeover have crystalized on the following :

(1) PRARTHANA Ltd. will not be able to use Machinery worth ` 75 lakhs which will be disposed of by them subsequent to takeover. The expected realization will be ` 50 lakhs.

(2) The inventories and receivables are agreed for takeover at values of ` 100 and ` 50 lakhs respectively which is the price they will realize on disposal.

(3) The liabilities of PIYUSH Ltd. will be discharged in full on take-over along with an employee settlement of ` 90 lakhs for the employees who are not interested in continuing under the new management.

(4) PRARTHANA Ltd. will invest a sum of ` 150 lakhs for upgrading the Plant of PIYUSH Ltd. on takeover. A further sum of ` 50 lakhs will also be incurred in the second year to revamp the machine shop floor of PIYUSH Ltd.

(5) The Anticipated Cash Flows (` in crore) post takeover are as follows :

Year	1	2	3	4	5	6	7	8	9	10
Year	18	24	36	44	60	80	96	100	140	200

Required: Advise the management the maximum price which they can pay per share of PIYUSH Ltd. if a discount factor of 20 per cent is considered appropriate. [15]

Answer 6.

Calculation of Maximum Price that can be quoted for take over of PIYUSH Ltd.

Particulars	` in lakhs	` in lakhs
Present (Discounted) value of incremental cash flows (Refer Working Note)		7,845.02
Add : Proceeds from disposal of Fixed Assets	50.00	
Proceeds from disposal of Inventories	100.00	
Receipts from Debtors	50.00	200.00
		8,045.02
Less : Settlement of creditors	165.00	
Bank Loans	250.00	
Employee settlement	90.00	
Renovation of Plant	150.00	
Revamp of machine shop floor (` 50 lakhs × 0.6944)	34.72	689.72
Maximum value that can be offered		**7,355.30**

Maximum price per share of PIYUSH Ltd (` 7,355.30 lakhs / 55,500 shares) = ` 13,252.79

Working Note :

Present Value of Incremental Cash Flows :

(` in lakhs)

Year	Cash flow after takeover	Cash flows before takeover	Incremental Cash flows	Discount factor @20%	Discounted Cash flows
1	1,800	1600	200	0.8333	166.66
2	2,400	2000	400	0.6944	277.76
3	3,600	3000	600	0.5787	347.22
4	4,400	3200	1200	0.4823	578.76
5	6,000	4400	1600	0.4019	643.04
6	8,000	5200	2800	0.3349	937.72
7	9,600	6000	3600	0.2791	1,004.76
8	10,000	5500	4500	0.2326	1,046.70
9	14,000	7000	7000	0.1938	1,356.60
10	20,000	10800	9200	0.1615	1,485.80
					7,845.02

Q. 7. P Ltd. owns 80% of S and 40% of J and 40% of A. J is jointly controlled entity and A is an associate. Summarised Balance Sheets of four companies as on 31.03.11 are :

(` in lakhs)

Particulars	P Ltd.	S	J	A
Investment in S	800			
Investment in J	600			
Investment in A	600	-	-	
Fixed Assets	1,000	800	1,400	1,000
Current Assets	2,200	3,300	3,250	3,650
Total	**5,200**	**4,100**	**4,650**	**4,650**
Liabilities :				
Share Capital Re. 1 Equity Share	1,000	400	800	800
Retained Earnings	4,000	3,400	3,600	3,600
Creditors	200	300	250	250
Total	**5,200**	**4,100**	**4,650**	**4,650**

P Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were ` 520 lakhs. P Ltd. acquired its shares in 'J' at the beginning of the year when 'J' retained earnings were ` 400 lakhs. P. Ltd. acquired its shares in 'A' on 01.04.10 when 'A' retained earnings were ` 400 lakhs.

The balance of goodwill relating to 'S' had been written off three years ago. The value of goodwill in 'J' remains unchanged.

Prepare the Consolidated Balance Sheet of P Ltd. as on 31.03.11 as per AS 21, 23 and 27. [15]

Answer 7.

Consolidated Balance Sheet of P Ltd. as on 31.3.11

Particulars	Note No.	(` in lacs)
I. **Equity and Liabilities**		
(1) Shareholder's Funds		
(a) Share Capital		1,000
(b) Minority Interest (W.N.3)		760
(c) Reserves and Surplus	1	8,800
(2) Current Liabilities		
Trade Receivables (200+ 300 + 40% of 250)		600
Total		**11,160**
II. **Assets**		
(1) Non-current assets		
(a) Fixed assets Tangible assets [1,000 + 800 + 560 (1400 x 40%)]		2,360
Intangible assets (W.N.1)		120
(b) Non-current investment	2	1,880
(2) Current assets [2,200 + 3,300 + 1,300 (3,250 × 40%)]		6,800
Total		**11,160**

Notes to Accounts

Particulars	(` in lacs)
1. **Reserves and Surplus**	
Retained Earnings (W.N.2)	8,800
2. **Non-current investment**	
Investment in Associates (W.N.4)	1,880

Working Notes :

1. **Computation of Goodwill**		**(` in lacs)**
S (Subsidiary) :		
Cost of investment		800
Less : Paid up value of shares acquired (400 × 80%)	320	
Share in pre-acquisition profits of S Ltd. (520 × 80%)	416	(736)
Goodwill		**64**

J (Jointly Controlled Entity)		` in lacs
Cost of Investment		600
Less : Paid up value of shares acquired (40% of 800)	320	
Share in pre-acquisition profits (40% of 400)	160	(480)
Goodwill		**120**

Note :

Jointly controlled entity 'J' to be consolidated on proportionate basis i.e. 40% as per AS 27

Associate A (AS 23)

Particulars		` in lacs
Cost of Investment		600
Less : Paid up value of shares acquired (800 × 40%)	320	
Share in pre-acquisition profits (400 × 40%)	160	(480)
Goodwill		**120**

Goodwill shown in the Consolidated Balance Sheet

Particulars	` in lacs
Goodwill of 'J'	120
Goodwill of 'S'	64
Less : Goodwill written off of 'S'	(64)
Goodwill	**120**

2. **Consolidated Retained Earnings**

Particulars	` in lacs
P Ltd.	4,000
Share in post acquisition profits of S - 80% (3,400 - 520)	2,304
Share in post acquisition profits of J - 40% (3,600 - 400)	1,280
Share in post acquisition profits of A - 40% (3,600 - 400)	1,280
Less : Goodwill written off	(64)
	8,800

3. **Minority Interest 'S'**

	` in lacs
Share Capital (20% of 400)	80
Share in Retained Earnings (20% of 3,400)	680
	760

4. Investment in Associates

Particulars	` in lacs
Cost of Investments (including goodwill ` 120 lakhs)	600
Share of post acquisition profits	1,280
Carrying amount of Investment (including goodwill ` 120 labs)	**1,880**

Q. 8. Answer *any three* of the following : [3×5=15]

(a) State the objectives of financial reporting.

(b) Forward Contract.

(c) State the criteria of Reportable Segment as per AS 17.

(d) Briefly describe the role of Public Accounts Committee.

Answer 8. (a)

Objectives of Financial Reporting

The following are the objectives of Financial Reporting :

(i) To provide information that is useful to present and potential investors, creditors and other users in making rational investment, credit, and similar decisions.

(ii) To provide information to help investors, creditors, and others to assess the amount, timing and uncertainty of prospective net cash inflows to the related enterprise.

(iii) To provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events and circumstances that change resources and claims to those resources.

(iv) To provide information about an enterprise's financial performance during a period.

(v) To give information about an enterprise's performance provided by measures of earnings and its components.

(vi) To provide information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions, including cash dividends and other distributions of enterprise's resources to owners, and about other factors that may affect an enterprise's liquidity or solvency.

(vii) To provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it.

(viii) To provide information that is useful to managers and directors in making decisions in the interest of owners.

Answer 8. (b)

Forward Contract

A forward contract is an agreement between two parties whereby one party agrees to buy from, or sell to, the other party an asset at a future time for an agreed price (usually referred to as the 'contract price'). The parties to forward contracts may be individuals, corporates or financial institutions. At maturity, a forward contract is settled by delivery of the asset by the seller to the buyer in return for payment of the contract price. For example, a person (X) may enter into a forward contract with another person (Y) on June 15, to buy 10 kgs. of silver at the end of 90 days at a price of ` 8,200 per kg. At the end of the 90 days, Y will deliver 10 kgs. of silver to X against payment of ` 82,000. If the price of silver, at the end of the 90 days, is ` 8,300 per kg., X would make a profit of ` 1,000 and Y would lose ` 1,000, as X could sell silver bought at ` 82,000 for ` 83,000, whereas Y would have to buy silver for ` 83,000 and sell for ` 82,000. On the other hand, if the price of silver at the end of the 90 days is ` 7,800 per kg., X would lose ` 4,000, whereas Y would make a profit of ` 4,000, as X would have to sell silver bought at ` 82,000 for ` 78,000, whereas Y would buy silver for ` 78,000, which he would sell to X at ` 82,000.

Answer 8. (c)

Criteria of Reportable Segment as per AS 17

As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

(ii) Its segment result whether profit or loss is 10% or more of :

(1) The combined result of all segments in profit; or

(2) The combined result of all segments in loss, whichever is greater in absolute amount; or

(iii) Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until atleast 75% of total enterprise revenue is included in reportable segments.

Answer 8. (d)

Role of Public Accounts Committee :

Role of Public Accounts Committee is to assess the integrity, economy, efficiency and effectiveness of Government financial management. It is achieved by :

1. Examining the Government financial documents; and
2. Considering the reports of the Auditor-General.

A significant amount of the Committee's Work involves following up matter raised in the reports to Parliament by the Auditor-General. This ensures that public sector financial issues are scrutinised for the benefit of Parliament and the public. While scrutinising the Appropriation Accounts of the Government of India and the Reports of the Comptroller and Auditor General thereon, it is the duty of the Committee to satisfy itself :

1. that the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged;

2. that the expenditure conforms to the authority which governs it; and

3. that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

An important function of the committee is to ascertain that money granted by Parliament has been spent by Government "within the scope of the demand. "The functions of the Committee extend "beyond the formality of the expenditure to its wisdom, faithfulness and economy". The committee thus examines cases involving losses, nugatory expenditure and financial irregularities.

It is also the duty of the PAC to examine the Statement of Accounts of autonomous and semi-autonomous bodies, the audit of which is conducted by the Comptroller & Auditor General either under the directions of the President or by a Statute of Parliament.