

Suggested Answer_Syl12_Dec13_Paper 18

FINAL EXAMINATION GROUP - IV

SYLLABUS - 2012 SUGGESTED ANSWERS TO QUESTION

DECEMBER 2013

Paper – 18: CORPORATE FINANCIAL REPORTING

Time Allowed: 3 Hours

Full Marks: 100

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

Answer all the questions.

5X2=10

1. Answer any two of the following:

- (a) X has 60% interest in a joint venture with Y. X sold a plant with w.d.v. ₹60 lacs for ₹80 lacs. Calculate how much profit X should recognize in its books as per AS-27 in case the joint venture is
- (i) jointly controlled operation
 - (ii) jointly controlled asset
 - (iii) jointly controlled entity
- (b) Jupiter Ltd. has an asset, which is carried in the Balance Sheet on 31.03.2012 of ₹500 lakhs. As of that date, the value in use is ₹400 lakhs and the net selling price is ₹375 lakhs. From the above data:
- (i) Calculate Impairment Loss
 - (ii) Prepare Journal Entries for adjustment of Impairment Loss
 - (iii) Show how the Impairment Loss will be shown in the Balance Sheet
- (c) From the following information for Rishab Ltd. for the year ended 31.03.2013, calculate the deferred tax asset/liability as per AS-22.

Accounting Profit	₹10,00,000
Book Profit as per MAT (Minimum Alternate Tax)	₹9,00,000
Profit as per Income Tax Act	₹1,00,000
Tax Rate	30%
MAT Rate	10%

Answer :

1. (a)

According to AS 27, in the case of Jointly Controlled Operations (JCO) and Jointly Controlled Assets (JCA), there are no separate financial statements for the Joint Venture. The venturer may prepare accounts for internal reporting purposes. In JCO, venturers' assets are used. In JCA, the assets are dedicated to the venture. In the case of Jointly Controlled Entity (JCE), there is a separate legal entity for the venture and it operates like any other enterprise.

When X sells the plant to the venture at a profit of 20 lacs, the following is the treatment according to AS 27 - transactions of the venture with the venture:

	JCO/JCA	JCE
X should consider in its Separate Financial Statements (SFS): The extent of profit attributable to the other venturers, i.e. 40% of 20 lacs	8	

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X should consider the full amount of profit in its SFS		20
In the Consolidated Financial Statements (CFS) of X, its share should be eliminated and hence, only the other venturer's profit is considered	8	8

If the candidate assumes that X sells the plant to a third party, then,

- (i) in the case of a JCO, X would have used its own asset for X's own business and that of the venture's. Since it is X's own asset, all the profit of 20 lacs would be considered in the SFS of X as well as in the CFS of X.
- (ii) In the case of JCA, the asset would have been dedicated to the venture. Hence X will recognize its share viz. 60 % of 20 lacs = 12 lacs in both the SFS and the CFS.
- (iii) In the case of a JCE, the venture considers its interest in the JCE. Hence 12 lacs will be considered as 'income from investment', since the interest in a JCE is reported as an investment rather than a line item of the individual asset.

1. (b)

- (i) Calculation of Impairment Loss

Recoverable amount is higher of value in use ₹400 and Net Selling Price ₹ 375

Thus, Recoverable Amount = ₹400

Impairment Loss = Carried Amount - Recoverable Amount

= ₹ 500 lakhs – ₹ 400 lakhs = ₹100 lakhs

- (ii) Journal Entries.

Particulars	Dr. (Rupees in lakhs)	Cr. (Rupees in lakhs)
a) Impairment Loss A/c Dr. To, Asset (Being the entry for accounting for impairment loss)	100	100
b) Profit and Loss A/c Dr. To, Impairment Loss A/c (Being the entry to transfer impairment loss to P/L A/c)	100	100

- (iii) Balance Sheet of Jupiter Ltd. as on 31.03.2012 (Extracts)

	Amt. in Lakhs
Asset less. Depreciation	500
Less: Impairment Loss	100
	400

1. (c)

Tax as per accounting profit: 10,00,000 x 30% = ₹ 3,00,000

Tax as per income tax profit: 1,00,000 x 30% = ₹ 30,000

Tax as per MAT: 9,00,000 x 10% = ₹ 90,000

Tax Expense = Current Tax + Deferred Tax

Therefore Deferred Tax Liability as on 31.03.2013 = ₹ 3,00,000 - ₹ 30,000

= ₹ 2,70,000

Amount of Tax to be debited in Profit and Loss A/c for the year 31.03.2013:

= Current Tax + Deferred Amount of Tax liability + Excess of MAT over current tax

= 30,000 + 2,70,000 + (90,000 - 30,000)

= ₹ 3,60,000

Alternative answer for second part of the answer

Amount of tax to be debited in Profit and Loss A/c for the year 31.03.2013:

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= Current Tax (MAT) + Deferred Tax
 = 90,000 + 2,70,000
 = 3,60,000
 Both the options can be considered favorably.

2.

(a) The summarized Balance Sheets of A Ltd. and its subsidiary B Ltd. as on 31.03.2013 are as follows:

	A Ltd.		B Ltd.	
Equity and Liabilities				
Shareholder's Funds				
Share Capital in equity shares of ₹ 10 each		40,00,000		8,00,000
Reserves and Surplus				
General reserve		30,00,000		20,00,000
Profit and Loss A/c		20,00,000	50,00,000	10,00,000
				30,00,000
Non-Current liabilities				
Secured loans		10,00,000		3,00,000
Current Liabilities				
Trade payables		18,00,000		2,00,000
Total		118,00,000		43,00,000

	A Ltd.		B Ltd.	
Assets				
Non-current assets				
Tangible assets		40,00,000		15,00,000
Non-current investments				
Equity shares in B Ltd. (60,000 shares)		6,00,000		
Current Assets				
Inventories	27,00,000		20,00,000	
Trade receivables	30,00,000		5,00,000	
Cash and cash equivalents	15,00,000	72,00,000	3,00,000	28,00,000
Total		118,00,000		43,00,000

A Ltd. holds 75% of the paid-up capital of B Ltd. and the balance is held by a foreign company.

A memorandum of understanding has been entered into with the foreign company by A Ltd. to the following effect:

- (i) The shares held by the foreign company will be sold to A Ltd. at a price per share to be calculated by capitalizing the yield at 25%. Yield for this purpose would mean 60% of the average pre-tax profits for the last 4 years, which were ₹ 14 lacs, 20 lacs, 22 lacs and 24 lacs respectively.
- (ii) The actual cost of shares to the foreign company was ₹2,00,000 only. Gains accruing to the foreign company are taxable at 20%. The tax payable will be deducted from the sale proceeds and paid to the Government by A Ltd. 60% of the consideration (after payment of tax) will be remitted by A Ltd. to the foreign company.
- (iii) A Ltd. will issue its shares at their intrinsic value for the balance consideration. Cash will be paid for any fractional shares in the computation.
- (iv) It was also then decided that A Ltd. would absorb B Ltd. by simultaneously writing down the fixed assets of B Ltd. by 10%. Stock of A Ltd. included stock of ₹1,00,000 purchased from B Ltd., which sold it at cost + 25%.

The entire arrangement was approved and made effective from 1.4.2013.

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You are required to show the Balance Sheet of A Ltd. after the arrangement was made effective as at 1.4.2013. Present the Balance Sheet in the revised Schedule VI format. Fill in the figures to the extent available. Workings should form part of your answer. 15

OR

(b) The Statement of Affairs of S Ltd. as at 31st March 2012 is given below, with the respective shares of the company's two Divisions A and B in the various items of assets and liabilities:

	(Amounts in ₹ lacs)		Total
	Division A	Division B	
Fixed Assets:			
Cost	850	250	
Less: Depreciation	350	80	
Written Down Value	500	170	670
Investments			100
Net Current Assets:			
Current Assets	455	580	
Less: Current Liabilities	275	95	
Net Current Assets	180	485	665
Total			1435
Financed by:		—	
Loan Funds		20	425
Own Funds			
Equity Share Capital (Shares of ₹10 each)			350
Reserves and Surplus			660
Total			1435

Loan Funds included Bank Loans of ₹ 20 lacs specially taken for B Division and Debentures of paid up value of ₹120 lacs redeemable at any time between October 1st 2011 and 30th September 2012. On 1st April 2012, the company sold all of its investments for ₹120 lacs and redeemed all the debentures at par, the cash transactions being recorded in the Bank A/c pertaining to Division A.

Then, a new company T Ltd. was incorporated with an authorized capital of ₹1,000 lacs divided into shares of ₹10 each. All the assets and liabilities pertaining to Division B were transferred to the newly formed company, with T Ltd. allotting to S Ltd's shareholders its fully paid equity shares of ₹10 each at par for every fully paid equity share of ₹10 each held in S Ltd. as discharge of consideration for the division taken over.

T Ltd. recorded in its books the fixed assets at ₹225 lacs and all the other assets and liabilities at the same values at which they appeared in the books of S Ltd.

You are required to:

- (i) Show the journal entries in the books of S Ltd.
 - (ii) Prepare the Balance Sheet of S Ltd. immediately after the demerger.
 - (iii) Prepare the initial Balance Sheet of T Ltd.
- (Schedules are not required in both the cases). 15

Answer:

2. (a)

Name of the Company: A Ltd.
Balance Sheet as at 1.04.2013

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Ref No.	Particulars	Note No.	As at 1st April, 2013	As at 31st March, 2013
			(₹)	(₹)
	I. Equity and Liabilities			
	1 Shareholders' funds			
	(a) Share capital	1	41,33,330	40,00,000
	(b) Reserves and surplus	2	70,96,660	50,00,000
	2 Non-current liabilities			
	(a) Long-term borrowings	3	13,00,000	10,00,000
	4 Current Liabilities			
	(a) Trade payables	4	20,00,000	18,00,000
	Total (1+2+3+4)		1,45,29,990	1,18,00,000
	II. Assets			
	1 Non-current assets			
	(a) Fixed assets			
	- Tangible assets	5	53,50,000	40,00,000
	(b) Non-current Investment			6,00,000
	2 Current assets			
	(a) Inventories	6	46,80,000	27,00,000
	(b) Trade receivables	7	35,00,000	30,00,000
	(c) Cash and cash equivalents (W.N. 7)		9,99,990	15,00,000
	Total (1+2)		1,45,29,990	1,18,00,000

Notes to the accounts

Note 1. Share Capital	As at 1st April, 2013	
Authorised, Issued, Subscribed & Paid up :-		
4,13,333 equity shares of ₹10/- each [of the above shares 13,333 equity shares are allotted as fully paid up for consideration other than cash]	41,33,330	
Total	41,33,330	

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FOR EQUITY SHARE :-	As at 1st April, 2013		As at 31st March, 2013	
	Nos.	Amount (₹)	Nos.	Amount (₹)
Opening Balance as on 01.04.11	4,00,000	40,00,000	4,00,000	40,00,000
Add: Fresh Issue (Includ Bonus shares , Right shares, split shares, shares issued other than cash)	13,333	1,33,330	-	-
Total	4,13,333	41,33,330	4,00,000	40,00,000

Note 2. Reserve and surplus	As at 1st April, 2013		As at 31st March, 2013
Capital Reserve		18,50,000	-
General Reserve		30,00,000	30,00,000
Securities Premium (13,333 x ₹20)		2,66,660	-
Profit & Loss A/c	20,00,000		20,00,000
Less: Unrealised profit on stock	20,000	19,80,000	
Total		70,96,660	50,00,000

Note 3. Long Term Borrowing	As at 1st April, 2013	As at 31st March, 2013
Secured loan (10,00,000 + 3,00,000)	13,00,000	10,00,000
Total	13,00,000	10,00,000

Note 4. Trade Payable	As at 1st April, 2013	As at 31st March, 2013
Creditors	20,00,000	18,00,000
Total	20,00,000	18,00,000

Note 5. Tangible assets	As at 1st April, 2013	As at 31st March, 2013
Fixed Assets (40,00,000 + 13,50,000)	53,50,000	40,00,000
Total	53,50,000	40,00,000

Note 6. Inventories	As at 1st April, 2013	As at 31st March, 2013
Inventories (27,00,000 + 20,00,000)	47,00,000	27,00,000
Less: Unrealised profit	20,000	-

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Total	46,80,000	27,00,000
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Note 7. Trade receivable	As at 1st April, 2013	As at 31st March, 2013
Trade receivable (30,00,000 + 5,00,000)	35,00,000	30,00,000
Total	35,00,000	30,00,000

Working Notes :

1. Average of pre tax profit = $14+20+22+24/4 = ₹ 20$ lakhs Yield = $20 \times 60/100 = ₹ 12$ lakhs
2. Price per share of B. Ltd.
Capitalized value of yield of B. Ltd. = $12 \text{ lakhs} \times 100/25 = ₹ 48$ lakhs
No. of shares = 80,000. price per share = $₹ 48 \text{ lakhs} / 80,000 = ₹ 60$ per share
3. Purchase consideration for 25% of share capital of B. Ltd.
= $80,000 \times 60 \times 25/100 = ₹ 12,00,000$
4. Calculation of intrinsic value of shares of A. Ltd.

	₹	₹
Total assets excluding investments in B Ltd.		1,12,00,000
Value of investments 60,000 x 60		36,00,000
		1,48,00,000
Less: Outstanding liabilities		
Secured loan	10,00,000	
Current liabilities	18,00,000	28,00,000
Net Assets		120,00,000

Intrinsic value per share = Net assets / No. of shares = ₹ 30

5. Discharge of purchase consideration by A. Ltd.

	Equity share capital ₹	Cash ₹	Total ₹
(i) Payment of Tax $(12 - 2) \times 20/100$		2,00,000	2,00,000
(i) Issue of shares to foreign company [40% of $(12 - 2)$] = ₹ 4,00,000 No. of shares issued by A. Ltd = $₹ 4,00,000 / ₹ 30$ = 13,333.33 shares Value of share capital = $13,333 \times ₹ 30 =$	3,99,990		3,99,990
(ii) Cash payment [60% of $(12 - 2)$]		6,00,000	6,00,000
(iii) Cash for fractional shares $(0.33 \times ₹ 30)$		10	10
	3,99,990	8,00,010	12,00,000

6. Calculation of goodwill/capital reserve of A. Ltd.

	₹	₹
Total assets as per balance sheet of B. Ltd.		43,00,000
Less: 10% reduction in value of fixed assets $(15,00,000 \times 10\%)$		1,50,000
		41,50,000
Less: Secured loan	3,00,000	

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Current liabilities	2,00,000	5,00,000
Net assets		36,50,000
Less : Purchase consideration (outside shareholders)		12,00,000
		24,50,000
Less : Investment in B. Ltd. As per balance sheet of A. Ltd.		6,00,000
Capital reserve		18,50,000

7. Cash and bank balance of A. Ltd. After acquisition of shares

	₹
Opening balance (A Ltd. & B. Ltd.)	18,00,000
Less: remitted foreign company	(6,00,010)
Less : T. D. S. paid to Government	(2,00,000)
	9,99,990

8. Unrealized profit in stock of A. Ltd. = 1,00,000 x 25/125 = ₹20,000

2. (b) (i)

In S Ltd's Books Journal entries

		₹ In Lakhs	
		Dr.	Cr.
Bank Account (current assets)	Dr.	120	
To Investment A/c			100
To profit & Loss A/c (reserves & surplus) (Sale of Investment at profit)			20
Debentures (Loan Funds)	Dr.	120	
To bank A/c (Current assets) (Redemption of debentures at par)			120
Current Liabilities	Dr.	95	
Bank Loan (Loan Funds)	Dr.	20	
Provision for Depreciation	Dr.	80	
Reserves & Surplus (Loss on Demerger)	Dr.	635	
To Fixed Assets			250
To Current Assets (Assets and Liabilities pertaining to B Division taken out of the books on transfer of the division to T Ltd.)			580

(ii)

Name of the Company: S Ltd.

Balance Sheet as at 01.04.2012

Ref No.	Particulars	Note No.	As at 1st April, 2012	As at 1st April, 2011
			(₹ in Lakhs)	(₹ in Lakhs)
	I. Equity and Liabilities			
	1 Shareholders' funds			
	(a) Share capital		350.00	
	(b) Reserves and surplus		45.00	

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	2	Non-current liabilities			
		- Long-term borrowings		285.00	
	3	Current Liabilities			
		- Current liabilities		275.00	
		Total (1+2+3)		955.00	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		- Tangible assets		500.00	
	2	Current assets			
		- Current assets		455.00	
		Total (1+2)		955.00	

WN # 1: Revenue Reserves

Particulars	₹ in Lakhs
Balance as 31.03.2012	660
Add : Profit on sale of investment	20
Less: Loss on demerger	(635)
Balance as on 01.04.2012	45

WN # 2 : Loan Funds

Particulars	₹ in Lakhs
Balance as 31.03.2012	425
Less: Bank Loan transferred to Y Ltd.	(20)
Less: Debentures redeemed	(120)
Balance as on 01.04.2012	285

WN # 3: Current Assets

Particulars	₹ in Lakhs
Balance as 31.03.2012	455
Add: Cash received on sale of investments	120
Less: Cash paid on redemption of debentures	(120)
Balance as on 01.04.2012	455

(iii)

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Name of the Company: T Ltd.

Balance Sheet as at 01.04.2012

Ref No.	Particulars	Note No.	As at 01st April, 2012
			(₹ in Lakh)
	I. Equity and Liabilities		
	1 Shareholders' funds		
	(a) Share capital		350.00
	(b) Reserves and surplus		340.00
	2 Non-current liabilities		
	(a) Long-term borrowings		20.00
	3 Current Liabilities		
	(a) Current Liabilities		95.00
	Total (1+2+3)		805.00
	II. Assets		
	1 Non-current assets		
	(a) Fixed assets		
	- Tangible assets		225.00
	2 Current assets		
	- Other current assets		580.00
	Total		805.00

WN # 4 : Capital Reserves

Particulars	₹ in Crores	₹ in Crores
i. Purchase consideration		350
ii. Less: Net Assets taken over		
Assets taken over (225 + 580)	805	
Less: Liabilities taken over (95+20)	(115)	(690)
iii. Capital reserves [(i) - (ii)]		340

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3.(a) The Balance Sheet of Big Ltd., Small Ltd. and Little Ltd. as at 31st March 2013 are given below:

	Big Ltd.	Small Ltd.	Little Ltd.
Equity and Liabilities			
Shareholder's Funds			
Share Capital			
Equity Shares of ₹ 10 each, fully paid up	2,00,000	1,00,000	60,000
Reserves and Surplus			
General reserve	60,000	50,000	40,000
Profit and Loss A/c	50,000	40,000	30,000
Current Liabilities			
Trade payables	35,000	30,000	40,000
Big Ltd.		15,000	5,000
Total	3,45,000	2,35,000	1,75,000
Assets			
Non-current assets			
Tangible assets			
Plant and machinery	80,000	1,10,000	1,15,000
Non-current investments (at cost)			
Equity shares in Small Ltd.	90,000	-	
Equity shares in Little Ltd.	40,000	60,000	
Current Assets			
Inventories	60,000	35,000	35,000
Trade receivables	35,000	20,000	15,000
Small Ltd.	18,000		
Little Ltd.	7,000		
Cash and cash equivalents	15,000	10,000	10,000
Total	3,45,000	2,35,000	1,75,000

(i) Big Ltd. held 8000 shares of Small Ltd. and 1800 shares of Little Ltd.

(ii) Small Ltd. held 3600 shares of Little Ltd.

(iii) All investments were made on 1st July 2012

(iv) The following balances were there on 1st July 2012:

	Small Ltd. ₹	Little Ltd. ₹
Reserves	25,000	15,000
Profit and Loss A/c	30,000	25,000

(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 ₹6000.

(vi) Little Ltd. sold to Small Ltd. an equipment costing ₹24,000 at a profit of 25% on selling price on 1st 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 31st March 2013 by the direct approach. Workings should form part of the answer. Present the Balance Sheet as per the revised format.

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OR

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(b) The Balance Sheets of A Ltd. and B Ltd. as on 31.03.2012 are as follows:

	A Ltd.		B Ltd.	
	₹	₹	₹	₹
Equity and Liabilities				
Shareholder's Funds				
Share Capital				
Equity Shares of ₹ 10 each, fully paid up	40,00,000		8,00,000	
14% Preference Shares of ₹100 each, fully paid up	-	40,00,000	5,00,000	13,00,000
Reserves and Surplus				
General reserve	18,00,000		50,000	
Profit and Loss A/c	17,00,000	35,00,000	6,50,000	7,00,000
Current Liabilities				
Trade payables				
		5,00,000		3,00,000
Total		80,00,000		23,00,000
Assets				
Non-current assets				
Tangible assets				
Plant and machinery	26,50,000		8,00,000	
Furniture and fixtures	8,00,000	34,50,000	5,40,000	13,40,000
Non-current investments				
Equity shares in B Ltd.	19,80,000			
Preference shares in B Ltd.	4,00,000	23,80,000	-	-
Current Assets				
Inventories	8,70,000		4,60,000	
Trade receivables	7,50,000		3,70,000	
Cash and cash equivalents	5,50,000	21,70,000	1,30,000	9,60,000
Total		80,00,000		23,00,000

A Ltd. acquired 80% of both classes of shares in B Ltd. on 01.04.2011. Additional information:

- (i) The balance in Profit and Loss A/c of B Ltd. on 1.4.2011 was ₹2,50,000, out of which dividend of 15% p.a. on the Equity Capital of ₹8,00,000 was paid for the year 2010-2011.
- (ii) General reserve balances of B Ltd. was the same as on 1.4.2011.
- (iii) The dividend in respect of preference shares of B Ltd. for the year 2011-12 was still payable as on 31.3.2012.
- (iv) A Ltd. credited its Profit and Loss A/c for the dividend received by it from B Ltd. for the year 2010-11.
- (v) At the time of acquisition by A Ltd., while determining the price to be paid for the shares in B Ltd. it was decided that the value of plant and machinery was to be increased by 20% and that of furniture and fixtures to be reduced by 30%. There was no transaction of purchase or sale of these assets during the year. The effect to these revaluations are to be given in the consolidated balance sheet.
- (vi) Sundry creditors of A Ltd. included an amount of ₹ 2,20,000 for purchases from B Ltd., on which B. Ltd. made a loss of ₹ 20,000.
- (vii) 60% of the above goods were still with the closing stock of A Ltd. as at 31.03.2012.

Prepare the Consolidated Balance Sheet as at 31st March, 2012, assuming the rate of depreciation charged as 20% p.a. on plant and machinery and 10% p.a. on furniture and fixtures.

Workings should be part of the answer.

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Answer:

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

₹ in Lakhs

Ref No.	Particulars	Note No.	As at 31st March, 2013
1	EQUITY AND LIABILITIES		
	(a) Share capital	1	2,00,000
	(b) Reserves and surplus	2	1,57,420
2	Minority Interest (W.N.4)		53,580
3	Current Liabilities		
	(a) Trade payables	3	1,05,000
	(b) Short-term provisions	4	20,000
	Total (1+2+3)		5,36,000
II	ASSETS		
1	Non-current assets		
	Fixed assets		
	- Tangible assets	5	2,97,200
2	Current assets		
	(a) inventories	6	1,28,800
	(b) trade receivables	7	70,000
	(c) Cash and cash equivalents	8	35,000
	(d) Other current assets	9	5,000
	Total (1+2)		5,36,000

Notes to the accounts

Note 1. Share Capital	As at 31 st March, 2013
Authorized, Issued, Subscribed and paid-up Share capital:-	
20,000 Equity share of ₹10 each	2,00,000
Total	2,00,000

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	As at 31 st March, 2013	
	Nos.	Amount (₹)
Opening Balance as on 01.04.11	20,000	2,00,000

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Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)		
	20,000	2,00,000
Less: Buy Back of share		
Total	20,000	2,00,000

Note 2. Reserve & Surplus	As at 31 st March,2013
Capital Reserve (W.N. 3)	24,000
Revenue reserve (W.N. 7)	99,500
Profit and loss A/c (W.N. 6)	33,920
Total	1,57,420

Note 3. Trade Payables	As at 31 st March,2013
Sundry Creditors (35,000+30,000+40,000)	1,05,000
Total	1,05,000

Note 4. Short- term provisions	As at 31 st March,2013
Proposed dividend	20,000
Total	20,000

Note 5. Tangible Assets	As at 31 st March,2013
Fixed Assets less depreciation- Big Ltd	80,000
Small Ltd	1,10,000
Little Ltd	1,15,000
	3,05,000
Less: Unrealised Profit (W.N. 5)	7,800
Total	2,97,200

Note 6. Inventories	As at 31 st March,2013
Stock (60,000+35,000+35,000)	1,30,000
Less: Unrealised profit	1,200
Total	1,28,800

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Note 7. Trade Receivables	As at 31 st March,2013
Debtors (more than six months considered good) – (35,000+20,000+15,000)	70,000
Total	70,000

Note 8. Cash and cash equivalents	As at 31 st March,2013
Cash and Bank balance (15,000+10,000+10,000)	35,000
Total	35,000

Note 9. Other current assets	As at 31 st March,2013
Bills receivables- (18,000+7,000)	25,000
Less: mutual debts (15,000+5,000)	20,000
Total	5,000

Working Notes :

1. Analysis of profit of Little Ltd.

Particulars	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
Reserve on 01.07.2012	15,000		
Profit and loss A/c on 01.07.2012	25,000		
Increase in Reserves		25,000	
Increase in profit			5,000
	40,000	25,000	5,000
Less: Minority Interest (10%)	(4,000)	(2,500)	(500)
	36,000	22,500	4,500
Share of Big Ltd. (30%)	12,000	7,500	1,500
Share of Small Ltd. (60%)	24,000	15,000	3,000

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

Particulars	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
Reserve on 01.07.2012	25,000		
Profit and loss A/c on 01.07.2012	30,000		
Increase in Reserves		25,000	
Increase in profit		-	10,000
	55,000	25,000	10,000
Share in Little Ltd.		15,000	3,000
	55,000	40,000	13,000
Less : Minority interest (20%)	(11,000)	(8,000)	(2,600)
Share of Big Ltd. (80%)	44,000	32,000	10,400

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3. Cost of Control :

Particulars	Amount ₹	Amount ₹	Amount ₹
Invest in Small Ltd.			90,000
Invest in Little Ltd.			1,00,000
			1,90,000
Less : Paid up value of investment			
In Small Ltd.	80,000		
In Little Ltd.	54,000	1,34,000	
Capital profit			
In Small Ltd.	44,000		
In Little Ltd.	36,000	80,000	2,14,000
Capital reserve			24,000

4. Minority Interest

Particulars	Small Ltd. ₹	Little Ltd. ₹
Share capital	20,000	6,000
Capital profit	11,000	4,000
Revenue reserves	8,000	2,500
Revenue profit	2,600	500
	41,600	13,000
Less : Unrealised profit on stock (20% of ₹ 6000 x 25/125)	(240)	
Unrealised profit on equipment (10% of ₹7,800)		(780)
	41,360	12,220

5. Unrealised profit on equipment sold

Particulars	₹
Selling price (24,000 x 100/75)	32,000
Less : Cost	(24,000)
Profit	8,000
Unrealised profit = (8,000 – 8,000 x 10/100 x 3/12) = 7,800	

6. Profit and loss account – Big Ltd.

Particulars	₹
Balance	50,000
Less : Proposed dividend	(20,000)
	30,000
Add: Share in Small Ltd.	10,400
Share in Little Ltd.	1,500
	41,900
Less: Unrealised profit on equipment (90% of 7,800)	(7,020)
	34,880
Less: Unrealised profit on stock (6,000 x 25/125 x 80%)	(960)
	33,920

7. Revenue reserves – Big Ltd.

Particulars	₹
Balance	60,000
Share in Small Ltd.	32,000
Share in Little Ltd.	7,500
	99,500

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OR

3. b)
Consolidated Balance Sheet of A Ltd. And its subsidiaries B Ltd. as on 31st March, 2012

₹ in Lakhs

Ref No.	Particulars	Note No.	As at 31st March, 2012
1	EQUITY AND LIABILITIES		
	(a) Share capital	1	40,00,000
	(b) Reserves and surplus	2	38,12,000
2	Minority Interest (W.N.4)		4,02,000
3	Current Liabilities		
	- Trade payables	3	5,80,000
	Total (1+2+3)		87,94,000
II	ASSETS		
1	Non-current assets		
	(a) Fixed assets		
	(i) Tangible assets	4	47,88,000
	(ii) Intangible assets	5	10,84,000
2	Current assets		
	(a) inventories	6	13,42,000
	(b) trade receivables	7	9,00,000
	(c) Cash and cash equivalents	8	6,80,000
	Total (1+2)		87,94,000

Notes to the accounts

Note 1. Share Capital	As at 31 st March, 2012
Authorized, Issued, Subscribed and paid-up Share capital:-	
40,000 Equity share of ₹10 each	4,00,000
Total	4,00,000

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	As at 31 st March, 2012	
	Nos.	Amount (₹)

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Opening Balance as on 01.04.11	40,000	2,00,000
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)		
	40,000	4,00,000
Less: Buy Back of share		
Total	40,000	4,00,000

Note 2. Reserve & Surplus	As at 31 st March,2012
General Reserve	18,00,000
Profit and loss A/c (W.N. 6)	20,12,000
Total	38,12,000

Note 3. Trade Payables	As at 31 st March,2012
Sundry Creditors – A Ltd.	5,00,000
B Ltd.	3,00,000
	8,00,000
Less: Mutual Owing	2,20,000
Total	5,80,000

Note 4. Tangible Assets	As at 31 st March,2012
Plant and Machinery - A Ltd	26,50,000
B Ltd	9,60,000
	36,10,000
Furniture and Fixture - A Ltd	8,00,000
B Ltd.	3,78,000
	11,78,000
Total	47,88,000

Note 5. Intangible Assets	As at 31 st March,2012
Goodwill (W.N. 5)	10,84,000
Total	10,84,000

Note 6. Inventories	As at 31 st March,2012
Stock – A Ltd.	8,70,000

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B Ltd.	4,60,000
Add: Unrealised Loss	12,000
Total	13,42,000

Note 7. Trade Receivables	As at 31 st March,2012
Debtors – A Ltd.	7,50,000
B Ltd.	3,70,000
	11,20,000
Less: Mutual Owing	2,20,000
Total	9,00,000

Note 8. Cash and cash equivalents	As at 31 st March,2012
Cash and Bank balance – A Ltd.	5,50,000
B Ltd.	1,30,000
Total	6,80,000

Working Notes :

1. Calculation of Capital Profits (Pre – acquisition)

	₹	₹
General reserve balance as on 01.04.2011		50,000
Profit & Loss A/c balance	2,50,000	
Less : Dividend at 15% p.a. On Equity capital of ₹8,00,000 for the year 2010 - 11	1,20,000	1,30,000
		1,80,000
Add: Profit on revaluation of plant & machinery (W. N. 7)		2,00,000
		3,80,000
Less: Loss on revaluation of furniture & fixtures (W. N. 8)		1,80,000
		2,00,000
Share of A Ltd. (80%)		1,60,000
Share of Minority Interest (20%)		40,000

2. Calculation of Revenue Profits (Post Acquisition)

	₹	₹
Profits during the year 2011-12 (6,50,000 -1,30,000)		5,20,000
Less : Preference dividend in 2010-11 @ 14% on ₹ 5,00,000		70,000
		4,50,000
Less : Under charging of depreciation on plant & machinery due to upward revaluation (₹ 2,00,000x20%)		40,000
		4,10,000
Add : Overcharging of depreciation on furniture & fixtures due to downward revaluation (₹ 1,80,000x10%)		18,000
		4,28,000
Share of A. Ltd. (80%)		3,42,400

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Share of Minority Interest (20%)		85,600
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3. Calculation of dividend on preference shares of B Ltd.

	₹
Dividend on preference shares (₹ 5,00,000 x 40%)	70,000
Share of A Ltd. (80%)	56,000
Share of Minority Interest (20%)	14,000

4. Calculation of Minority Interest

	₹
Equity share capital (20%)	1,60,000
Preference Share Capital (20%)	1,00,000
Share of Capital profits (W.N.1)	40,000
Share of Revenue profit (W.N.2)	85,600
Share of Preference dividend (W.N.3)	14,000
Add: Unrealized Loss	2,400
	4,02,000

5. Calculation of Cost of Control – Goodwill

	₹	₹
Investment by A Ltd. In Equity shares of B Ltd.	19,80,000	
Less: Dividend received for 2010-11 15% of (8,00,000 x 80%)	96,000	18,84,000
Preference shares		4,00,000
		22,84,000
Less : Paid up value of Equity shares (80%)	6,40,000	
Preference Shares (80%)	4,00,000	
Share in Capital Profit (W. N. 1)	1,60,000	12,00,000
Goodwill		10,84,000

6. Calculation of Consolidated Profit & Loss A/c

	₹
Balance in Profit & Loss A/c	17,00,000
Add : Revenue Profit from B Ltd. (W.N.2)	3,42,400
Preference dividend of B Ltd. (W.N.3)	56,000
Share of unrealised loss on stock (20,000x60%×80%)	9,600
	21,10,400
Less : Dividend wrongly credited	96,000
	20,12,000

7. Value of Plant & Machinery of B Ltd.

	₹	₹
Value as on 01.04.2011 (8,00,000x100/80)		10,00,000
Add : Appreciation on revaluation (20%)		2,00,000
Revalued figure		12,00,000
Less : Depreciation		
Already charged (12,00,000 – 10,00,000)	2,00,000	
Due to upward revaluation (2,00,000 x 20%)	40,000	2,40,000
		9,60,000

8. Value of Furniture & Fixture of B Ltd.

	₹	₹

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Value as on 01.04.2011 (5,40,000 x 100/90)		6,00,000
Less : Diminution on revaluation (30%)		(1,80,000)
Revalued Figure		4,20,000
Less : Depreciation already charged (6,00,000 -5,40,000)	60,000	
Less: Depreciation written back due to down word revaluation (1,80,000x10%)	18,000	(42,000)
		3,78,000

4. (a) On 31.03.2011, A Ltd. acquired 1,05,000 shares of B Ltd. for ₹12,00,000. The Balance Sheet of B Ltd. as on that date was as under:

The Balance Sheets of B Ltd. as on 31.03.2011

(Figures in ₹ in 000's)	
Equity and Liabilities	
Shareholder's Funds	
Share Capital	
Equity Shares of ₹ 10 each, fully paid up (1,50,000 shares)	1,500
Reserves and Surplus	
Securities Premium	-
Pre-Incorporation Profits	30
Profit and Loss A/c	60
Current Liabilities	
Trade payables	75
Total	1,665
Assets	
Non-current assets	
Tangible assets	1,050
Current Assets	615
Total	1,665

The Balance Sheets of A Ltd. and B Ltd. as on 31.03.2012 are as follows:

(Figures in ₹ in 000's)		
	A. Ltd. ₹	B. Ltd ₹
Equity and Liabilities		
Shareholder's Funds		
Share Capital		
Equity Shares of ₹ 10 each, fully paid up (before bonus issue)	4,500	1,500
Reserves Surplus		
Securities Premium	900	
Pre-Incorporation Profits	-	30
General reserve	6,000	1,905
Profit and Loss A/c	1,575	420
Current Liabilities		
Trade payables	555	210
Total	13,530	4,065

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Assets		
Non-current assets		
Tangible assets	7,920	2,310
Non-current investments		
Equity shares in B Ltd. at cost	1,200	
Current Assets	4,410	1,755
Total	13,530	4,065

Directors of B Ltd. made a bonus issue on 31.03.2012 in the ratio of one equity share of ₹10 each fully paid for every two equity shares held on that date.

Calculate as on 31.03.2012 the following:

- Cost of Control/Capital Reserve
- Minority Interest
- Consolidated Profit and Loss Account in each of the following cases
 - Before Issue of Bonus Shares
 - Immediately after the issue of Bonus Shares

It may be assumed that Bonus Shares were issued out of Post-Acquisition Profits by using General reserve. 10

OR

(b) In preparing the Consolidated Balance Sheet of A Ltd. as on 31.12.2012. You are required to show clearly what amount, if any, you would include in respect of B Ltd. with regard to:

- (a) Cost of Control;
- (b) Profit or Loss, and
- (c) Minority Interest

Under each of the following assumptions:

1. 48,000 of the shares then in issue of B Ltd. were acquired at a cost of ₹75,000 on 1st March, 2010. A Ltd. participated in the proposed dividend of ₹ 8,000.
2. 48,000 of the shares then in issue of B Ltd., were acquired at a cost of ₹ 60,000 on 31st Dec. 2010: A Ltd. participated in the bonus issue but not in the proposed dividend of ₹9,000.
3. 60,000 of the shares then in issue of B Ltd. were acquired at a cost of ₹80,000 on 1st July, 2012. A Ltd. did not participate in the proposed dividend of ₹ 6,000.

The Balance Sheet of B Ltd. as on 31st December, 2012 showed:

Particulars	Amount
(a) Share Capital, authorised and issued of ₹ 1 each	₹80,000
(b) Undistributed Profits	₹24,000
(c) 7% Debentures	₹40,000

The Profit and Loss appropriation, for the four years ending 31.12.2012 were as follows:

Particulars	2009	2010	2011	2012
(a) Balance at the beginning of the year	16,000	22,000	43,000	28,000
(b) Bonus Issue of 1 share for every 4 shares: 1 st Jan. 2011	Nil	Nil	(16,000)	Nil
(c) Profit for the year / (loss)	14,000	30,000	7,000	(4,000)
(d) Profits available for appropriation	30,000	52,000	34,000	24,000
(e) Proposed Dividends	(8,000)	(9,000)	(6,000)	Nil
(f) Balance c/f	22,000	43,000	28,000	24,000

10

Answer:

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4. (a)

1. Basic Information:

Company Status	Relevant Dates	Holding Status
Holding Company – A Ltd	Acquired on 31.03.2011	Holding = 70%
Subsidiary – B Ltd	Consolidated on 31.03.2012	Minority Int. = 30%

2. Analysis of Reserves and Surplus of B Ltd

(a) Pre - Incorporation Profits = ₹ 30,000 - Capital Profits

(b) General Reserve

(i) Before Bonus Issue

As on 31.03.2012 - ₹ 19,05,000

As on 01.04.2011 NIL (Capital)

Between 01.04.2011 and 31.03.2012 = ₹ 19,05,000 (Revenue)

(ii) After Bonus Issue

As on 31.03.2012 ₹ 19,05,000

Less: Bonus Issue ₹ 7,50,000 (15 Lakhs x 1/2)

Corrected Balance ₹ NIL - Capital

(as on 01.04.2011)

Between 01.04.2011 and 31.03.2012 - ₹ 11,55,000 (Revenue)

(iii) Profit and Loss Account

As on 31.03.2012 - ₹ 4,20,000

- As on 01.04.2011 - ₹ 60,000 (Capital)

- Profits between 01.04.2011 and 31.03.2012 - ₹ 3,60,000 (Revenue)

3. Analysis of Net Worth of B Ltd

Particulars	Before Bonus Issue			After Bonus Issue		
	Total	A	Minority	Total	A	Minority
	100%	70%	30%	100%	70%	30%
(a) Share Capital	15,00,000			15,00,000		
Add. Bonus Issue	NIL			7,50,000		
	15,00,000	10,50,000	4,50,000	22,50,000	15,75,000	6,75,000
(b) Capital Profits						
Pre - incorporation Profits	30,000			30,000		
General Reserves	NIL			NIL		
Profit and Loss A/c	60,000			60,000		
	90,000	63,000	27,000	90,000	63,000	27,000
(c) Revenue Reserve : Gen. Reserve	19,05,000	13,33,500	5,71,500	11,55,000	8,08,500	3,46,500
(c) Rev. Profits = P/L a/c	3,60,000	2,52,000	1,08,000	3,60,000	2,52,000	1,08,000
Minority Interest			11,56,500			11,56,500

4. Cost of Control

Particulars	Before Bonus Issue	After Bonus Issue
Cost of Investment	12,00,000	12,00,000
Less: Normal Value of Share Capital	(10,50,000)	(15,75,000)
Less: Share in Capital Profit	(63,000)	(63,000)
Goodwill / Capital Reserve on Consolidation	87,000	(4,38,000)

5. Consolidation of Reserves and Surplus

Particulars	Before Bonus Issue		After Bonus Issue	
	Gen. Reserve	P/L A/c	Gen. Res.	P/L A/c

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Balance as per B/ Sheet	60,00,000	15,75,000	60,00,000	15,75,000
Add: Share of Revenue Profit	13,33,500	2,52,000	8,08,500	2,52,000
Consolidated Balance	73,33,500	18,27,000	68,08,500	18,27,000

OR

4 (b)

Case ; 1

A. Cost of Control

Particulars	₹	₹
a) Cost of Investment		
1.Amount Invested	75,000	
2.Less : Pre – Acquisition Dividend (WN. 1)	(7,125)	67,875
b) Share of net Asset represented by :		
1. Share Capital (including bonus : 48,000 + 48,000 x ¼)	60,000	
2. Capital Profit (W N.2)	7,125	67,125
c) Goodwill (a- b)		750

WORKING NOTES :

1. Pre – Acquisition dividend

1. Year 2009 = $\frac{48,000 \times 8,000}{64,000}$	= ₹6,000
2. Year 2010 = $\frac{48,000 \times 2 \times 9,000}{64,000 \times 12}$	= ₹1,125
Total	₹7,125

*Share capital before Bonus Issue = 80,000 x 4/5 = ₹64,000

2. Capital Profit:

a)	Pre Acquisition profit upto 2009	₹22,000
b)	Pre Acquisition profit of 2010 (30,000 – 9,000) x 2/12	₹3,500
c)	Less : Bonus Issue	₹ (16,000)
d)	Remaining capital Profits	₹9,500
e)	A Ltd's share of above (48/64 x 9,500)	₹7,125

B. Consolidated Profit and Loss Account:

a) Closing Balance	₹ 24,000	
b) Minority Interest: 24,000 x 25%		= ₹ 6,000
c) Capital Profit		
Upto 2009	22,000	
Upto 2010	3,500	
(2 months)	<u>25,500</u>	

Less:

Bonus Share	<u>16,000</u>
Rem. CP	9,500
A Ltd's Share of Capital Profit = ₹ 7,125 (75%)	

A Ltd's Share of RP. For consolidation (bal. fig.)
 = ₹ 24,000 – ₹ 6,000 – 7,125
 = ₹ 10,875

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C. Minority Interest

Particulars	Amount (₹)
1. Share Capital ($\frac{1}{4} \times ₹ 80,000$)	20,000
2. Share of Profit (as per B above)	6,000
Total	26,000

Case (ii)

A. Cost of control

Particulars	₹	₹
(a) Cost of Investment		
1. Amount Invested		60,000
(b) A Ltd's share of Net Assets of B Ltd as on the date of acquisition represented by		
a) Paid up share capital (including bonus) $48,000 + 48,000 \times \frac{1}{4}$	60,000	
b) Capital Profit $(48,000/64,000 \times (43,000 - 16,000))$	<u>20,250</u>	<u>80,250</u>
(c) Capital Reserve		20,250

B. Consolidated Profit and Loss Account

a) Closing Balance = ₹ 24,000

b) Minority Interest $(\frac{20,000 \times 24,000}{80,000})$ = ₹ 6,000

c) Pre-Acquisition Profit

Closing Balance as on 31.12.2010 ₹ 43,000

Less: Bonus Issue ₹ 16,000

Balance ₹ 27,000

A Ltd's Share of Capital Profit ₹ 20,250

d) A Ltd's Share of RP for consolidation: (Bal. Fig.)

= ₹ $(24,000 - 6,000 - ₹ 20,250)$

= ₹ 2,250 (Dr.) (Bal. Fig.)

C. Minority Interest

Particulars	Amount (₹)
(a) Share Capital $(25\% \times 80,000)$	20,000
(b) Share of Profit (as per B above)	<u>6,000</u>
Total	<u>26,000</u>

Case (iii)

A. Cost of Control

Particulars	Amount (₹)	Amount (₹)
(a) Cost of Investment		
1. Amount Invested		80,000
(b) Share of Net Assets represented by		
1) Share Capital	60,000	
2) Pre-acquisition Profit		
Upto year 2011 – $60/80 \times 28,000$	21,000	
Year 2012 – $60/80 \times 4,000 \times 6/12$	<u>(1,500)</u>	<u>79,500</u>
(c) Goodwill (a – b)		500

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B. Consolidated Profit and Loss Account :

a) Closing Balance	= ₹ 24,000
b) Minority Interest ($\frac{20,000 \times 24,000}{80,000}$)	= ₹ 6,000
c) Pre-Acquisition Profit	
Closing Balance as on 31.12.2011	₹ 28,000
Less: Loss for 2012 upto 30.06.2012	(₹ 2,000)
Balance of A Ltd's Share of Capital Profit	₹ 19,500

A Ltd's Share of RP for consolidation. (bal. fig.)

= ₹ (24,000 – 6,000 – ₹ 19,500)

= ₹ 1,500 (Dr.) (Bal. Fig.)

C. Minority Interest

Particulars	Amount (₹)
(1) Share Capital	20,000
(2) Share of Profit (as per B above)	<u>6,000</u>
Total	<u>26,000</u>

5. (a) MANASI Ltd. leased a machine to SB Ltd. on the following terms:

Particulars	₹ in Lakhs
Fair Value of the Machine	4.00
Lease Term (Payable at each year-end)	5 years
Lease Rental per annum	1.00
Guaranteed Residual Value	0.20
Expected Residual Value	0.40
Internal Rate of Return	15%

Depreciation is provided on straight line method at 10% per annum. Ascertain Unearned Financial Income. Show necessary Journal Entries in the books of the Lessee in the first year of operation. Tabulate for the lease period, the lease rentals segregated into Finance charges and reduction of outstanding liability. 10

OR

- (b) (i) A company purchased a plant for ₹50 lakhs during financial year 2012-2013 and installed the same immediately. The price charged by the vendor included Excise Duty (Cenvat Credit Available) of ₹5 lakhs. During this year, the Company also produced excisable goods on which Excise Duty chargeable is ₹4.5 lakhs. Assume that deferred Cenvat credit will be available in the subsequent years.

Show the Journal Entries showing Cenvat Credit Treatment in 2012-13 and its disclosure in the Balance Sheet as at 31.3.2013. 5

- (ii) An investor buys a Stock option of X Ltd. in September 2009 with a strike price on 30th September, ₹260 to be expired on 30th October, 2012. The premium is ₹30 per unit and the market lot is 100. The margin to be paid is ₹120 per unit.

Show the accounting treatment in the books of investor (buyer) when:

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

(ii) the option is settled in cash and the index price is ₹270 per unit. 5

Answer:

5. (a) As per AS-19 on Leases, Unearned Finance Income is the difference between (a) the gross investment in the lease and (b) the present value of minimum lease payments

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under a finance lease from the standpoint of the lessor, and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Gross Investment in the lease is the aggregate of

- (a) minimum lease payments from the standpoint of the lessor, and
- (b) any unguaranteed residual value according to the lessor.

$$\begin{aligned} \text{Gross Investment} &= \text{Minimum Lease Payments} + \text{Unguaranteed residual value} \\ &= (\text{Total lease rent} + \text{Guaranteed Residual Value}) + \text{Unguaranteed Residual Value} \\ &= [(\text{₹ } 1,00,000 \times 5 \text{ years}) + (\text{₹ } 20,000)] + \text{₹ } 20,000 \\ &= \text{₹ } 5,40,000 \quad (\text{i}) \end{aligned}$$

- (i) Table showing present value of minimum lease payments (MLP) and unguaranteed residual value (URV)

YEAR	MLP (INCLUSIVE OF URV) ₹	IRR - DISC. FACTOR @ 15%	PRESENT VALUE
1	1,00,000	0.8696	86,960
2	1,00,000	0.7561	75,610
3	1,00,000	0.6575	65,750
4	1,00,000	0.5718	57,180
5	1,00,000	0.4972	49,720
	20,000 (GRV)	0.4972	9,944
	5,20,000		3,45,164 (i)
	20,000 (URV)	0.4972	9,944 (ii)
	5,40,000 (a)	(i) + (ii)	3,55,108 (b)

$$\begin{aligned} \text{Unearned Finance Income} &= (\text{a}) - (\text{b}) \\ &= \text{₹ } (5,40,000 - 3,55,108) \\ &= \text{₹ } 1,84,892 \end{aligned}$$

JOURNAL ENTRIES IN THE BOOKS OF SB L TD.

Particulars	Amount (₹)	Amount (₹)
At the inception of lease Machinery A/c Dr. To, Manasi Ltd A/c (Being lease of machinery recorded at present value of minimum lease payments.)	3,45,164	3,45,164
At the end of first year of lease Finance Charge A/c Dr. To, manasi's Ltd. A/c (Being finance charges due for the 1 st year)	51,775	51,775
Manasi's Ltd A/c Dr. To, bank A/c (Being the lease rent paid to the lessor which includes o/s liability of ₹48,225 and finance charges of ₹51,775)	1,00,000	1,00,000
Depreciation A/c Dr. To, machinery A/c (being the depreciation provided @10% on Straight Line Method)	34,516	34,516

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30.10.2012	Equity share of X Ltd. A/c To Bank A/c (Being call option exercised and share acquired)	Dr.	26,000	26,000
30.10.2012	Profit and loss A/c To Equity stock option premium A/c (Being premium on option written off on exercise of option)	Dr.	3,000	3,000
Note : No entries are made in respect of Margin payments since the buyer of option contract is not required to pay any margin				

2. When the option is settled in cash and the index price is ₹270 per unit

Date	Particulars		Dr.	Cr.
30.09.2012	Equity stock option premium (X Ltd.) A/c To Bank account (Being premium paid on stock option of X. Ltd. purchased at ₹ 30 per unit for 100 units constituting one lot)	Dr.	3,000	3,000
30.10.2012	Bank A/c To profit and loss A/c [Being the profit on exercise of option received Profit = market lot of 100 X (index price ₹ 270 - strike price ₹ 260)]	Dr.	1,000	1,000
30.10.2012	Profit & loss A/c To Equity stock option premium (Being premium on option written off on exercise of option)	Dr.	3,000	3,000

6. (a)(i) From the following information you are required to calculate EVA:

8

12% Debt Capital	₹2,000 crores
Equity Capital	₹500 crores
Reserves and Surplus	₹7,500 crores
Capital Employed	₹10,000 crores
Risk Free Rate	9%
Beta Factor	1.05
Market Rate of return	19%
Equity (market) risk premium	10%
Operating Profit after Tax	₹ 2,100
Tax Rate	30%

- (ii) From the following details, compute according to Lev and Schwartz model, the total value of human resources of the employees skilled and unskilled groups.

	Skilled	Unskilled
(a) Annual average earning of an employee till the age of retirement	₹ 80,000	₹60,000
(b) Age of retirement	68 years	65 years
(c) Discount rate	20%	20%
(d) Number of employees in the group	40	30
(e) Average age	65 years	62 years

7

OR

Suggested Answer_Syl12_Dec13_Paper 18

- (b) (i) From the information contained in the following income statements and Balance Sheet of X Ltd. prepare the Cash Flow Statement for the year ended 31st March 2013 in accordance with AS-3 (Revised):

Income Statement for the year ended March 31, 2013.

	₹
Net sales (A)	250,00,000
Less:	
Cash Cost of Sales	195,00,000
Depreciation	8,00,000
Salaries and Wages	25,00,000
Operating Expenses	7,00,000
Provision for Taxation	9,50,000
(B)	244,50,000
Net Operating Profit (A – B)	5,50,000
Non- recurring Income – Profit on sale equipment	1,10,000
	6,60,000
Retained Earnings and profits brought forward	12,50,000
	19,10,000
Dividends declared and paid during the year	6,40,000
Profit and Loss account balance on 31.3.2013	12,70,000

The Balance Sheets of X Ltd. as on	31.03.2012		31.03.2013	
	₹	₹	₹	₹
Equity and Liabilities				
Shareholder's Funds				
Share Capital				
Equity Shares of ₹ 10 each, fully paid up		35,00,000		45,00,000
Reserves and Surplus				
Profit and Loss A/c		12,50,000		12,70,000
Current Liabilities				
Trade payables	26,60,000		25,50,000	
Other payables:				
Outstanding expenses	3,20,000		7,40,000	
Income tax payable	1,30,000	31,10,000	1,45,000	34,35,000
Total		78,60,000		92,05,000
Assets				
Non-current assets				
Tangible assets				
Land	5,00,000		10,00,000	
Plant and machinery (at cost) 35,00,000			56,00,000	
Less: Accumulated Depreciation 13,00,000	22,00,000		14,50,000	41,50,000
	27,00,000			51,50,000
Current Assets				
Inventories	25,50,000		10,40,000	
Trade receivables	18,50,000		20,60,000	
Cash and cash equivalents	7,00,000		8,80,000	
Advances	60,000	51,60,000	75,000	40,55,000
Total		78,60,000		92,05,000

The original cost of the machine sold in 2012-13 was ₹8,00,000.

10

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(ii) A Non-Banking Finance Company presents the following details of its advances as at 31st March 2013:

Particulars	₹ lakhs
Standard Assets	16,800
Sub-Standard Assets	1,820
Secured Portion of Doubtful Debts:	320
Upto 1 year	
One to three years	140
More than 3 years	40
Unsecured Portion of Doubtful Debts	174
Loss Assets	48

Compute the amount of provisions that must be made against the advances.

5

Answer:

6.(a) (i)

EVA = NOPAT – COCE
 NOPAT = Net Operating Profit after Tax
 COCE = cost of capital Employed

Debt Capital = ₹2,000 crores
 Equity Capital = ₹ (500 + 7,500) crores = ₹8,000 crores
 Capital employed = ₹(2,000 + 8,000) crores = ₹10,000 crores
 Debt to Capital Employed = 2,000/10,000 = 0.20
 Equity to capital employed = 8,000/10,000 = 0.80
 Debt cost before tax = 12%
 Less: Tax (30% of 12%) = 3.6%
 Debt cost after tax = 8.4%

As per capital Asset Pricing Model (CAPM):

Cost of equity capital = Risk Free rate + beta Equity Risk Premium
 OR
 = Risk Free rate + Beta (Market rate – Risk Free rate)
 = 9 + 1.05 x (19 – 9)
 = 9 + 1.05 x 10 = 19.5%

WACC = Equity to CE x cost of Equity capital + debt to CE x cost of debt
 = 0.8 x 19.5% + 0.20 x 8.40%
 = 15.60% + 1.68% = 17.28%

COCE = WACC x Capital employed
 = 17.28 x 10,000 crores = 1,728 crores.
 = ₹2,100 – ₹1,728
 = ₹372.00

6.a (ii)

According to Lev and Schwartz's model, the value of human capital is the present value of his future earnings from employment.					
	Skilled	Unskilled			
Average annual earning of an employee till retirement	80,000	60000			
Age until retirement	3	3			

Suggested Answer_Syl12_Dec13_Paper 18

Present value per employee				
Discount factor (annuity factor) at 20 % for 3 years =	2.1065	2.1065	0.833333	p.v. factor year 1
Present value of future earnings until retirement	1,68,518.52	1,26,388.89	0.694444	p.v. factor year 2
Number of employees	40	30	0.578704	p.v. factor year 3
Value of Human resources	6740740.74	3791666.67	2.106481	annuity factor year 3
Total Value	1,05,32,407.41			

The value will change depending on the number of decimal places that the student has used.

There should be no penalty for a variation by a few thousands due to the decimals in the pv factor.

If the student does not show the annuity factor, but has correctly worked out the figures, full credit up to the stage may be given.

Instead of annuity factor, students may also take the factors shown on the last column and do extra calculations for the same figures.

Then, the marks for the annuity factor may be awarded for the annual discount factors.

In this case, the present values will be:	Skilled				
	per employee	for 40 employees			
Year 1	66,666.67	26,66,666.67			
year 2	55,555.56	22,22,222.22			
year 3	46,296.30	18,51,851.85			
Total	1,68,518.52	67,40,740.74			
	Unskilled				
	per employee	for 30 employees			
Year 1	50,000	15,00,000			
year 2	41,666.67	12,50,000			
year 3	34,722.22	10,41,666.67			
Total	1,26,388.89	37,91,666.671			
Total	1,05,32,407.41				

or

6.b(i)

Cash Flow Statement of company X Ltd for the year ending March, 31st, 2013

Particulars	Amount (₹)
Cash flow from operating activities	
Net profit before tax and extra ordinary item	15,00,000
Add : Depreciation	8,00,000
Opening profits before working capital charges	23,00,000
Increase in Debtors	(2,10,000)
Decrease in stock	15,10,000
Increase in Advances	(15,000)
Decrease in Sundry Creditors	(1,10,000)
Increase in outstanding expenses	4,20,000

Suggested Answer_Syl12_Dec13_Paper 18

Cash generated from operations	38,95,000
Income tax paid	9,35,000
Net cash from operation (A)	29,60,000
Cash flows from Investment activities:	
Purchase of land	(5,00,000)
Purchase of plants machinery	(29,00,000)
Sale of machinery	2,60,000
Net cash used in investment activities (B)	(31,40,000)
Cash flows from Financing activities :	
Issue of share capital	10,00,000
Dividends paid	(6,40,000)
Net Cash from Financing Activities	3,60,000
Net increase in cash and cash equivalents (A+B+C)	1,80,000
Cash and cash equivalents at the beginning	7,00,000
Cash and cash equivalents at the end	8,80,000

Workings :

Plant & Machinery Account

Dr.	₹	Cr.	₹
To balance b/d	35,00,000	By sales of assets	8,00,000
To cash/Bank (Purchase) (bal. fig.)	29,00,000	By balance c/d	56,00,000
	64,00,000		64,00,000

Accumulated Depreciation on Plant & Machinery Account

Dr.	₹	Cr.	₹
To sale of assets (accumulated depreciation)	6,50,000	By balance b/d	13,00,000
To balance c/d	14,50,000	By Profit & Loss (provisional)	8,00,000
	21,00,000		21,00,000

Sale of Asset (Machinery) Account

Particulars	₹
Original Cost	8,00,000
Less : Accumulated depreciation	6,50,000
Net cost	1,50,000
Profit on sale of asset	1,10,000
Sale Proceeds from Asset sales	2,60,000

6) b) (ii)

The amount of provision that must be made by the NBFC as on 31st March against its advances is:

Particulars	Amt as on 31-3-2013	Provision % Of Outstanding	Provision Amount
Standard Assets	16800	-Nil-	0
Sub Standard Assets	1820	10 %	182
Secured Portion of Doubtful Debts			
Up to 1 year	320	20 %	64
1-3 years	140	30 %	42
> 3 years	40	50 %	20

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Unsecured Portion of Doubtful Debts	174	100 %	174
Loss Assets	48	100 %	48
Total			530

7. (a) Srihari Ltd. granted 500 options to each of its 2,500 employees in 2005 at an exercise price of ₹50 when the market price was the same. The constructual life (vesting and exercise period) of the options granted is 6 years with the vesting period and exercise period being 3 years each. The expected life is 5 years and the annual forfeitures are expected at 3%. The fair value per option is arrived at ₹ 15. During 2006, the management decides to revise its estimated forfeiture rate at 10% per annum. Of the 2,500 employees, 1,900 employees have completed the 3 year vesting period. 1,000 employees exercise their right to obtain shares vested in them in pursuance of ESOP at the end of 2009 and 500 employees exercise their right at the end of 2010. The rights of the remaining employees expire unexercised at the end of 2010. The face value per share is ₹ 10.

Show the necessary Journal Entries for the above information.

10

OR

(b) Explain the working principle and the features of XBRL (Extensible Business Reporting Language).

10

Answer:

7. (a) JOURNAL ENTRIES IN THE BOOKS OF SR1HARI LTD,

Year		Particulars	Dr. (₹)	Cr. (₹)
2005	a)	Employee Compensation Expenses A/c Dr. To, Employees Stock Options Outstanding (Being the compensation expenses recognised in respect of the ESOP)	57,04,205	57,04,205
	b)	Profit and Loss A/c Dr. To, Employees Compensation Expenses A/c (Being expenses of the year transferred to Profit and Loss A/c)	57,04,205	57,04,205
2006	a)	Employee Compensation Expenses A/c Dr. To, Employee Stock Options Outstanding (Being the compensation expenses recognised in respect of ESOP)	34,08,295	34,08,295
	b)	Profit and Loss A/c Dr. To, Employee Compensation Expenses A/c (Being expenses of the year transferred to Profit and Loss A/c)	34,08,295	34,08,295
2007	a)	Employee Compensation Expenses A/c Dr. To, Employee Stock Options Outstanding (Being the compensation expenses recognised in respected of ESOP)	51,37,500	51,37,500
	b)	Profit and Loss A/c Dr. To, Employee Compensation Expenses A/c (Being expenses of the year transferred to Profit and Loss A/c)	51,37,500	51,37,500
2009	a)	Bank A/c Dr. Employee Stock Options Outstanding A/c Dr. To, Share capital A/c To, Securities Premium A/c (Being shares issued to employees against options vested in them in pursuance of ESOP)	2,50,00,000 75,00,000	50,00,000 2,75,00,000

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2010	a)	Bank A/c Employees Stock Options Outstanding A/c To, Share capital A/c To, Securities Premium A/c (being shares issued to employed against options vested in them in pursuance of the ESOP)	Dr. Dr.	1,25,00,000 37,50,000	25,00,000 1,37,50,000
	b)	Employees Stock Options Outstanding A/c To, general reserve (Being the balance standing to the credit of stock options outstanding account, in respect of vested options expired unexercised, transferred to General Res. A/c)	Dr.	30,00,000	30,00,000

WORKING NOTES:

1. FAIR VALUE OF OPTIONS RECOGNISED AS EXPENSES

Year	
2005	Number of Options expected to vest = $500 \times 2,500 \times 0.97 \times 0.97 \times 0.97$ = 11,40,841 options Fair value of Options expected to vest = $11,40,841 \times ₹ 15 = ₹ 1,71,12,615$ One third of the fair value recognised as expenses = $₹ 1,71,12,615 / 3$ = ₹ 57,04,205
2006	Fair value of Options revised in the year = $500 \times 2,500 \times 0.90 \times 0.90 \times 0.90 \times ₹ 15$ = ₹ 1,36,68,750 Revised cumulative expenses in the year 2006 = $₹ 1,36,68,750 \times 2/3$ = ₹ 91,12,500 Less. Already recognised in year 2005 = ₹ 57,04,205 Expenses to be recognised in year 2006 = ₹ 34,08,295
2007	Number of options actually vested = $1,900 \times 500 = 9,50,000$ Fair value of options actually vested = $9,50,000 \times 15 = 1,42,50,000$ Less. Expenses recognised till the year 2007 = 91,12,500 Balance amount to be recognised = 51,37,500

2. AMOUNT RECORDED IN SHAME CAPITAL ACCOUNT AND SECURITIES PREMIUM ACCOUNT UPON ISSUE OF SHARES

Particulars	2009	2010
Number of employees exercising option	1,000	500
Number of shares issued upon exercise of option @ 500 per employee	5,00,000	2,50,000
Exercise price received @ ₹ 50 per share	2,50,00,000	1,25,00,000
Corresponding amount recognised in the Employee Stock Options Scheme A/c @ ₹ 15 per option	75,00,000	37,50,000
Total consideration	3,25,00,000	1,62,50,000
Amount to be recorded in Share capital A/c @ ₹ per share	50,00,000	25,00,000
Amount to be recorded in Securities Premium A/c @ ₹55 per share (₹65 – ₹10)	2,75,00,000	1,37,50,000
	3,25,00,000	1,62,50,000

7) b) Working principle and features of XBRL

Working principle:

XBRL is a member of the family of languages based on XML- Extensible Markup Language, which is the standard for the electronic interchange of data between

Suggested Answer_Syl12_Dec13_Paper 18

businesses and the internet. Under XML, 'identifying tags' are applied to items of data so that they can be more efficiently processed by computer software.

XBRL is a more powerful and flexible version of XML and more suited specifically for business and financial information. It enables unique identifying tags to items of financial data. For example, 'asset' is tagged as a numerical value, the characteristic of having a normal debit balance, its relationship with other items such as equity or liabilities, etc. The items are also tagged as whether monetary, or a fraction or a percentage. XBRL allows labels in any language for an item. XBRL provides efficient grouping, easier consolidation and comparison among companies, supports standard tasks involved in compiling, storing and using business data. Data is converted into XBRL by mapping process or generated by XBRL software. Then the data can be searched, selected, exchanged, analysed by the computer or published for ordinary viewing.

Main Features:

- (i) Specifications: they provide the fundamental technical definition of how XBRL works. New specifications are developed from requirements statements. They are initially discussed as Internal Working Drafts within the consortium and then released as Public Working Drafts. After careful review, they are released as official XBRL Recommendations.
- (ii) Taxonomies: These refer to classification of the different items. The items are also given hierarchical structures and therefore taxonomies also represent relationships. Taxonomies have further components:
 - (a) Schema: These store information like names, ids and other characteristics of the taxonomy elements. The schema functions to show the computer how it should process and represent accounting terms.
 - (b) Elements: These are defined in the schema and are business concepts- like 'asset' is the element name, type is monetary, balance is 'debit', etc.
 - (c) Link bases: These are a collection of links, which themselves are a collection of locators (that reference a concept and provide its label), arcs (that link concepts) and resources.
- (iii) Instance documents: These are business reports in electronic format containing facts defined by the taxonomies, values and the context. These are created according to the rules of XBRL. These instant documents in turn contain business facts, which are either item facts (holding a single value) or tuples (facts with multiple values).

8. (a) (i) Write a note on Indian Government Accounting Standard-5 relating to Loans and Advances made by Governments. 7

(ii) Present a specimen report relating to the 'Financial Position' portion in the review of accounts by the Comptroller and Auditor General of India. 8

OR

(b) (i) Write a note on the Indian Government Accounting Standard-3 (IGAS-3) on cash flow statements of the Government. 10

(ii) What are the organisations that are subject to the audit of Comptroller and Auditor General of India? 5

Answer:

8.(a) (i)

Indian Government Accounting Standard - 5 : Loans and Advances made by Governments

This Standard applies only to government accounts maintained on a cash basis.

This Standard lays down the norms for recognition, measurement, valuation and reporting of loans and advances made by the Union and State Governments in their respective

Suggested Answer_Syl12_Dec13_Paper 18

financial statements to ensure adequate disclosure, accurate, realistic and uniform accounting practices consistent with the best international practices.

The Government of India has been empowered under proviso (2) of Article 293 of the Constitution of India to make loans to the States, subject to such conditions as may be laid down by or under any law made by Parliament.

The sums required for making such loans are chargeable to the Consolidated Fund of India.

The Union Government provides financial assistance to State Governments in the form of plan and non-plan assistance, for both developmental and non-developmental purposes.

The Union Government also provides loans to Foreign Governments, Government Companies and Corporations, Non-Government Institutions and Local Bodies and also recoverable advances to Government servants.

The State Governments disburse loans to Government Companies, Corporations, Local Bodies Autonomous Bodies, Co-operative Institutions, Statutory Corporations, quasi-public bodies and other Non-Government/ private institutions for development and socio-economic purposes. The State Governments also disburse recoverable advances to government servants.

8)a)(ii)

Specimen Report relating to the 'Financial Position' portion for review by the Comptroller and Auditor General of India.

	2012 - 2013	2011 -12	2010- 2011
Liabilities			
(a) Paid-up Capital			
(i) Government			
(ii) Deposits awaiting allotment of shares			
(b) Reserves and Surplus			
(i) Free Reserves and Surplus			
(ii) Share premium account			
(iii) Capital reserves			
(c) Borrowings			
(i) From Government of India			
(ii) From Financial Institutions			
(iii) Foreign Currency loans			
(iv) Cash Credit			
(v) Others			
(vi) Interest accrued and due			
(d) (i) Current Liabilities and Provisions			
(ii) Provision for gratuity			
Total			
Assets			
(e) Gross Block			
(f) Less: Depreciation			

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(g) Net Block			
(h) Capital Work-in – progress			
(i) Investments			
(j) Current Assets, Loans and advances			
(k) Miscellaneous expenditure not written off			
Total			
(m) Working Capital (j - d (i) - c(vi))			
(n) Capital Employed (g + m)			
(o) Net Worth (a + b(i) + b(ii) – k)			
(p) Net Worth per rupee of paid capital (in ₹)			

8)b)(i)

IGAS - 3 - Indian Government Accounting Standard - 3 relating to cash flow statements of the Government.

The cash flow statement identifies the sources of cash inflows- whether from taxes, fines, fees, borrowings or sale of capital assets and the ways it has been expended- whether operating costs, acquisition of capital asset, retirement of debt, etc.

These details are disclosed by appropriate classification of changes in cash and cash equivalents during the period into operating, investing and financing activities.

The Cash Flow Statement should be presented as an integral part of the Financial Statements of the State and Union Governments and should comply with the requirements of this Standard.

Transactions that do not require the use of cash or cash equivalent should be excluded from this statement.

Some activities that do not have a direct impact on the cash flows- for example- interest payable on provident fund deposits of employees or conversion of debt into equity of an entity. These are to be excluded from the cash flow statements, but their impact should be disclosed in the notes to the Cash Flow Statement in a way that provides all relevant information about these activities.

Information about cash flows may be useful to users of the Government Financial Statements in assessing its cash flows, compliance with legislation, regulations and authority from budgets where appropriate.

Cash flow statements are used to predict the future cash requirements, give information about the Government's ability to generate cash flows and also determine the changes in the nature and scope of its activities. It also is a means for the government to discharge its accountability for the cash inflows and outflows during the reporting period.

Cash Flow Statements, when used along with the other financial statements enable users to study and evaluate the changes in financial structure in terms of liquidity and sustainability and also the Government's ability to adapt to changing circumstances and opportunities.

Historical cash flows are used as an indicator of the timing and certainty of future cash flow expectations.

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8) b) (ii)

Organisations subject to the audit of the Comptroller and Auditor General of India

The following are the organisations:

- (i) All the Union and State government Departments and offices including Indian Railways, Posts and Telecommunications.
- (ii) About 1200 public commercial enterprises controlled by the Union and State governments, i.e. Government companies and corporations.
- (iii) Around 400 non-commercial autonomous bodies and authorities owned or controlled by the union or the States.
- (iv) Over 4400 authorities and bodies substantially financed from Union or State revenues.