FINAL EXAMINATION

December 2014

P–18(CFR)
Syllabus 2012

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.

All workings must form part of your answer.

Assumptions, if any, must be clearly indicated.

SECTION A

1. (a) S. Ltd. is having a plant (asset) carrying amount of which is ₹ 100 lakhs as on 31st March, 2011. Its balance useful life is 3 years and residual value at the end of 3 years is ₹ 10 lakhs. Estimated future cash flow from using the plant in next 3 years are:

For the year ended on	Estimated cash flow (₹ in lakhs)
31.03.2012	40
31.03.2013	20
31.03.2014	20

Calculate "Value in use" for plant, if discount rate is 10%. Also calculate the recoverable amount, if net selling price of plant on 31st March, 2014 is ₹ 50,00,000, P.V. factor @ 10% for years 31.03.2012, 31.03.2013 and 31.03.2014 are 0·909, 0·826 and 0·751 respectively. 5

(b) X. Ltd. has leased equipment costing ₹ 4,98,70,200 over its useful life for a 3 year lease period on the following terms:

(i) The estimated unguaranteed residual value would be ₹ 2,00,000.

(ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.

(iii) Implicit interest rate is 10%.

Ascertain the annual lease payment and the unearned finance income.

P.V. factor @ 10% for years 1-3 are 0·909, 0·826 and 0·751 respectively. 5

Please Turn Over

SECTION B

Answer to Question No. 2(a) *which is compulsory (carrying* 5 *marks) and answer* any two *(carrying* 10 *marks each) from the remaining sub-questions.*

2. (a) What are the objectives of buy-back of shares by a Limited Company? 5

(b) The following are the Balance Sheets of BEE Ltd. and DEE Ltd. as on 31.03.2014

	(₹ in lakhs)	
	BEE Ltd.	DEE Ltd.
Equity and Liabilities:		
Shareholders' Funds:		
Share Capital:		
Equity shares of ₹ 100 each fully paid	90,00,000	30,00,000
Reserves and Surplus:		
General Reserve	8,00,000	6,00,000
Profit and Loss A/c.	14,68,000	60,000
Non-Current Liabilities:		
14% debentures	—	18,00,000
Current Liabilities:		
Trade payables	12,00,000	5,40,000
Total	1,24,68,000	60,00,000
Assets:		
Non-Current Assets:		
Tangible Assets	60,00,000	3,00,000
Non-Current Investments (at cost):		
6,000 shares in DEE Ltd.	9,00,000	—
18,000 shares in BEE Ltd.	—	30,00,000
Current Assets:		
Inventories	28,80,000	12,60,000
Trade Receivables	17,40,000	9,00,000
Cash and Cash equivalents	9,48,000	5,40,000
Total	1,24,68,000	60,00,000

Inventories of BEE Ltd. include goods worth ₹ 6,00,000 purchased from DEE Ltd which made a profit of 20% on selling price. As on 31.03.2014, BEE Ltd. absorbs DEE Ltd. on the basis of the intrinsic value of the shares of both companies as on 31.03.2014. Before absorption, BEE Ltd. has declared a dividend of 12%. Dividend tax is 10%.

You are required to calculate:

(i) No. of shares to be issued to DEE Ltd.

(ii) Purchase consideration payable by BEE Ltd.

(iii) Capital Reserve/Goodwill which will appear in the Balance Sheet of BEE Ltd. 5+2+3=10

(c) X Ltd. and Y Ltd. were amalgamated on and from 1st April, 2014. A new company Z Ltd. was formed to take over the business of the existing companies. The summarised Balance Sheets of X Ltd. and Y Ltd. as on 31st March, 2014 are given below:

(₹ in lakhs)

Liabilities	X. Ltd.	Y Ltd.	*Assets*	X Ltd.	Y Ltd.
Share Capital:			*Fixed Assets:*		
Equity shares of ₹ 100 each	800	750	Land and Building	550	400
12% Preference shares of ₹ 100 each	300	200	Plant and Machinery	350	250
Reserve and surplus:			Investments	150	50
Revaluation Reserve	200	150			
General Reserve	170	150			
Profit and Loss Account	50	30	*Current Assets, Loans and Advances:*		
Secured Loans:					
10% Debentures (₹ 100 each)	60	30	Stock	350	250
Current Liabilities and Provisions:			Sundry Debtors	250	300
Sundry Creditors	270	120	Bills Receivables	50	50
Bills payables	150	70	Cash and Bank	300	200
Total	2,000	1,500	Total	2,000	1,500

Additional Information:

(1) 10% Debenture holders of X Ltd., and Y Ltd., are discharged by Z Ltd., issuing such number of its 15% Debentures of ₹ 100 each, so as to maintain the same amount of interest.

(2) Preference shareholders of the two companies are issued equivalent number 15% preference shares of Z Ltd., at a price of ₹ 150 per share (face value of ₹ 100).

(3) Z Ltd. will issue 5 equity shares for each equity share of X Ltd. and 4 equity shares for each equity share of Y Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹10 per share.

Prepare the Balance Sheet of Z Ltd. as on 1st April, 2014 in the revised Schedule VI format, after amalgamation has been carried out on the basis of amalgamation in the nature of purchase. 10

(d) KAY Ltd. and MINAT Ltd. had been carrying on business independently. They agree to amalgamate and form a new company INDUGA Ltd. with authorised share capital of ₹ 8,00,00,000 divided into 80,00,000 equity shares of ₹ 10 each.

On 31.03.2014, the respective Balance Sheets KAY Ltd. and MINAT Ltd. stood as under:

(₹ in lakhs)

Ref. No.	Particulars	Note No.	KAY Ltd.	MINAT Ltd.
I.	*Equity and Liabilities:*			
1.	Share holders' Funds			
	(a) Share Capital:		300	120
	Equity shares of ₹ 10 each			
	(b) Reserves and Surplus:			
	General Reserve		120	12
	Profit and Loss Account		60	18
2.	*Non-Current Liabilities:*			
	Long-term borrowings		—	—
3.	*Current Liabilities:*			
	Trade payables (Creditors)		60	30
	Other current Liabilities		—	—
	Total		540	180

(₹ in lakhs)

Ref. No.	Particulars	Note No.	KAY Ltd.	MINAT Ltd.
II.	*Assets:*			
1.	Non-Current Assets:			
	(a) Fixed Assets			
	(i) Tangible Asset (Other Fixed Assets less depreciation)		240	60
	(ii) Intangible Assets		—	—
	(b) Non-Current Investments 6% Tax-free G.P. Notes.		60	—
2.	*Current Assets:*			
	(a) Inventories (Stock)		120	78
	(b) Trade Receivables (Debtors)		102	36
	(c) Cash and Cash equivalents		18	6
	(d) Other Current Assets		—	—
	Total		540	180

Other relevant information:

(1) Their Net profit (after taxation) were as follows:

(₹ in lakhs)

Year	KAY Ltd.	MINAT Ltd.
2011-2012	78.00	27.00
2012-2013	75.00	24.00
2013-2014	90.00	33.60

(2) Normal trading profit may be considered as 15% on closing capital invested.

(3) Goodwill may be taken as 4 years' purchase of average super profits.

(4) The stock of KAY Ltd. and MINAT Ltd. are to be taken at ₹ 1,22,40,000 and ₹ 85,20,000 respectively for the purpose of amalgamation.

The Corporate Tax rate is 40% (for KAY Ltd. & MINAT Ltd).

Required:

(i) Suggest a scheme of capitalization of INDUGA Ltd. and Ratio of exchange of shares.

(ii) Draft the opening Balance Sheet of INDUGA Ltd.

(Notes to Balance Sheet are not required.) 6+4=10

SECTION C

Answer to Question No. 3(a) *which is compulsory (carrying* 10 *marks) and also answer,* any one *(carrying* 15 *marks) from the remaining sub-questions.*

3. (a) ANTEK Ltd., SINTEX Ltd. and ROLEX Ltd. are members of a group. ANTEK Ltd. bought 70% of the shares of SINTEX Ltd. on October 1, 2012 and 30% of the shares of ROLEX Ltd. on January 1, 2014. SINTEX Ltd. bought 60% of the shares of ROLEX Ltd. on October 1, 2013.

The following information is available:

Extracts of Profit and Loss Account

Company Name	Balance April 1, 2013	Profit/(Loss) for 2013-14	Balance March 31,2014	Company formed on
	₹	₹	₹	
ANTEK Ltd.	2,75,000	1,25,000	4,00,000	April 1, 2011
SINTEX Ltd.	1,00,000 (Dr.)	2,37,500	1,37,500	April 1, 2012
ROLEX Ltd.	—	1,20,000 (Loss)	1,20,000 (Dr.)	April 1, 2013

Assume, Profit/Loss for the year accrue evenly throughout the year.

Required:

State how the Profits/(Losses) will be reflected in the Consolidated Balance Sheet of the group as on 31st March, 2014. 10

(b) The summarised Balance Sheets of Summer Ltd. and its Subsidiary Winter Ltd. is on 31st March, 2014 are as follows:

(₹ in '000)

Liabilities	Summer Ltd.	Winter Ltd.	*Assets*	Summer Ltd.	Winter Ltd.
Equity shares of ₹ 10 each	9,600	4,000	Goodwill	900	600
10% Preference shares of ₹ 10 each	1,400	760	Plant & Machinery	2,400	1,200
General Reserve	1,100	840	Motor Vehicles	1,900	1,500
Profit & Loss Account	2,000	1,200	Furniture & Fittings	1,300	600
Bank Overdraft	300	200	Investments	5,200	900
Sundry Creditors	800	900	Stock	900	1,440
Bills Payables	—	320	Cash at Bank	400	420
			Debtors	1,910	1,560
			Bills receivables	290	—
Total	15,200	8,220	Total	15,200	8,220

Details of acquisition of shares by Summer Ltd. are as under:

Nature of shares	No. of shares acquired	Date of acquisition	Cost of acquisition (₹)
Preference shares	28,500	1,4.2011	6,20,000
Equity shares	1,60,000	1.4.2012	19,00,000
Equity shares	1,40,000	1.4.2013	16,00,000

Other information:

(i) On 1.4.2013, profit and loss account and general reserve of Winter Ltd. has credit balances of ₹ 6,00,000 and ₹ 4,00,000 respectively.

(ii) Dividend @ 10% was paid by Winter Ltd. for the year 2012-13 out of its profit and loss account balance as on 1.4.2013. Summer Ltd. credited its share of dividend to its profit and loss account.

(iii) Winter Ltd. allotted bonus shares out of pre-acquisition general reserve at the rate of 1 share for every 10 shares held. Accounting thereof has not yet been done.

(iv) Bills receivables of Summer Ltd. were drawn upon Winter Ltd.

(v) During the year 2013-14, Summer Ltd. purchased goods from Winter Ltd. worth ₹ 2,00,000 at a sale price of ₹ 2,40,000. 40% of these goods remained unsold at close of the year.

(vi) On 1.4.2013, motor vehicles of Winter Ltd. were overvalued by ₹ 2,00,000, applicable depreciation rate is 20%.

(vii) Dividends recommended for the year 2013-14 by the holding and the subsidiary companies are 15% and 10% respectively.

Prepare Consolidated Balance Sheet as per Revised Schedule VI as on 31st March, 2014. 15

(c) A Ltd. acquired 80,000 shares of ₹ 100 each in B Ltd. on 30.09.2013, The summarised Balance Sheet of the 2 companies as on 31.03. 2014 were as follows:

Liabilities	A. Ltd (₹)	B Ltd. (₹)	*Assets*	A. Ltd (₹)	B Ltd. (₹)
Share Capital: Shares of ₹ 100 each	3,00,00,000	1,00,00,000	Fixed Assets: Tangible	1,50,00,000	1,44,70,000
Capital reserve	NIL	55,00,000	Investment in B Ltd.	1,70,00,000	NIL
General Reserve	30,00,000	5,00,000	Stock in hand	40,00,000	20,00,000
Profit and Loss A/c	38,20,000	18,00,000	Loan to A Ltd.	NIL	2,00,000
Loan from B Ltd.	2,10,000	NIL	Debtors	25,00,000	18,00,000
Creditors	17,90,000	7,00,000	Bank	2,00,000	2,00,000
Bills Payable (including ₹ 50,000 to A. Ltd.)	NIL	1,70,000	Bills Receivable (including ₹ 50,000 from B. Ltd.)	1,20,000	NIL
Total	**3,88,20,000**	**1,86,70,000**	Total	**3,88,20,000**	**1,86,70,000**

Contingent Liability (A Ltd.): Bills Discounted = ₹ 60,000

Additional Information:

(i) A Ltd. made a bonus issue on 31.03.2014 of one share for every two shares held in B Ltd., thereby reducing the Capital Reserve accordingly. The accounting effect has not been given in the above Balance Sheet.

(ii) Interest Receivable for the year (₹ 10,000) in respect of the loan due by A Ltd. to B Ltd. has not been credited in the accounts of B Ltd.

(iii) The credit balance in Profit and Loss A/c of B Ltd. on 01.04.2013 was ₹ 2,10,000.

(iv) The Directors decided on the date of the acquisition that the Fixed Assets of B Ltd. were over-valued and should be written down by ₹ 5,00,000. Consequential adjustments on depreciation are to be ignored.

(v) The balance in General Reserve of B Ltd. as on 1.4.2013 was ₹ 5,00,000.

Prepare the Consolidated Balance Sheet as at 31.03.2014 showing relevant workings. 15

SECTION D

Answer to Question No. 4(a) *which is compulsory (carrying* 5 *marks) and answer* any two *(carrying* 10 *marks each) from the remaining sub-questions.*

4. (a) What are the various books of accounts and records to be maintained by Merchant Bankers? What are the various information which need to be furnished by Merchant Bankers to SEBI? 5

(b) On February 01, 2013, Virat Ltd. entered into a contract with Tuhin Ltd. to receive the fair value of 1,000 Virat Ltd's own equity shares outstanding as on 31.01.2014 in exchange for payment of ₹ 1,04,000 in cash i.e. ₹ 104 per share. The contract will be settled in net cash on 31.01.2014.

The fair value of this forward contract on the different dates were:

(i) Fair value of forward on 01.02.2013	-	NIL
(ii) Fair value of forward on 31.12.2013	-	₹ 6,300
(iii) Fair value of forward on 31.01.2014	-	₹ 2,000

Presuming that Virat Ltd. closes its books on 31st December each year, pass entries:

(i) If net is settled in cash

(ii) If net is settled by Tuhin Ltd. by delivering shares of Virat Ltd. 10

(c) Himalaya Ltd. announced a Stock Appreciation Right (SAR) on 01.04.2011 for each of its 400 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹ 125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31.03.2014, but before 30.06.2014. The fair value of SAR was ₹ 21 in 2011-12, ₹ 23 in 2012-13 and ₹ 24 in 2013-14. In 2011-12, the company estimates that 2% of employees shall leave the company annually. This was revised to 3% in 2012-13. Actually, 10 employees left the company in 2011-12, 5 left in 2012-13 and 3 left in 2013-14. The SAR therefore actually vested to 382 employees. On 30.06.2014, when the SAR was exercised, the intrinsic value was ₹ 25 per share.

Show the Stock Appreciation Right Account by fair value method. 10

(d) VENTEX Ltd. presents to you the following Balance Sheets and Income Statements.

Balance Sheets	(₹ in thousand)	
Particulars	As on 31.3.2013	As on 31.3.2014
Liabilities:		
Share Capital:		
Equity Share Capital	10,000	10,000
Reserves & Surplus:		
Retained Earnings	8,300	9,460
Secured loans:		
12% Debentures	6,000	5,000
Current liabilities & Provisions:		
Trade Creditors	1,025	1,217
Outstanding Expenses	218	274
	25,543	**25,951**
Assets:		
Fixed Assets at Cost	24,000	26,000
Provision for Depreciation	(8,000)	(9,800)
Investment	2,500	1,000
Current Assets, Loans and Advances:		
Inventories	4,133	5,071
Trade Debtors	1,600	1,800
Provision for Bad Debts	(80)	(90)
Cash in hand and at Bank	1,342	1,934
Miscellaneous Expenditures:		
Underwriting Commission	48	36
	25,543	**25,951**

Profit and Loss Account for the year ended March 31, 2014.

	(₹ in thousand)
Sales	36,402
Cost of Goods sold	(18,600)
Compensation Received in Law suit	550
Interest received on Investments	210
Profit on Sale of Investments	75
Sundry Operating Expenses	(7,835)
Interest on Debentures	(660)
Provision for Bad Debts	(10)
Provision for Depreciation	(1,800)
Underwriting Commission written off	(12)
Net Profit before Tax	8,320
Tax for the year Paid	4,160
Net Profit after Tax	4,160

Supplementary Information:

Ventex Ltd. informs you that the Debentures have been redeemed at par.

Required:

Prepare the CASH FLOW statement for the year ended March 31, 2014 in accordance with AS-3 (Revised) using the 'Direct Method'. 10

SECTION E

Answer any three *questions (carrying 5 marks each).*

5. (a) Evaluate the methods of Government Accounting. 5

(b) With respect to Government Accounting Standards issued by Government Accounting Standards Advisory Board (GASAB), comment on ''Background Aspects''. 5

(c) Discuss CAG's role in the context of Government Accounting in India. 5

(d) Describe the composition of Public Accounts Committee. 5