FINAL EXAMINATION

December 2016

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.

All workings must form part of your answer.

Whenever necessary, suitable assumption may be made and disclosed by way of a note.

Answer Question No. 1 *(carrying 20 marks) which is compulsory and also answer* any five *questions (carrying 16 marks each) from* Question No. 2 *to* Question No. 8.

1. Answer *any four* questions (carrying 5 marks each) from the following: 5×4=20

(a) SWIFT Ltd. acquired a patent at a cost of ₹ 144 lakh for a period of six years and the product life cycle is also six years. The company capitalized the cost and started amortising at ₹ 24 lakh per annum. After 3 years, it was found that the product life cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years are expected to be ₹ 48 lakh, ₹ 72 lakh, ₹ 60 lakh, ₹ 56 lakh and ₹ 52 lakh respectively.

Find out the amortization cost of the patent for each of the years, as per AS-26.

(b) PLANTINUM LTD. supplied the following information:

Net profit for 2014-15	₹ 33 lakh
Net profit for 2015-16	₹ 49·50 lakh
No. of shares before rights issue	1,65,000
Rights issue ratio	One for every four held
Right issue price	₹ 270
Date of Exercising Rights Option	30th June, 2015 (fully Subscribed on this date)
Fair value of share before rights issue	₹ 405

You are required to compute:

(i) Basic earnings per share and

(ii) Adjusted earnings per share as per AS-20.

(c) From the following details of Zebra Ltd., calculate the deferred tax asset/liability as per AS-22 and the amount of tax to be debited in the Profit & Loss A/c under different heads for the year ended 31-03-2016.

Particulars	₹
Accounting profit	15,00,000
Book profit as per MAT	13,50,000
Profit as per Income-tax Act	2,00,000
Tax rate	30%
MAT rate	7·50%

(d) Describe the process of election of public accounts committee.

(e) Ranjan furnishes the following information about all "Options" at the Balance Sheet date as on 31-03-2016. Determine the total amount of provision to be made in his books of account.

Securities	₹ A	B	C
Details of Option bought			
Premium paid	25,000	20,000	15,000
Premium prevailing on Balance Sheet date	20,000	10,000	6,000
Details of Option sold			
Premium received	15,000	26,000	12,000
Premium prevailing on Balance Sheet date	20,000	16,000	8,000

2. The following are the summarized Balance Sheet of ZIN Ltd. and VES Ltd. as on March 31, 2016.

(Amount in ₹)

Equity and Liability	ZIN Ltd.	VES Ltd.	**Assets**	ZIN Ltd.	VES Ltd.
1. *Shareholders' Funds*:			2. *Non-Current Assets*:		
(a) Share Capital			(a) Fixed Assets	14,00,000	10,00,000
(i) Equity shares of ₹ 10 each	12,00,000	12,00,000	(b) Non-Current investments		
(ii) 10% Pref. Shares of ₹ 10 each	4,00,000	4,00,000	(i) 12,000 equity shares of VES Ltd.	1,60,000	
(b) Reserves & Surplus	6,00,000	8,00,000	(ii) 20,000 equity shares of Zin Ltd.		3,20,000
2. *Non-Current liabilities*:			2. *Current Assets*:		
Long term Borrowings (12% Debentures)	4,00,000	6,00,000	(a) Inventories	4,80,000	12,80,000
3. *Current Liabilities*:			(b) Trade Receivables		
Trade Payables					
(i) Sundry Creditors	4,40,000	5,00,000	(i) Debtors	7,20,000	7,60,000
(ii) Bills payable	60,000	1,00,000	(ii) Bills Receivable	1,20,000	80,000
			(c) Cash & Cash Equivalents	2,20,000	1,60,000
Total	**31,00,000**	**36,00,000**	**Total**	**31,00,000**	**36,00,000**

Fixed assets of both the companies are to be revalued at 15% above Book Values and stock and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends, preference dividends having been already paid. After the above transactions are given effect to, Zin Ltd. will absorb Ves Ltd. on the following terms:

(a) 8 equity shares of ₹ 10 each will be issued by Zin Ltd. at par against 6 shares of Ves Ltd.

(b) 10% preference share of Ves Ltd. will be paid off at 10% discount, by issue of 10% preference share of ₹ 100 each in Zin Ltd. at par.

(c) 12% Debenture Holders of Ves Ltd. are to be paid off at a 8% premium by 12% debentures in Zin Ltd. issued at a discount of 10%.

(d) ₹ 60,000 to be paid by Zin Ltd. to Ves Ltd. for liquidation expenses.

(e) Sundry Creditors of Ves Ltd. include ₹ 40,000 due to Zin Ltd.

You are required to prepare:

(i) Statement of purchase consideration payable by Zin Ltd.

(ii) Balance Sheet of Zin Ltd. as on March 31, 2016 after its absorption of Ves Ltd. as per Schedule–III to the Companies Act, 2013 with Notes to Accounts. 3+13=16

3. BLU LTD. is a holding company and ANU LTD. and TINU LTD. are subsidiaries of BLU LTD., their Balance Sheets as on 31.03.2016 are given below:

(Amount in ₹)

	BLU LTD.	ANU LTD.	TINU LTD.		BLU LTD.	ANU LTD.	TINU LTD.
Share Capital	6,00,000	6,00,000	3,60,000	Fixed Assets	1,20,000	3,60,000	2,58,000
Reserves	2,88,000	60,000	54,000	Investments:			
Profit & Loss Account	96,000	72,000	54,000	Shares in ANU Ltd.	5,70,000	--	--
TINU Ltd. Balance	18,000			Shares in TINU Ltd.	78,000	3,18,000	--
Trade payables	42,000	30,000		Inventories in Trade	72,000		
BLU Ltd. Balance		42,000		ANU Ltd. Balance	48,000		
				Trade receivables	1,56,000	1,26,000	1,92,000
				BLU Ltd. Balance			18,000
	10,44,000	**8,04,000**	**4,68,000**		**10,44,000**	**8,04,000**	**4,68,000**

The following particulars are given:

(a) The share capital of all companies is divided into shares of ₹ 10 each.

(b) BLU Ltd. held 48,000 shares of ANU LTD. and 6,000 shares of TINU LTD.

(c) ANU Ltd. held 24,000 shares of TINU LTD.

(d) All these investments were made on 30.09.2015

(e) On 31.03.2015 the position was as shown below:

(Amount in ₹)

	ANU LTD.	TINU LTD.
Reserve	48,000	45,000
Profit and Loss Account	24,000	18,000
Trade payables	30,000	6,000
Fixed Assets	3,60,000	2,58,000
Inventories in trade	24,000	2,13,000
Trade receivables	2,88,000	1,98,000

(f) 10% dividend is proposed by each company.

(g) The whole of inventories in trade of ANU LTD. as on 30.09.2015 (₹ 24,000) was later sold to BLU Ltd. for ₹ 26,400 and remained unsold by BLU LTD. as on 31.03.2016.

(h) Cash-in-transit from ANU LTD. to BLU LTD. was ₹ 6,000 as at the close of business.

Required:

Prepare the consolidated Balance Sheet of BLU GROUP as on 31.03.2016 as per requirements of schedule-III of the Companies Act, 2013 with Notes to Accounts. 16

4. (a) Star Ltd. has the following capital structure on 31st March, 2016:

	Particulars	₹ in Crores
1.	Equity Share Capital (Shares of ₹ 10 each)	300
2.	Reserve & Surplus:	
	General Reserve	270
	Security Premium	100
	Profit & Loss Account	50
	Export Reserve (statutory reserve)	80
3.	Loan Fund	800

The shareholders on recommendation of Board of Directors have approved vide special resolution at their meeting on 10th April, 2016, a proposal to buy back maximum permissible equity shares, considering the huge cash surplus.

The market price was hovering in the range of ₹ 20 and in order to induce existing shareholders to offer their shares for buy-back, it was decided to offer a price of ₹ 25 per share.

Advise the company on maximum number of shares that can be bought back and record journal entries for the same, assuming the buy-back has been completed in full, within next three months.

If borrowed funds were ₹ 1,200 crores and ₹ 1,500 crores respectively, would your answer change? 10

(b) A Mutual Fund raised ₹ 100 lakh on 01.04.2015, by issue of 10 lakh units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakh. The initial expenses amounted to ₹ 7 lakh. During April, 2015, the fund sold certain securities of cost ₹ 38 lakh for ₹ 40 lakh and purchased certain other securities for ₹ 28.20 lakh. The fund management expenses for the month amounted to ₹ 4·50 lakh, of which ₹ 0·25 lakh was in arrears. The dividend earned was ₹ 1·286 lakh. 70% of the realised earnings was distributed. The market value of the portfolio on 30.04.2015 was ₹ 103·714 lakh.

Determine the Net Asset Value (NAV) of a mutual fund. 6

5. (a) QUITTLE LTD. announced a Stock Appreciation Right (SAR) on 01.04.2012 for each of its 900 employees. The scheme gives the employees the right to claim cash payment equivalent to excess of market price of company's shares on exercise date, over the exercise price ₹ 150 per share in respect of 100 shares, subject to the conditions of continuous employment of 3 years. The SAR is exercisable after 31.03.2015 before 30.06.2015.

Particulars	2012-13	2013-14	2014-15
Fair value of SAR (₹)	40	45	50
Actual No. of employees left	40	25	15
Company estimation for employees leaving the company annually	4%	6%	--

On 30. 06.2015 when SAR was exercised, the intrinsic value per share was ₹ 60 per share.

Required:

Show provision for Stock Appreciation Right (SAR) account along with necessary workings by fair value method. 10

(b) SUBHASHREE BANK has a criterion that it will give loans to companies that have an "Economic Value Added" greater than zero for the past three years, on an average. The bank is considering lending money to a small company that has the economic value characteristics shown below. The data relating to the company is as follows:

(i) Average operating income after tax equals ₹ 60 lakh per year for the last three years.

(ii) Average total assets over the last three years equals ₹ 180 lakh.

(iii) Weighted average cost of capital appropriate for the company is 15%, which is applicable for all three years.

(iv) The company's average current liabilities over the last three years are ₹ 36 lakh.

Does the company meet the bank's criterion for a positive Economic Value Added (EVA)? 6

6. (a) From the following details in respect of ADHUNIK LTD., compute according to LEV and SCHWARTZ (1971) Model, the total value of Human Resource of the skilled employees with different age groups.

Age Group	Skilled employees	
Age (years)	No. of employee	Average annual earnings
30-39	30	₹ 8,00,000
40-49	15	₹ 10,00,000
50-54	5	₹ 11,00,000

Retirement age is 55 years. Adhunik Ltd. uses 15% cost of capital for discounting purposes.

The following Annuity factors of ₹ 1 at 15% are supplied to you:

Interest Rate	5 years	10 years	15 years	20 years	25 years
15%	3·3522	5·0188	5·8474	6·2593	6·4641

8

(b) Anu Mooyi of Mumbai sold goods to Bearson of New York USA on 24th January, 2016 for an invoice price of \$ 60,000, when the spot market rate was ₹ 63·20 per US \$. Payment was to be received after three months on 24th April, 2016. To mitigate the risk of loss from decline in exchange rate on the date of receipt of payment, Anu Mooyi immediately acquired a forward contract to sell on 24th April, 2016 US \$ 60,000 @ ₹ 62·70. Anu Mooyi closed his books of account on 31st March, 2016 when the spot rate was ₹ 62·20 per US \$.

On 24th April, 2016 , the date of receipt of Money by Anu Mooyi, the spot rate was ₹ 61·70 per US \$.

Required:

Pass Journal entries in the books of Anu Mooyi to record the effect of all the above mentioned events. 8

7. (a) PARASHI LTD. granted ₹ 15 lakh loan to its employees on April 1, 2015 at a concessional interest rate 4% per annum. Loan is to be repaid in five equal annual installments along with interest. Market rate of interest for such loan is 10% per annum.

Required:

(i) Record the entries for the year ended 31st March, 2016 for the loan transaction.

(ii) At what value loan should be recognized initially and also calculate the amortized cost for all the subsequent five years, keeping in view provisions of AS-30 (Financial instruments: Recognition and Measurement).

Given: The present value of ₹ 1 receivable at the end of each year based on discount factor of 10% is as under:

Year ended March 31	2016	2017	2018	2019	2020
PVIF (at 10%)	0·9091	0·8264	0·7513	0·6830	0·6209

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(b) X Ltd. had the following summarised Balance Sheet as at 31st March, 2015:

Liabilities	Amount (₹)	*Assets*	Amount (₹)
Capital Stock	3,75,000	Land	2,00,000
Retained Earnings	1,22,500	Plant and Machinery	3,37,500
Bonds Payable	1,25,000	Investments	1,00,000
Long-term loan	1,27,500	Account Receivable	1,50,000
Current Liabilities	75,000	Cash	37,500
Total	**8,25,000**	**Total**	**8,25,000**

During 2015-16, the following transactions took place:

(i) A piece of land was purchased for ₹ 38,750 in cash.

(ii) Bonds payable worth ₹ 30,000 were paid in cash at face value.

(iii) An additional amount of ₹ 1,00,000 was received in cash on issue of equity shares.

(iv) Dividend totalling ₹ 46,875 was paid.

(v) Net income for 2015-16 was ₹ 1,42,250, after allowing depreciation of ₹ 47,500.

(vi) Another land was purchased through the issuance of bonds worth ₹ 1,12,500.

(vii) A part of investments portfolio was sold for ₹ 64,375 in cash. The transaction resulted in a gain of ₹ 6,875.

(viii) Current liabilities increased to ₹ 90,000 as on 31.03.2016.

(ix) Accounts receivable as on 31.03.2016 total ₹ 1,90,000.

Prepare a statement of cash flow for 2015-16 using indirect method, as per AS-3 (Revised). 8

8. (a) State the objective and the scope of Indian Government Accounting Standard (IGAS)-3 relating to Cash Flow Statement. 8

(b) Explain the functions of committee on Public Undertakings. 8