**FINAL EXAMINATION**

**P–18(CFR)**

JUNE 2014

**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.*

1. Answer *any two* of the following: 5×2=10

(a) Lal National Ltd. is developing a new production process. During the financial year 31st March, 2013, the total expenditure incurred on this process was ₹ 75 lakhs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was ₹ 28 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2014 was ₹ 140 lakhs. As at 31st March, 2014, the recoverable amount of know-how embodied in the process is estimated to be ₹ 125 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to work out: (Ignoring depreciation for this purpose)

(i) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2013?

(ii) What is the carrying amount of the intangible asset as at 31st march, 2013?

(iii) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2014?

(iv) What is the carrying amount of the intangible asset as at 31st march, 2014?

(b) Calculate the actual return on plan assets from the following information available from a company's defined benefit pension plans for a particular year.

| | |
|---|---|
| Fair market value of plan assets (beginning of year) | ₹ 20,00,000 |
| Fair market value of plan assets (end of year) | ₹ 28,50,000 |
| Employer's contribution | ₹ 7,00,000 |
| Benefit paid | ₹ 5,00,000 |

(c) ABC Ltd. had reported a net profit of ₹ 60,00,000 for the year ended 31st March, 2014 on which date the company is having 20,00,000 equity shares of ₹ 10 each outstanding. The average fair value of one equity share during the year 2013-14 is ₹ 25. The details of exercisable option are given below:

Weighted average number of shares under stock option scheme during the year 2013-14 = 4,00,000.

Exercise price for shares under stock option during the year ended 31st march, 2014 = ₹ 20.

Calculate (i) Basic EPS and (ii) Diluted EPS.

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2. (a) A Ltd. owned 80% of B Ltd, 35% of C Ltd. and 30% of D Ltd. C Ltd. is jointly controlled entity and D Ltd. is an associate. Balance Sheet of all four companies as on 31.03.2014 are:

**(₹ in lakhs)**

| Particulars | A Ltd. | B Ltd. | C Ltd. | D Ltd. |
|---|---|---|---|---|
| *Liabilities* | | | | |
| Equity share of ₹ 1/- each fully paid-up | 1,500 | 600 | 1,200 | 1,200 |
| Retained Earnings | 6,000 | 5,100 | 5,400 | 5,400 |
| Creditors | 300 | 450 | 380 | 375 |
| **Total** | **7,800** | **6,150** | **6,980** | **6,975** |
| *Assets* | | | | |
| Fixed Assets | 1,500 | 1,200 | 2,100 | 1,500 |
| Investment in B Ltd. | 1,200 | | | |
| Investment in C Ltd. | 900 | | | |
| Investment in D Ltd. | 900 | | | |
| Current Assets | 3,300 | 4,950 | 4,880 | 5,475 |
| **Total** | **7,800** | **6,150** | **6,980** | **6,975** |

A Ltd. acquired shares in

(i) B Ltd. many years ago, when the company had retained earnings of ₹ 780 lakhs.

(ii) C Ltd. at the beginning of the year, when the company had retained earnings of ₹ 600 lakhs.

(iii) D Ltd. on 01.04.2013, when the company had retained earnings of ₹ 600 lakhs.

The balance of goodwill relating to B Ltd. had been written off three years ago. The value of goodwill in C Ltd. remains unchanged.

Prepare the Consolidated Balance Sheet of A Ltd. as on 31.03.2014 as per AS-21, AS-23 and AS-27. 15

***OR***

(b) AB Ltd. has 2 divisions–A and B. Division A has been making constant profit, while Division B has been suffering losses. The Division wise Balance Sheet as on 31st March, 2014 are as follows:

| | **(₹ in lakhs)** | | |
|---|---|---|---|
| | Division A | Division B | Total |
| *Fixed assets:* cost (Tangible) | 500 | 1000 | 1500 |
| *Less:* Depreciation | 450 | 800 | 1250 |
| Written Down Value (i) | 50 | 200 | 250 |
| *Current Assets:* | 400 | 1000 | 1400 |
| *Less:* Current Liabilities | 50 | 800 | 850 |
| Net Current Assets (ii) | 350 | 200 | 550 |
| **Total (i) + (ii)** | **400** | **400** | **800** |
| *Financed by:* | | | |
| Loan | – | 600 | 600 |
| Capital : Equity Shares of ₹ 10 each | 50 | – | 50 |
| Reserves and Surplus | 350 | (200) | 150 |
| **Total** | **400** | **400** | **800** |

Division B along with its assets and liabilities was sold for ₹ 50 lakhs to X Ltd., a new company which issued 2 lakhs equity shares of ₹ 10 each at a premium of ₹ 15 per share to the members of B Division in full settlement of the consideration in proportion to their shareholding in the company. Assuming that there are no other transactions,

You are required to:

(i) Show journal entries in the books of AB Ltd.

(ii) Prepare the Balance Sheet of AB Ltd. after the entries made in (i) above.

(iii) Show journal entries in the books of X Ltd.

(iv) Prepare the balance Sheet of X Ltd.

In both the cases, Balance Sheets to be prepared in the Revised Scheduled VI format. 15

3. (a) M Ltd. is a holding company and N Ltd. and O Ltd. are subsidiaries of M Ltd. Their Balance Sheet as on 31.12.2013 are given below:

(Amount in ₹)

| *Liabilities* | M Ltd. | N Ltd. | O Ltd. | *Assets* | M Ltd. | N Ltd. | O 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 N Ltd. | 5,70,000 | | |
| Sundry Creditors | 42,000 | 30,000 | | Shares in O Ltd. | 78,000 | 3,18,000 | |
| O Ltd. Balance | 18,000 | | | Stock in Trade | 72,000 | | |
| M Ltd. Balance | | 42,000 | | Sundry Debtors | 1,56,000 | 1,26,000 | 1,92,000 |
| | | | | N Ltd. Balance | 48,000 | | |
| | | | | M Ltd. Balance | | | 18,000 |
| **Total** | **10,44,000** | **8,04,000** | **4,68,000** | **Total** | **10,44,000** | **8,04,000** | **4,68,000** |

The following particulars are given:

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

(ii) M Ltd. held 48,000 shares of N Ltd. and 6,000 shares of O Ltd.

(iii) N Ltd. held 24,000 shares of O Ltd.

(iv) All these investments were made on 30.06.2013.

(v) On 31.12.2012, the position was as shown below:

(Amount in ₹ )

| | N Ltd. | O Ltd. |
|---|---|---|
| Reserve | 48,000 | 45,000 |
| Profit & Loss Account | 24,000 | 18,000 |
| Sundry Creditors | 30,000 | 6,000 |
| Fixed Assets | 3,60,000 | 2,58,000 |
| Stock in trade | 24,000 | 2,13,000 |
| Sundry Debtors | 2,88,000 | 1,98,000 |

(vi) The whole of stock in trade of N Ltd. as on 30.06.2013 (₹ 24,000) was later sold to M Ltd. for ₹ 26,400 and remained unsold by M Ltd. as on 31.12.2013.

(vii) Cash in transit from N Ltd. to M Ltd. was ₹ 6,000 as at the close of the year.

You are required to prepare a Consolidated balance Sheet of M Ltd. and its subsidiaries N Ltd. and O Ltd. as at 31.12.2013. 15

***OR***

(b) The following are the Balance Sheet of A Ltd. and B Ltd. as on 31st March, 2014.

| | A Ltd. (₹) | B Ltd. (₹) |
|---|---|---|
| *Liabilities* | | |
| Share capital: | | |
| Equity Share of ₹ 10 each | 4,00,000 | 2,00,000 |
| 10% Preference Shares of ₹ 10 each | 2,00,000 | 1,00,000 |
| Reserve and Surplus | 2,00,000 | 1,00,000 |
| 12% Debentures | 3,00,000 | 2,00,000 |
| Sundry creditors | 1,50,000 | 1,60,000 |
| **Total** | **12,50,000** | **7,60,000** |
| *Assets* | | |
| Fixed Assets | 6,00,000 | 3,00,000 |
| Stock | 2,00,000 | 1,00,000 |
| Debtors | 3,00,000 | 2,00,000 |
| Cash at bank | 80,000 | 90,000 |
| Investments in: | | |
| 4000 equity shares of B Ltd. | 70,000 | – |
| 5000 equity shares of A Ltd. | – | 70,000 |
| **Total** | **12,50,000** | **7,60,000** |

Fixed Assets of A Ltd. and B Ltd. are to be revalued at 15% and 10% respectively above book values. Stock and debtors of B ltd. are to be taken over by A Ltd. at 5% less than their book values. While both the companies have already paid preference dividends, they are yet to pay 10% equity dividends.

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

(i) 6 equity shares of ₹ 10 each will be issued by A Ltd. at par against 4 equity shares of B Ltd.

(ii) 10% Preference Share of B Ltd. will be paid off at 10% discount by issue of 10% Preference Shares of ₹ 100 each of A Ltd. at par.

(iii) ₹ 20,000 to be paid by A Ltd. to B Ltd. for liquidation expenses.

(iv) 12% debenture holders of B Ltd. are to be paid off at 4% premium by 12% debentures in A Ltd. issued at a discount of 20%.

*Prepare:* (i) a statement of Purchase consideration payable by A Ltd., and

(ii) a Balance Sheet of A Ltd. after its absorption of B Ltd. (Schedules are not required) 15

4. (a) The extracts of Trial Balance of Sukh Ltd. and Sari Ltd. as on 31.03.2014 are as under:

| Particulars | Sukh Ltd. | | Sari Ltd. | |
|---|---|---|---|---|
| | Debit (₹) | Credit (₹) | Debit (₹) | Credit (₹) |
| Equity Share Capital (in shares of ₹ 100/- each) | | 24,00,000 | | 12,00,000 |
| 8% Preference Share Capital (in shares of ₹ 100/- each) | | 8,00,000 | | |
| 10% Preference Share Capital (in shares of ₹ 100/- each) | | | | 4,00,000 |
| Reserves | | 30,00,000 | | 24,00,000 |
| Current Liabilities | | 18,00,000 | | 10,00,000 |
| Fixed Assets | 55,00,000 | | 27,00,000 | |
| Current Assets | 25,00,000 | | 23,00,000 | |
| **Total** | **80,00,000** | **80,00,000** | **50,00,000** | **50,00,000** |

A. The following information is provided for the year 2013-14:

| Particulars | Sukh Ltd.(₹) | Sari Ltd.(₹) |
|---|---|---|
| (a) Profit before tax | 10,64,000 | 4,80,000 |
| (b) Taxation | 4,00,000 | 2,00,000 |
| (c) Preference Dividend | 64,000 | 40,000 |
| (d) Equity Dividend | 2,88,000 | 1,92,000 |

B. The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.

C. Sukh Ltd. proposes to absorb Sari Ltd. as on 31.03.2014. The terms of absorption are as under:

a. Preference shareholders of Sari Ltd. will receive 8% preference shares of Sukh Ltd. sufficient to increase the income of preference shareholders of Sari Ltd. by 10%.

b. The equity shareholders of sari Ltd. will receive equity shares of Sukh Ltd. on the following basis:

(i) The equity shares of Sari Ltd. will be valued by applying to the earning per share of sari Ltd. 75% of price earnings ratio of Sukh Ltd. based on the results of 2013-14 of both the companies.

(ii) The market price of equity shares of Sukh Ltd. is ₹ 300/- per share.

(iii) The number of shares to be issued to the equity shareholders of Sari Ltd. will be based on the above market value.

(iv) In addition to equity shares, 8% preference shares of Sukh Ltd. will be issued to the equity shareholders of sari Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2013-14.

D. For the next two years, no increase in the rate of equity dividend is expected. You are required to calculate purchase consideration. 10

**OR**

(b) Gold Ltd. agreed to absorb Silver Ltd. on 31st March, 2014, whose Balance Sheet stood as follows:

| *Liabilities* | ₹ | *Assets* | ₹ |
|---|---|---|---|
| 1,60,000 equity shares of ₹ 100 each fully paid up | 1,60,00,000 | Fixed Assets | 1,40,00,000 |
| Reserve and Surplus: | | Current Assets, Loans & Advances: | |
| General Reserve | 20,00,000 | Stock in trade | 20,00,000 |
| Current Liabilities and Provisions: | | Sundry Debtors | 40,00,000 |
| Sundry Creditors | 20,00,000 | | |
| **Total** | **2,00,00,000** | | **2,00,00,000** |

The consideration was agreed to be paid as follows:

(i) A payment in cash of ₹ 50 per share in Silver Ltd. and

(ii) The issue of shares of ₹ 100 each in Gold Ltd., on the basis of four equity shares (valued at ₹ 150 each) and two 9% cumulative preference shares (valued at ₹ 100 each) for every ten shares held in Silver Ltd.

It was agreed that Gold Ltd. will pay cash for fractional shares equivalent at agreed value of shares in Silver Ltd. i.e., ₹ 1,300 paid for ten shares of ₹ 1,000. The whole of Share capital consists of shareholdings in exact multiple of ten, except the following holdings:

| | No. of Shares held | |
|---|---|---|
| Anal | 232 | |
| Bimal | 152 | |
| Chinu | 144 | |
| Debu | 56 | |
| Other individuals | 16 | (eight members holding two shares each) |
| | 600 | |

Prepare a statement showing the purchase consideration receivable by above shareholders in shares and cash. 10

5. (a) Diamond Ltd. grants 50 stock options to each of its 1,000 employees on 1.4.2011 for ₹ 20, depending upon the employees at the time of vesting options. The market price of the share is ₹ 50. These options will vest at the end of year 1, if the earning of Diamond Ltd. is 16% or it will vest at the end of the year 2, if the average earning of two years is 13%, or lastly it will vest at the end of the third year, if the average earning of 3 years will be 10%. 2,500 unvested options lapsed on 31.03.2012. 2,000 unvested options lapsed on 31.03.2013 and finally 1,750 unvested options lapsed on 31.03.2014.

Following is earning of Diamond Ltd.:

| Year ended on | Earning |
|---|---|
| 31.03.2012 | 14% |
| 31.03.2013 | 10% |
| 31.03.2014 | 7% |

850 employees exercised their vested options within a year and remaining options were un-exercised at the end of the contractual life. Pass journal entries with proper narrations for the above transactions. 10

***OR***

(b) (i) A mutual fund raised ₹ 100 lakhs on 1.04.2014, by issue of 10 lakhs units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakhs. The initial expenses amounted to ₹ 7 lakhs. During April 2014, the fund sold certain securities of cost ₹ 38 lakhs for ₹ 40 lakhs and purchased certain other securities for ₹ 28.20 lakhs. The fund management expenses for the month amounted to ₹ 4.50 lakhs, of which ₹ 0.25 lakhs was in arrears. The dividend earned was ₹ 1.286 lakhs. 70% of the realized earnings was distributed. The market value of the portfolio on 30.4.2014 was ₹ 103.714 lakhs. Determine the Net Asset Value (NAV) of mutual fund. 6

(ii) While closing its books of account on 31st March 2014, a Non-Banking Finance Company has its advances classified as follows :

| Particulars | ₹ in Lakhs |
|---|---|
| Standard Assets | 18,400 |
| Sub-Standard Assets | 1,580 |
| Secured portion of doubtful debts: | |
| - up to one year | 440 |
| - one year to three years | 80 |
| - more than three years | 40 |
| Unsecured portion of doubtful debts | 103 |
| Loss Assets | 52 |

Calculate the amount of provision, which must be made against the advances. 4

6. (a) (i) From the following information for Sun Ltd., prepare a Value Added Statement for the financial year 2013-14.

| Particulars | ₹ in lakhs |
|---|---|
| Turnover | 2,400 |
| Plant and machinery (net) | 1,100 |
| Depreciation on Plant and Machinery | 275 |
| Dividends on ordinary shares | 150 |
| Sundry Debtors | 195 |
| Sundry Creditors | 130 |
| Opening stock (raw material, WIP, finished goods) | 160 |
| Closing stock (raw material, WIP, finished goods) | 200 |
| Raw material purchased | 775 |
| Cash at bank | 100 |
| Printing and Stationery | 25 |

| Particulars | ₹ in lakhs |
|---|---|
| Auditor's remuneration | 30 |
| Retained earnings at the beginning of the year | 990 |
| Retained earnings at the closing of the year | 290 |
| Rent, Rates and Taxes | 170 |
| Other expenses | 90 |
| Ordinary share capital issued | 1,800 |
| Interest on borrowing | 40 |
| Income tax for the year | 280 |
| Wages and salaries | 330 |
| Employees State Insurance | 40 |
| PF Contribution | 30 |

Also, calculate the value added per employee, average earning per employee and sales per employee on the basis that 105 employees work in Sun Ltd. 10

(ii) Distinguish between Human Capital and Intellectual Capital 5

***OR***

(b) (i) Batliboi Ltd. borrowed \$ 1,000 on 01.03.2009, when the spot rate per dollar was ₹ 45. The company covered its foreign exchange exposure immediately by forward purchase of \$ 1,000 at ₹ 45.30/\$ due on 30.4.2009. The exchange rate on 31.3.2009 was ₹ 45.50/\$. The spot exchange rate on 30.4.2009, when the loan was repaid was ₹ 45.60/\$.

Show the relevant Journal Entries in the books of Batliboi Ltd. 9

(ii) Discuss in brief the concept of Triple Bottom Line Reporting (TBLR). 6

7. (a) (i) Write a short note on the Application of XBRL (Extensible Business Reporting Language) in India. 7

(ii) Ashima furnishes the following information about all options at the Balance Sheet date. Determine the amount of provision to be made in her books of account.

| | | | (₹) |
|---|---|---|---|
| **Securities** | **L** | **K** | **J** |
| **Details of Options Bought** | | | |
| Premium Paid | 20,000 | 10,000 | 10,000 |
| Premium prevailing on Balance Sheet date | 30,000 | 5,000 | 8,000 |
| **Details of Options Sold** | | | |
| Premium received | 10,000 | 30,000 | 10,000 |
| Premium prevailing on Balance Sheet date | 25,000 | 20,000 | 15,000 |

3

*OR*

(b) (i) From the following particulars of Basant Ltd., calculate EVA. 6

| | |
|---|---|
| Equity Share Capital | ₹ 10,00,000 |
| Reserve & surplus | ₹ 3,00,000 |
| 12% Preference share capital | ₹ 2,00,000 |
| 10% Debenture | ₹ 4,00,000 |
| Non-trade Investment | ₹ 4,00,000 |
| Profit after tax | ₹ 2,00,000 |
| Rate of tax | 40% |
| Risk free return | 8% |
| Beta factor | 1.2 |

Companies with beta factor of 1 in similar business have market rate of return of 15%.

(ii) Examine the reporting requirements of Environmental Accounting. 4

8. (a) (i) Write short note on Indian Government Accounting Standard—1(IGAS–1) relating to guarantees given by the Government. 9

(ii) Describe the process of election of Public Accounts Committee. 6

*OR*

(b) (i) Write a note on function of the Committee on Public Undertaking. 5

(ii) State the responsibilities of Government Accounting Standards Advisory Board. 5

(iii) State the sources of Government revenue. 5