FINAL EXAMINATION

P–18(CFR)

JUNE 2015 ***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) Neel Limited is developing a new production process. During the financial year ended 31st March, 2014, the company has incurred total expenditure of ₹ 60 lakhs on the process. On 1st December,2013 the process has met the norms to be recognised as intangible assets and the expenditure incurred till that date is ₹ 25 lakhs. During the financial year ending on 31st March, 2015, the company has further incurred ₹ 90 lakhs. The recoverable amount as on 31.3.2015 of the process is estimated to be ₹ 85 lakhs. You are required to work out as per AS-26:

(i) Amount to be charged to Profit and Loss Account for the financial year ending on 31st March, 2014 and 31st March, 2015 (ignore depreciation), and

(ii) Carrying value of intangible asset as at 31.3.2014 and 31.3.2015. 5

(b) Zoom Limited purchased a machine four years ago for ₹ 30 lakhs and depreciates it at 10% p.a. on Straight-line Method. At the end of fourth year, it has revalued the machine at ₹ 15 lakh and has written off the loss on revaluation to Profit and Loss Account. However, on the date of revaluation, the market price is ₹ 14 lakhs and expected disposal costs are ₹ 50,000.

(i) Compute amount of impairment loss as per AS-28, on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 12 lakh.

(ii) What will be the accounting treatment in respect of impairment loss computed above? 5

SECTION B

Answer 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) State any five salient points of distinction between 'Pooling of Interest Method' and 'Purchase Method' of Accounting for Mergers and Acquisitions. 5

Please Turn Over

(b) ANKIT LTD. agreed to absorb SHRIJA LTD. on March 31, 2015 whose summarized Balance Sheet Stood as follows:

(Amount in ₹ '000')

Equity and liabilities	Amount	Assets	Amount
Share Capital:		*Fixed Assets*	2100
2,40,000 shares of ₹ 10 each fully paid	2400	*Investments*	--
Reserves & Surplus:		*Current Assets, Loans*	
General Reserve	300	*and Advances;*	
Secured Loan	--	Stock in Trade	300
		Sundry Debtors	600
Unsecured Loan	--		
Current Liabilities & Provisions:			
Sundry Creditors	300		
	3000		3000

The Consideration was agreed to be paid as follows:

(i) A payment in cash of ₹ 5 per share in SHRIJA LTD. and

(ii) The issue of shares of ₹ 10 each in ANKIT LTD. on the basis of two equity shares (valued at ₹ 15) and one 10% cum-preference share (valued at ₹ 10) for every five shares held in SHRIJA LTD. The whole of the share capital consists of shareholding in exact multiple of five, except the following holdings:

A	348	
B	228	
C	216	
D	84	
Other Individuals	24	(Twenty four members holding one share each)

It was agreed that ANKIT LTD. will pay in cash for fractional shares equivalent at agreed value of share in SHRIJA LTD. i.e. ₹ 65 for five shares of ₹ 50 paid.

Required:

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

(c) X Ltd. agreed to takeover Y Ltd. as on 1st October, 2014. No Balance Sheet of Y Ltd. was prepared on that date:

Summarised Balance Sheets of X Ltd. and Y Ltd. as at 31st March, 2014 were as follows:

Liabilities	X Ltd. ₹	Y Ltd. ₹	Assets	X Ltd. ₹	Y Ltd. ₹
Equity shares of ₹ 10 each fully paid up.	20,00,000	15,00,000	Fixed assets	15,50,000	12,60,000
Reserves and Surplus:			*Current Assets:*		
Reserve	3,90,000	3,40,000	Stock	5,35,500	3,81,500
Profit & Loss A/c	3,30,000	1,60,000	Debtors	3,49,500	2,31,000
Creditors	85,000	75,000	Bank	3,40,000	1,80,000
			Miscellaneous Expenditure:		
			Preliminary Expenses	30,000	22,500
Total	28,05,000	20,75,000	Total	28,05,000	20,75,000

Additional information available:

(i) For the six months period from 1st April 2014, X Ltd. and Y Ltd. made profits of ₹ 5,40,000 and ₹ 3,60,000 respectively, after writing off depreciation @ 10% per annum on their fixed assets.

(ii) Both the companies paid on 1st August 2014, equity dividends of 10%. Dividend tax at 15% was paid by each of them on such payments.

(iii) Goodwill of Y Ltd. was valued at ₹ 1,68,900 on the date of takeover. Stock of Y Ltd., subject to an abnormal item of ₹ 8,500 to be fully written off, would be appreciated by 20% for purpose of takeover.

(iv) X Ltd. would issue to Y Ltd's shareholders fully paid equity shares of ₹ 10 each, on the basis of the comparative intrinsic values of the shares on the date of takeover.

You are required to:

(1) Calculate Purchase consideration payable by X Ltd.

(2) Calculate Number of shares to be issued by X Ltd to Y Ltd.

(3) Ascertain closing bank balance which will appear in the Balance Sheet of X Ltd. (After absorption of Y Ltd.). 5+2+3=10

(d) The summarised Balance Sheets of A Ltd. and B Ltd. as on 31st March 2015 are given below. B Ltd. was merged with A Ltd. with effect from 31st March 2015 and the merger was in the nature of purchase.

Summarise Balance Sheets as on 31.03.2015

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Share Capital:			Fixed assets	10,00,000	4,50,000
Equity Shares of ₹ 10 each	8,00,000	3,00,000	Investments (Non-trade)	1,50,000	50,000
General Reserve	3,00,000	2,00,000	Stock	1,60,000	50,000
Profit & Loss A/c	2,50,000	80,000	Debtors	80,000	90,000
12% Debentures	2,00,000	1,00,000	Advance Tax	60,000	30,000
Sundry Creditors	60,000	50,000	Cash and Bank Balance	2,30,000	1,10,000
Provision For Taxation	90,000	50,000	Preliminary Expenses	20,000	–
Total	17,00,000	7,80,000	Total	17,00,000	7,80,000

A Ltd. would issue 12% Debentures to discharge the claims of the debenture holders of B Ltd. at par. Non-trade investments of A Ltd. fetched @ 20% while those of B Ltd. fetched @ 12%. Profit (Pre-tax) by A Ltd. and B Ltd. during 2012-13, 2013-14 and 2014-15 were as follows:

Year	A Ltd. ₹	B Ltd. ₹
2012-13	6,00,000	2,00,000
2013-14	7,00,000	2,50,000
2014-15	5,00,000	1,50,000

Goodwill may be calculated on the basis of capitalisation method taking 20% as the pre-tax normal rate of return. Purchase consideration is discharged by A Ltd. on the basis of intrinsic value per share.

Prepare Balance Sheet of A Ltd. after merger as per revised Schedule VI (Notes to accounts need not be given). 10

SECTION C

Answer 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) Tom Ltd. holds 45% of the paid up share capital of Bee Ltd. The shares were acquired at market price of ₹ 18 per share. The balance 55% shares of Bee Ltd. are held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

(i) The shares held by foreign company will be sold to Tom Ltd. The price per share will be calculated by capitalising the yield at 20%. Yield, for this purpose, would mean 50% of the average of pre-tax profits for last 3 years, which were ₹ 35 lakhs, ₹ 40 lakhs and ₹ 45 lakhs.