

FINAL EXAMINATION

June 2017

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 you may make suitable assumptions and disclose such assumptions clearly in a note.*

Answer Question No. 1 which is compulsory (carrying 20 marks) and also answer any five questions (carrying 16 marks each) from the rest.

1. Answer any four questions from the following:

5×4=20

- (a) What are foreign currency transactions as per AS – 11?
- (b) From the information given below, you are required to compute the Deferred Tax Assets and Deferred Tax Liability for Ramanujam Limited as on 31st March, 2016. The tax rate applicable is 35%.
- (i) The Company has charged Depreciation of ₹ 7,42,900 in its Books of Accounts while as per Income Tax computation, the Depreciation available to the Company is ₹ 8,65,400.
- (ii) The Company has made Provision for Doubtful Debts for ₹ 54,300 during the year.
- (iii) The Company has debited Share Issue Expenses of ₹ 6,23,500 which will be available for deduction under the Income Tax Act from the next year.
- (iv) The expenses of ₹ 7,84,500 has been charged to Profit and Loss Account which are disallowed under the Income Tax Act.
- (v) The Company has made Donation of ₹ 2,00,000 which has been debited to Profit and Loss Account and only 50% thereof will be allowed as deduction as per Income Tax Law.
- (c) Y LTD. gives the following estimates of cash flows relating to fixed asset on 31.03.2016. The discount is 15%.

Year ended 31st March	2017	2018	2019	2020	2021
Cash Flow (In lakhs)	4000	6000	6000	8000	4000

Residual value at the end of 2021 = ₹ 1000 lakhs

Fixed Asset purchased on 01-04-2013 = ₹ 40,000 lakhs

Useful life = 8 years

Selling Price on 31.03.2016 = ₹ 20,100 lakhs

Disposal Cost on 31.03.2016 = ₹ 100 lakhs

Please Turn Over

Year	1	2	3	4	5
PVF @15%	0.870	0.756	0.658	0.572	0.497

Required:

State the Treatment of Impairment Loss if Upward Revaluation was done in last year by 10%.

- (d) R-Kart Ltd. has taken a Transit Insurance Policy. Suddenly in the year 2016-17 the percentage of accident has increased upto 7% and the company wants to recognise insurance claim as revenue in 2016-17 in accordance with relevant Accounting Standards. Do you agree? Give reason.

- (e) Write a note on structure of Government Accounting Standards Board (GASAB).

2. Given below are the extracts from the Balance Sheets of Big Ltd. & Small Ltd. as at 31st March, 2016:

Particulars	Big Ltd. ₹	Small Ltd. ₹
Equity Shares Capital of ₹ 10 each	8,00,000	3,00,000
10% Pref. Shares Capital of ₹ 100 each	—	2,00,000
General Reserve	3,00,000	1,00,000
Profit & Loss A/c	1,50,000	70,000
Trade Creditors	2,00,000	3,00,000
Land Building	2,00,000	1,00,000
Plant & Machinery	5,00,000	3,00,000
Furniture	1,00,000	60,000
Investments: 6,000 shares in Small Ltd.	60,000	—
Inventories	1,50,000	1,90,000
Trade Debtors	3,50,000	2,50,000
Cash and Bank	90,000	70,000

Big Ltd. has taken over the entire undertaking of Small Ltd. on 30.09.2016, on which date the position of current assets except Cash and Bank balances and Current Liabilities were as under:

Particulars	Big Ltd. (₹)	Small Ltd. (₹)
Inventories	1,20,000	1,50,000
Trade Debtors	3,80,000	2,50,000
Trade Creditors	1,80,000	2,10,000

Profits earned for the half year ended on 30.09.2016 after charging depreciation at 5% on building, 15% on machinery and 10% on furniture, are:

Big Ltd.	₹ 1,02,500	Small Ltd.	₹ 54,000
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On 30.08.2016 both companies have declared 15% dividend for the year 2015-2016.

Goodwill of Small Ltd. has been valued at ₹ 50,000 and other Fixed assets at 10% above their book values on 31.03.2016. Preference shareholders of Small Ltd. are to be allotted 10% Preference Shares of Big Ltd. and equity shareholders of Small Ltd. are to receive requisite number of equity shares of Big Ltd. valued at ₹ 15 per share in satisfaction of their claims.

Required:

Show the Balance Sheet of Big Ltd. as of 30.09.2016 assuming absorption is through by that date. 16

3. AA Ltd and BB Ltd decide to amalgamate and form a new Company CC Ltd. The following are their Balance Sheets as on 31.3.2017:

	AA Ltd ₹	BB Ltd ₹		AA Ltd ₹	BB Ltd ₹
<i>Liabilities</i>			<i>Assets</i>		
Share capital ordinary shares of ₹ 100 each	5,00,000	3,00,000	Fixed Assets	3,75,000	1,20,000
General Reserve	50,000	25,000	<i>Investments:</i>		
			750 Shares of BB Ltd	1,75,000	
Investment Allowance Reserve	20,000	15,000	2000 Shares of AA Ltd		2,50,000
125 Debentures (₹ 100 each)	1,50,000	50,000	Current Assets	2,10,000	50,000
Sundry Creditors	40,000	30,000			
	7,60,000	4,20,000		7,60,000	4,20,000

Calculate the purchase consideration of AA Ltd and BB Ltd and draw up a Balance Sheet of CC Ltd after considering the following:

- Fixed Assets of AA Ltd is to be reduced by ₹ 50,000
- 12% Debenture Holders of the two Companies are discharged by CC Ltd by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain same amount of interest
- Shares of CC Ltd. are of ₹ 100 each

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4. (a) On the basis of the following Profit and Loss Account of Zenith Limited and supplementary information provided thereafter, prepare Value Added Statement of the company for the year ended 31st March, 2017. Also prepare another statement showing reconciliation of Gross Value Added with profit before taxation.

Please Turn Over

Profit and Loss Account of Zenith Limited for the year ended 31st March, 2017.

	Amount (₹ in lakhs)	Amount (₹ in lakhs)
Income		
Sales		5,010
Other income		130
		<u>5,140</u>
Expenditure		
Production and Operational Expenses	3,550	
Administrative Expenses	185	
Interest	235	
Depreciation	370	4,340
Profit before Taxation		800
Provision for Taxation		280
Profit after Taxation		<u>520</u>
Credit Balance as per last Balance Sheet		40
		<u>560</u>
Appropriations		
Transfer to General Reserve		100
Preference Dividend (Interim) paid		50
Proposed Preference Dividend (Final)		50
Proposed Equity Dividend		300
Balance Carried to Balance Sheet		60
		<u>560</u>
Supplementary information		
Production and Operational Expenses consist of:		
Raw Materials and stores consumed		1,900
Wages, Salaries and Bonus		610
Local Taxes including Cess		220
Other Manufacturing Expenses		820
		<u>3,550</u>
Administrative Expenses Consist of:		
Salaries and commission to Directors		60
Audit Fee		24
Provision for Bad and Doubtful Debts		20
Other Administrative Expenses		81
		<u>185</u>
Interest is on:		
Loan from Bank for Working Capital		35
Debentures		200
		<u>235</u>

- (b) CAMJ Ltd. has the following Capital Structure as on 31.03.2016:

Particulars	(₹ in crores)	
(1) Equity Share Capital (Shares of ₹ 10 each fully paid)	—	330
(2) Reserves and Surplus		
General Reserve	240	—
Securities Premium Account	90	—
Profit & Loss Account	90	
Infrastructure Development Reserve	180	600
(3) Loan Funds		1,800

The Shareholders CAMJ Ltd, on the recommendation of their Board of Directors, have approved on 12.09.2016 a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% over market.

You are also informed that the Infrastructure Reserve is created to comply with Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,200 crores or ₹ 1,500 crores.

Assuming that the entire buy back is duly completed, show the accounting entries in the company's books in each situation. Narrations should form part of your answer. 6

5. (a) Sun Ltd. grants 1000 options on equity shares (face value ₹ 10) to its employees on 01.04.2013 at ₹ 60. The vesting period is two and a half years. The maximum period of exercise is one year. Market price on that date is ₹ 90. All the options were exercised on 31.07.2016.

Journalize the transactions for all the concerned financial years. 8

- (b) (i) A company has at end of the financial year the stock of Finished Goods meant for Local sale and for Exports in its factory warehouse. Excise duty is payable at the rate of 16%. The Company's Managing Director says that Excise Duty is payable at only on clearance of goods and hence is not a cost. Advise the Company on the proper treatment of Excise Duty. 4

- (ii) A Factory started activities on 1st April. From the following data, work out the value of Closing Stock on Inventory Valuation principles (CENVAT) as on 30th April.

- (I) Raw Material purchased during April = 50,000 kg @ ₹ 15 per kg inclusive of Excise Duty of ₹ 5 per kg. Stock on hand on 30th April = 2000 kg.
- (II) Production during April = 12,000 units. Each unit consumes 4kg material. 10,000 units of Production has been sold during the month.
- (III) 2,000 units of goods were lying as WIP on 30th April in Factory floor, Stage of completion —100% complete as to Material and 50% complete as to conversion, which is ₹ 40 for each completed unit. 4

6. (a) Metro Ltd. has three divisions P, Q and R. Details of their turnover, results and net assets are given below:

	₹ (‘000)
Division P	
Sales to Q	3,050
Other sale (Home)	60
Export sales	<u>4,090</u>
	<u>7,200</u>
Division Q	
Sales to R	30
Export sales to America	<u>200</u>
	<u>230</u>
Division R	
Export sales to Australia	<u>180</u>

	Divisions			
	Head Office ₹ (‘000)	P ₹ (‘000)	Q ₹ (‘000)	R ₹ (‘000)
Operating Profit or Loss before tax		160	20	(8)
Re-allocated cost from Head office		48	24	24
Interest cost		4	5	1
Fixed assets	50	200	40	120
Net current assets	48	120	40	90
Long-term liabilities	38	20	10	120

Prepare a Segment Report to comply with the requirements of AS-17.

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- (b) Rainbow Constructions have obtained a contract to build a Flyover and the following details are available from the records as at 31st March, 2017:

	₹ in lakhs
Total Contract Price	3,000
Work Certified	2,000
Work not Certified	500
Estimated further cost to complete	700
Progress Payments received	1,800
Payment to be received	500

How are the above information to be disclosed in the Accounts as at 31st March, 2017 as per AS 7 (revised)?

7. (a) The Balance Sheet of X Ltd. as on 31st March, 2016 and 31st March, 2017 are as follows:

<i>Liabilities</i>	2016 Amount (₹)	2017 Amount (₹)	<i>Assets</i>	2016 Amount (₹)	2017 Amount (₹)
Share Capital	5,00,000	7,00,000	Land and Buildings	80,000	1,20,000
General Reserve	50,000	70,000	Plant and Machinery	5,00,000	8,00,000
Profit and Loss A/c	1,00,000	1,60,000	Stock	1,00,000	75,000
Sundry Creditors	1,53,000	1,90,000	Sundry Debtors	1,50,000	1,60,000
Bills Payable	40,000	50,000	Cash	20,000	20,000
Outstanding Expenses	7,000	5,000			
	8,50,000	11,75,000		8,50,000	11,75,000

Additional Information:

- (i) ₹ 50,000 depreciation has been charged to Plant and Machinery during the year 2016-17.
(ii) A piece of Machinery costing ₹ 12,000 (Depreciation provided there on ₹ 7,000) was sold at 60% profit on book value.

You are required to prepare Cash flow statement for the year ended 31st March, 2017 as per AS 3 (revised), using indirect method. 8

- (b) Following are the information of two companies for the year ended 31st March, 2017:

<i>Particulars</i>	Company X	Company Y
Equity Shares of ₹ 10 each	8,00,000	10,00,000
10% Pref. Shares of ₹ 10 each	6,00,000	4,00,000
Profit after tax	3,00,000	2,60,000

Assume that in both the cases, the Market expectation is 18% and 80% of the Profits are distributed.

- (i) What is the rate you would pay for the Equity Shares of each Company
(A) If you are buying a small lot, and
(B) If you are buying controlling interest shares?
(ii) If you plan to invest only in preference shares which company's preference shares would you prefer? 8

8. (a) State the meaning and potential applications of XBRL. 8
(b) State the Objectives, Constitution and Functions of Public Accounts Committee. 8