Paper – 18 - Corporate Financial Reporting

This paper contains 5 questions, divided in sub-questions. Each question represents the specified weightage in sections as prescribed syllabus for this paper. Answers must be given against all questions. However, students are requested to read the instructions against each individual question also. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

Question No. 1 is compulsory.

(a) What are the disclosure requirements of Contingent Liability as per AS-29? [5]

(b) (i) Describe Disposal group as per IFRS 5 (Non-Current Assets held for sale and discontinued Operations) [3]

(ii) State the objective of IFRS-7 (Financial Instruments- Disclosures) [2]

Question No. 2 : Answer to Question No. 2(a) is Compulsory. Answer any two from the remaining sub-questions.

(a) T Ltd was incorporated for the purpose of acquiring B Ltd. V Ltd. and S Ltd. The balances in the books of these Companies as on 30th June of a Financial Year are as follows:

Particulars	B Ltd.	V Ltd.	S Ltd.
Tangible Fixed Assets at Cost Less Depreciation	5,00,000	4,00,000	3,00,000
Goodwill	---	60,000	---
Other Assets	2,00,000	2,80,000	85,000
Total Assets	7,00,000	7,40,000	3,85,000
Liabilities:			
Issued Ordinary Share Capital Shares of ₹ 10 each	4,00,000	5,00,000	2,50,000
Profit & Loss Account	1,50,000	1,10,000	60,000
10% Debentures	70,000	---	40,000
Sundry Creditors	80,000	1,30,000	35,000
Total Liabilities	7,00,000	7,40,000	3,85,000

Particulars	B Ltd.	V Ltd.	S Ltd.
Average Annual Profits before Debenture Interest	90,000	1,20,000	50,000
Professional Valuation of Tangible Assets on 30th June	6,20,000	4,80,000	3,60,000

1. **The Directors in their negotiations agreed that (i) the recorded Goodwill of V Ltd. is valueless, (ii) the Other Assets of the B Ltd. are worth ₹ 30,000, (iii) the valuation of 30th June in respect of Tangible Fixed Assets should be accepted, (iv) these adjustments are to be made by the individual Company before the completion of the acquisition.**
2. **The acquisition agreement provides for the issue of 12% Unsecured Debentures to the value of the Net Assets of the Companies B Ltd, V Ltd. and S Ltd and for the issuance of ₹ 10 nominal value ordinary shares for the capitalized average Profits of each acquired Company in excess of the Net Assets contributed. The Capitalization Rate is taken at 10%.**

You are required to calculate purchase consideration and show the purchase consideration as discharged. [5]

(b) The following was the Balance Sheet of V Ltd as on 31st March 2014:

Particulars		Note No.	Amount (₹ in Lakhs)
Equity and Liabilities			
(1) Shareholders' Funds	(a) Share Capital	1	1,150
	(b) Reserves and Surplus	2	(87)
(2) Non-Current Liabilities	Long-Term Borrowings	3	630
(3) Current Liabilities	Trade Payables		170
Total			1,863
Assets			
(1) Non-Current Assets	Tangible Assets	4	1,152
(2) Current Assets	Inventories		380
	Trade Receivables		256
	Cash and Cash Equivalents	5	75
Total			1,863

Notes:

(1) Share Capital	₹
Authorised:	
Issued, Subscribed and Paid up:	800
80 Lakh Equity Shares of ₹ 10 each, fully paid up	350
35 Lakh 12% Cumulative Preference Shares of ₹ 10 each, fully paid up	
Total	1,150

(2) Reserves and Surplus:	Debit Balance of Profit & Loss Account	(87)
Total		(87)

(3) Long-Term Borrowings	
10% Secured Cumulative Debentures of ₹ 100 each, fully paid up	600
Outstanding Debenture Interest	30
Total	630

(4) Tangible Assets	
Land and Buildings	445
Plant and Machinery	593
Furniture, Fixtures and Fittings	114
Total	1,152

(5) Cash and Cash	
Equivalents Balance at Bank	69
Cash in Hand	6
Total	75

On 1st April 2014, P Ltd took over the entire business of V Ltd on the following terms:
V Ltd's Equity Shareholders would receive 4 fully paid Equity Shares of P Ltd of ₹ 10 each issued at a Premium of ₹ 2.50 each for every Five Shares held by them in V Ltd.
Preference Shareholders of V Ltd would get 35 Lakh 13% Cumulative Preference Shares of ₹ 10 each fully paid up in P Ltd, in lieu of their present holding.
All the Debentures of V Ltd would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹ 100 each, fully paid up after the takeover by P Ltd, which would also pay Outstanding Debenture Interest in cash.

Expenses of Amalgamation would be borne by P Ltd. Expenses came to be ₹ 2 Lakh. P Ltd discovered that its Creditors included ₹ 7 Lakh due to V Ltd for goods purchased.
Also P Ltd's Stock included goods of the Invoice Price of ₹ 5 Lakh earlier purchased from V Ltd, which had charged profit at 20% of the Invoice Price.
You are required to:
(i) Prepare Realisation A/c in the books of V Ltd.
(ii) Pass Journal Entries in the books of P Ltd, assuming it to be an amalgamation in the nature of Merger. [10]

(a) The following was the Balance Sheet of A Ltd as on 31st December –

	Equity and Liabilities	₹
(1)	Shareholders' Funds:	
	(a) Share Capital	
	24,000 Shares of ₹ 10 each	2,40,000
	Less: Calls Unpaid (₹ 3 per Share on 6,000 Sh)	(18,000)
	(b) Reserves & Surplus – P&L A/c	
	As per Last B/Sheet (Loss b/fd) 44,000	
	(Less) Profit for the Year 2,400	(41,600)
(2)	Current Liabilities:	
	(a) Trade Payables –Sundry Creditors	30,850
	(b)Short Term Provisions –Provision for Taxation	8,000
	Total	2,19,250
	Assets	
(1)	Non-Current Assets:	
	(a)Fixed Assets: (i)Tangible Assets	
	- Land & Buildings	41,000
	-Machinery	1,01,700
	(ii) Intangible Assets – Goodwill	20,000
	(b)Other Non-Current Assets	
	- Preliminary Expenses	3,000
(2)	Current Assets:	
	(a) Inventories	20,550
	(b) Trade Receivables–Book Debts	30,000
	(c) Cash & Cash Equivalents	3,000
	Total	2,19,250

Note: Authorised Capital is ₹ 4,00,000 being 40,000 Equity Shares of ₹ 10 each.

The Directors have had a valuation made for the Machinery and find it overvalues by ₹ 20,000. It is proposed to write down this asset to its true value and to extinguish the deficiency in the Profit and Loss Account and to write off Goodwill and Preliminary Expenses, by adoption of the following course –

(i) Forfeit the Shares on which the Call is outstanding.
(ii) Reduce the Paid-up Capital by ₹ 3 per Share.
(iii) Reissue the Forfeited Shares at ₹ 5 per Share.
(iv) Utilize the Provision for Taxes, if necessary.

The Shares on which the Calls were in Arrears were duly Forfeited and reissued on payment of ₹ 5 per Share. Give the Journal Entries and the Balance Sheet of the Company after carrying out the above scheme. [10]

(d)

The Balance Sheet of Sreejith Ltd having an Authorised Capital of ₹1,000 Crores as on 31st March is-

	Equity and Liabilities		₹Crores
(1)	Shareholders' Funds:		
	(a) Share Capital		
	-Equity Shares of ₹ 10 fully paid in cash		250
	(b) Reserves & Surplus – (Revenue)		750
(2)	Current Liabilities:		
	Long Term Borrowings(i)Secured against		
	-Fixed Assets		300
	-Working Capital		100
	(ii)Unsecured Loans		600
(3)	Current Liabilities		2,000
	Total		4,000
	Assets		
(1)	Non-Current Assets:		
	(a)Fixed Assets: (i)Tangible Assets		
	Gross Block	800	
	Less: Depreciation	200	600
	(b)Non-Current Investments at Cost		400
	(Market Value ₹ 1,000 Crores)		
(2)	Current Assets:		3,000
	Total		4,000

Note: Capital Commitments: ₹ 700 Crores.

The Company consists of 2 Divisions-

1. **Establishment Division whose Gross Block was ₹ 200 crores and Net Block was ₹ 30 Crores, Current Assets were ₹ 1,500 Crores and Working Capital was ₹ 1,200 Crores, the entire amount being financed by Shareholders' Funds.**
2. **The Project Division to which the remaining Fixed Assets, Current Assets and Current Liabilities related.**

The following scheme of reconstruction was agreed upon:

1. **Two new Companies Sunrise Ltd and Moonrise Ltd are to be formed. The Authorised Capital of Sunrise Ltd is to be R.s 1,000 Crores. The Authroised Capital of Moonrise Ltd is to be ₹ 500 Crores.**
2. **Moonrise Ltd is to take over investments at ₹ 800 crores and Unsecured Loans at Balance Sheet value. It is to allot Equity Shares of ₹ 10 each at par to the members of Sreejith Ltd in satisfaction of the amount due under the arrangement.**
3. **Sunrise Ltd. is to take over the Fixed Assets and Net Working Capital of the new project division along with the Secured Loans and Obligation for Capital Commitments for which Sreejith Ltd. is to continue to stand guarantee at book values. It is to allot one Crore Equity Shares of ₹ 10 each as consideration to Sreejith Ltd. Sunrise Ltd. made an issue of Unsecured Convertible Debentures of ₹ 500 Crores. Carrying interest at 15% per annum and having a right to convert into Equity Shares of ₹ 10 each at per five years hence. This issue was made to the members of Sunrise Ltd as a right who grabbed the opportunity and subscribed in full.**
4. **Sreejith Ltd. is to guarantee all Liabilities transferred to the 2 companies.**
5. **Sreejith Ltd. is to make a Bonus issue of Equity Shares in the ratio of one Equity Share for every Equity Share held by making use of the Revenue Reserves.**

Assume that the above scheme was duly approved by the Honourable High Court and that there are no other transactions, you are asked to (ignore taxation):

- **Pass Journal Entries in the Books of Sreejith Ltd and**
- **Prepare the Balance Sheets of Sreejith Ltd. after the scheme of reconstruction. [10]**

Question No. 3: Answer to question No. 3(a) is Compulsory. Also answer any one from the remaining sub-questions

(a) (i) The following balances are extracted from the Balance Sheets of Upul Ltd and Vipul Ltd.

Particulars	Upul Ltd	Vipul Ltd
Bills Payable	1,50,000	90,000
Trade Creditors	1,00,000	1,40,000
Bills Receivable	70,000	1,00,000
Trade Debtors	1,60,000	1,40,000
Contingent Liability for Bills discounted	40,000	30,000

Additional Information –

(i) Vipul Ltd is wholly owned Subsidiary of Upul Ltd.

(ii) Creditors of Vipul Ltd include ₹50,000 due to Upul for goods supplied by it for ₹60,000. Debtors of Upul however shows a Debit balance of ₹ 60,000 due from Vipul. Vipul had remitted ₹10,000 by Demand Draft to Upul which was not received by Upul on the Balance Sheet date.

(iii) Bills Payable of Vipul include ₹60,000 drawn in favour of Upul Ltd. Upul had discounted Bills worth ₹ 24,000 with its Bankers.

Determine how the above given balances will be disclosed in the Consolidated Balance Sheet of Upul Ltd. [6]

(ii) Uniformity in Accounting Policies is necessary for consolidation purposes. [5]

(b) Mathi Ltd acquired 8,000 Shares of ₹100 each in Nidhi Ltd on 30.09.2012. The summarized Balance Sheets of the two Companies as on 31.03.2013 were as follows –

(₹'000)

Equity and Liabilities	Mathi	Nidhi
(1)Shareholders' Funds:		
(a)Share Capital (₹ 100)	3,000	1,000
(b)Reserves & Surplus		
-Capital Reserve	---	550
-General Reserve	300	50
-Profit & Loss A/c	382	180
(2)Non-Current Liabilities:		
-Long Term Borrowings		
(Loan from Nidhi Ltd)	21	---
(3)Current Liabilities:		
Trade Payables		
-Sundry Creditors	179	70
-Bills Payable	---	17
(incl. ₹ 5,000 to Mathi Ltd)		
Total	3,882	1,867
Assets		
(1)Non-Current Assets:		
(a)Fixed Assets	1,500	1,447

(b)Non-Current Investments		
-Investments in Nidhi Ltd	1,700	---
(2)Current Assets:		
(a)Inventories	400	200
(b)Trade Receivables		
-Debtors	250	180
-Bills Receivable	12	---
(incl. ₹ 5,000 to Nidhi Ltd)		
(c)Cash & Cash Equivalents	20	20
(d)Short Term Loans & Adv.		
-Loan to Mathi Ltd	---	20
Total	3,882	1,867

Contingent Liability (Mathi Ltd.): Bills discounted of ₹ 6,000.

Additional information:

1. Nidhi Ltd made a Bonus issue on 31.03.2013 of one share for every two shares held, reducing the Capital Reserve equivalently, but the accounting effect to this has not been given in the above Balance Sheet.
2. Interest receivable for the year (₹1,000) in respect of the loan due by Mathi Ltd. to Nidhi Ltd had not been credited in the accounts of Nidhi Ltd.
3. The credit balance in Profit & Loss Account of Nidhi Ltd. on 01.04.2012 was ₹21,000.
4. The Directors decided on the date of the acquisition that the Fixed Assets of Nidhi Ltd were overvalued and should be written down by ₹50,000. Consequential adjustments on depreciation are to be ignored.

Prepare the Consolidated Balance Sheet as at 31.03.2013, showing your workings. [15]

(a) On 31.03.2013, R Ltd. acquired 1,05,000 Shares of S Ltd. for ₹ 12,00,000. The Trial Balance of S Ltd. on that date was as under -

Trial Balance as at 31.03.2013

Particulars	Dr. Amount (₹)	Cr Amount (₹)
Equity Shares (1,50,000 @ ₹ 10)	-	15,00,000
Pre – incorporation Profits	-	30,000
Profit and Loss Account	-	60,000
Creditors	-	75,000
Fixed Assets (Tangible)	10,50,000	-
Current Assets	6,15,000	
	16,65,000	16,65,000

On 31.03.2014, the Trial Balance of the two Companies were as follows -

Trial Balance as at 31.03.2014

Particulars	R Ltd.		S Ltd.	
	Amount (₹)	Amount (₹)	Amount (₹)	Amount (₹)
Equity Shares of ₹ 10 each fully paid (before Bonus Paid)	-	45,00,000	-	15,00,000
Securities Premium	-	9,00,000	-	-

Pre – incorporation Profits	-	-	-	30,000
General Reserve	-	60,00,000	-	19,05,000
Profit and Loss Account	-	15,75,000	-	4,20,000
Creditors	-	5,55,000	-	2,10,000
Fixed Assets (Tangible)	79,20,000	-	23,10,000	-
Investments (1,05,000 Equity Shares in S Ltd at cost)	12,00,000	-	-	-
Current Assets	44,10,000	-	17,55,000	-
	1,35,30,000	1,35,30,000	40,65,000	40,65,000

Directors of S Ltd. made a bonus issue on 31.03.2014 in the ratio of one Equity Share of ₹ 10 each fully paid for every two Equity Shares held on that date.

Calculate as on 31.3.2014 (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases: (1) Before issue of Bonus Shares; (2) Immediately after the issue of Bonus Shares. It may be assumed that Bonus Shares were issued out of Post-Acquisition Profits by using General Reserve.

Prepare a Consolidated Balance Sheet after the Bonus Issue. [15]

Question No. 4: Answer to Question No. 4(a) is Compulsory. Also answer any two from the remaining sub-questions.

(a) 'An effective sustainability reporting cycle should benefit all reporting organizations.' - Discuss. [5]

(b) The capital structure of A Ltd. is as under:

- **80,00,000 Equity shares of ₹10 each**
- **1,00,000 12% Preference shares of ₹250 each**
- **1,00,000 10% Debentures of ₹500 each**
- **Term loan from Bank (at 10%) = ₹450 lakhs.**

The Company's Profit and Loss Account for the year showed a balance PAT of ₹100 lakhs, after appropriating Equity Dividend at 20%. The company is in the 40% tax bracket. Treasury Bonds carry 6.5% interest, beta factor for the company may be taken at 1.5. The long run market rate of return may be taken at 16.5%. Calculate EVA. [10]

(c) ADS Ltd. grants 1,000 employees stock options on 01.04.2010 at ₹40 (F.V. ₹10), when the market price was ₹160.The vesting period is 2 ½ years and the maximum exercise period is one year. 300 unvested options lapse on 01.05.2012. 600 options are exercised on 30.06.2013. 100 vested options lapse at the end of the exercise period. Pass Journal Entries giving suitable narrations. [10]

(d) (i) Discuss about the growing scope of Human Capital reporting. [5]

(ii) State the aspects covered in Corporate Environmental Accounting System. [5]

Question No. 5 (Answer any three):

(a) Describe the working procedure of Public Accounts Committee. [5]

(b) Write a note on Indian Government Accounting Standards (IGAS) and list the IGAS Notified by Government of India. [5]

(c) Discuss the objective and scope of IGAS 7 relating to Foreign Currency transactions and loss or Gain by Exchange rate variation. [5]

(d) State the responsibilities of the Comptroller and Auditor General of India. [5]