PAPER – 18 - CORPORATE FINANCIAL REPORTING

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL C	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identity	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
		Decide	To solve or conclude
	EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify
		Evaluate	Appraise or asses the value of
		Recommend	Propose a course of action

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) On January 2, 2014 ADS Corp. bought a trademark from Toyland Corp. for ₹5,00,000. ADS retained an independent consultant, who estimated the trademark's remaining life to be 20 years. Its unamortized cost on Toyland Corp. accounting records was ₹3,80,000. ADS decided to amortize the trademark over the maximum period allowed. In ADS's December 31, 2014 balance sheet, what amount should be reported as accumulated amortization? [4]

(b) State the classification criteria of IFRS 5 (Non-current assets held for sale and discontinued operations) [6]

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

(a) XX Ltd agreed to absorb YY Ltd on 31st March whose Balance Sheet stood as follows:

I. Equity and Liabilities	₹
Shareholders' Funds:	
(a) Share Capital (80000 shares of ₹10 fully paid)	8,00,000
(b) Reserve and Surplus -general reserve	1,00,000
Non-Current Liabilities:	
Long Term Borrowings	
-Secured Loans	-
-Unsecured Loans	-
Current Liabilities:	
Trade Payables -Sundry Creditors	1,00,000
Total	10,00,000
II. Assets	₹
Non-Current Assets:	
(a) Fixed Assets	7,00,000
(b)Non-Current Investments	-
Current Assets:	
(a)Inventories	1,00,000
(b)Trade Receivables -Debtors	2,00,000
Total	10,00,000

The consideration was agreed to be paid as follows-

(i) A payment of ₹5 per share in YY Ltd, and

(ii) The issue of ₹10 each in XX Ltd. on the basis of 2 Equity Shares (valued at ₹15) and one 10% Cumulative Preference Share (Valued at ₹10) for every 5 shares held in YY Ltd.
The whole of the Share Capital consists of shareholding in exact multiple of five except the following holding-

(iii) P-116 share, (ii)Q-76 shares, (ii)R-72 shares, (iv)S-28 shares, (v)Other Individuals-8 shares (eight members holding one share each).Total of such fractional holding =300 shares.

It was agreed that XX Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in YY Ltd. i.e. ₹65 for 5 shares of ₹50 paid.
Prepare a statement showing the purchase consideration receivable in shares and cash. [5]

(b) The Balance Sheet as at 31st March of Maharishi Ltd. was as under (₹000's) -

Equity and Liabilities	₹	Assets		₹
(1) Shareholders' Funds:		(1) Non- Current Assets:		
(a) Share Capital		(a) Fixed Assets		
- 8,000 Equity Sh of ₹100 each, ₹50 per Sh pd up	4,00	- Tangible	850	
		- Intangible Assets		
- 4,000 11% Cum Pref. Shares ₹100 each, fully pd.	4,00	(Goodwill at cost)	40	
		Less:Depreciation	(2,70)	6,20
(b) Reserves & Surplus		(b) Non –current Investments		25
(i) General Reserve	60	(2)Current Assets:		
(ii) Securities Premium (received on Pref. Shares)	40	(a) Inventories		2,10
		(b) Trade receivables – Sundry Debtors		2,55
(2)Current Liabilities:	3,10			
		(c) Cash & cash Equivalents		1,00
Total	1,210	Total		1,210

Note: Preference Dividends are in arrears for three years including the year ended 31st March as above.

The funds of the Company are sufficient to discharge its Liabilities including Preference Dividends in arrears. However, the Company does not want to deplete its resources. It would also like to reflect the values of some of its Assets in a realistic manner. The Board of Directors of the Company decided and proposed the following scheme of rehabilitation / reconstruction to be effective from 1st April:

(i) The Cumulative Preference Shareholders are to be issued, in exchange of their holdings 13% Debentures of the Face Value of ₹100 each at a Premium of 10%. Fractional holdings are to be paid off in Cash.

(ii) Arrears in Preference Dividends to be converted into Equity Shares of ₹100, ₹50 per Share paid up.

(iii) After the issue of the Equity Shares mentioned in (2) above, the Paid Up Value of all the Equity Shares is to be reduced to ₹ 25 each.

(iv) Face Value of all Equity Shares to be reduced to ₹50 each and the balance of the unpaid

portion is to be called up fully.

(v) Goodwill has lost its value and has to be written off. Market Value of other Fixed Assets is determined, as at 31st March, at ₹ 5,00,000.

(vi) Investments have no Market Value and have to be written off.

(vii)Stock In Trade is to be valued at 110% of its Book Value and Sundry Debtors are to be discounted by 5%.

The scheme as approved by the Directors, is duly accepted by all authorities and put into effect.

During the working for the half ended 30th September it is noticed that the trading for the period has resulted in an increase of Bank balances by ₹55,100, Sundry Debtors by ₹40,000, Trade Creditors by ₹26,000 and a decrease in Stock by ₹8,000. Depreciation for the half year on Fixed Assets at 10% per annum is to be provided. The increase in the Bank Balances was prior to the Company paying the half yearly Interest on Debentures and redeeming one half of the Debentures on 30th September.

From the above information, you are required to prepare Journal Entries, Ledger Accounts. All working notes are to form part of your answer. [10]

(c) Rama Ltd and Radha Ltd are to be amalgamated into Rama Radha Ltd. (RRL). The new company is to take over all the assets and liabilities of the amalgamating companies. The new company is to take over all the assets and liabilities of the amalgamating companies.
Assets and Liabilities of Rama Ltd are to be taken over at book values in exchange of shares in RRL. Three shares in the new company are to be issued at a premium of 20% for two shares of Rama Ltd.

The scheme for Radha Ltd is as follows:

- **10% preference shareholders are to be allowed two 15% preference shares of ₹100 each in RRL for three preference shares held in Radha Ltd.**
- **The debentures of Radha Ltd are to be paid off at 5% discount by the issue of Debentures at par.**
- **The equity shareholders of Radha Ltd. are to be allowed as many shares at par in RRL as will cover the balance on their account and for this purpose, Plant and Machinery is to be valued less by 15% and obsolete stock forming 10% of the overall stock value is to be treated as worthless.**

Show the Journal Entries in the Amalgamating Companies.

The Balance Sheets of the two companies Rama Ltd and Radha Ltd prior to amalgamation are as under

Equity and Liabilities	Rama	Radha	Assets	Rama	Radha
(1)Shareholders' Funds			(1) Non-Current Assets:		
(a) Share Capital			Fixed Assets		
(i) Equity Capital (shares of ₹10)	6,40,000	12,50,000	- Tangible Assets (P&M)	12,80,000	20,00,000
(ii) 10% Preference	-	7,50,000	(2)Current		

shares of ₹100			assets:		
(b) Reserves & Surplus			(a)Inventories	1,00,000	1,50,000
(i) General Reserve	8,80,000	-	(b)Trade receivables - Drs	1,52,000	1,25,000
(ii) Profit & Loss Account	-	(3,50,000)	(c)Cash & cash equivalents	1,08,000	1,00,000
(2)Non-current Liabilities					
Long term borrowings					
-Secured Debentures	-	5,00,000			
(3)Current Liabilities:					
Trade Payables – Sundry Creditors	1,20,000	2,25,000			
Total	16,40,000	23,75,000	Total	16,40,000	23,75,000

[10]

(d) Rajesh Ltd carried on Manufacturing Business. Its products were sold to wholesalers and the Company had its own Retail Shop.
Sujesh Ltd carried on similar Manufacturing Business, but all Goods produced were sold through the Company's own Retail Shop.

The summarized Balance Sheet of the two Companies as at 31st March were as follows

Equity and Liabilities	Rajesh	Sujesh	Assets	Rajesh	Sujesh
Shareholders' Funds:			Non- Current Assets:		
Authorised: Eq. Shares of ₹10	40,00,000	6,00,000	Fixed Assets (i) Tangible		
Share Capital (issued & paid up)			Freehold Properties (as cost)	10,00,000	2,50,000
Equity Shares of ₹10	25,00,000	6,00,000	Plant & Machinery (Net Block)	13,00,000	1,00,000
Reserves & Surplus			Current Assets:		
– Profit & Loss Account	3,40,000	90,000			
Current Liabilities:			Inventories	4,80,000	1,20,000
Trade Payables - Creditors	4,20,000	70,000	Trade receivables – Drs	2,30,000	80,000
			Cash & cash Equivalents	2,50,000	2,10,000
Total	32,60,000	7,60,000		32,60,000	7,60,000

Original Cost of Plant & Machinery was as follows: Rajesh Ltd – ₹26,00,000, and Sujesh Ltd ₹ 2,00,000.
The following arrangements were made and carried out on April:
Rajesh Ltd purchased from the Shareholders of Sujesh Ltd all the issued Shares @ ₹ 14 per Share.
Shareholders of Sujesh Ltd took over Freehold Properties of the Company for ₹60,000 at the Book Value of the same. It was agreed that the amount should be set off against the amount due to them under (1) above and the balance due to them to be satisfied by the issue of an appropriate number of Equity Shares in Rajesh Ltd at ₹ 19.50 per share.
The necessary transfer in regard to the setting off the Price of the Property taken over by the Shareholders against the amount due to them from Rajesh Ltd were made in the books of the two Companies.
All the manufacturing was to be carried on by Rajesh Ltd and all retail Business is to be carried on by Sujesh Ltd In this connection.
Rajesh Ltd purchased the whole of Sujesh Ltd's Plant and Machinery for ₹1,50,000 and certain of their Freehold Property (Cost ₹1,00,000) at ₹1,20,000.
Sujesh Ltd purchased Rajesh Ltd's Freehold Retail Shop Buildings (Cost to Rajesh Ltd ₹75,000) at ₹ 60,000 and took over the retail stock at ₹80,000 at the Book Value.
Rajesh Ltd drew cheque in favour of Sujesh Ltd for the net amount due, taking into account all the matters mentioned above.

Immediately after the transfer of Shares as in (1) above, Sujesh Ltd declared and paid Dividend of ₹ 60,000 (Ignore Income Tax)
Prepare the Balance Sheet of Rajesh Ltd. immediately after the completion of the above transaction. [10]

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

(a) From the following information determine the amount of unrealized profits to be eliminated and the apportionment of the same, if S Ltd. Holds 75% of the equity shares of T Ltd.

(i) Sales by S Ltd to T Ltd-
- **Goods costing ₹50,000 at a profit of 20% on sale price. Entire stock was lying unsold as on the Balance Sheet date.**
- **Goods costing ₹70,000 at a profit of 25% on cost price. 40% of the goods were included in closing stock of T Ltd.**

(ii) Sales by T Ltd. to S Ltd.
- **Goods sold for ₹75,000 on which T made profit of 25% on cost. Entire stock was at S's godown as on the Balance Sheet date.**
- **Goods sold for ₹90,000 on which T made profit of 15% on sale price. 70% of the values of goods were included in closing stock of S. [10]**

(b) The summarized Balance Sheets of Kush Ltd and Shuk Ltd as at 31st March 2015 are as follows:
(₹ lakhs)

Equity and Liabilities	Kush	Shuk	Assets	Kush	Shuk
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets – (i) Tangible		
- Equity Shares of ₹10 each	216.0	108.0	- Plant at cost Less: Depreciation	86.4	72.9
(a) Reserves & Surplus			- Furniture, Fixtures & Fittings	23.4	7.2
(i) Share Premium	32.4	---	(ii)Intangible –Goodwill	45.0	13.6
(ii) Capital Reserve – on 01.04.2014	---	7.2	(b)Non-Current Investments 8.64 lakh Shares of Shuk at Cost	97.2	---
(iii) General Reserve – on 01.04.2014	13.5	9.0	(2)Current Assets:		
(iv) Profit & Loss Account	70.2	21.6	(a)Current Investments	---	2.7
(2) Current Liabilities:			(b)Inventories	18.0	13.5
Trade Payables – Sundry Crs.	29.7	19.7	(c)trade Receivables – Drs	73.8	47.6
			(d)Cash & Cash Equivalents	18.0	8.0
Total	361.8	165.5	Total	361.8	165.5

Additional Information –
(i) On 1st April, 2014 Kush Ltd. acquired from the Shareholders of Shuk Ltd. 8.64 lakhs Shares of ₹ 10 each. In Shuk Ltd. and allotted in consideration thereof 6.48 lakhs of its own Shares of ₹ 10 each at a premium of ₹ 5 per share.
(ii) The Consideration for the Shares of Shuk Ltd was arrived at inter-alia by valuing certain Assets of Shuk Ltd on 1st April, 2014 as under –
(a) Plant at ₹ 90 lakhs.
(b) Furniture, Fixtures, and fittings at ₹ 8 lakhs.
(c) No. of value of trade Investment and Goodwill.

No adjustments were made in the books of account of Shuk Ltd. in respect of the above valuation. During 2014-2015 there was no Purchase or Sale of these Assets. It is desired that such adjustments should however be made in the Consolidated Accounts.

(iii) The figures of Plant and Furniture, Fixtures and Fittings at 31.03.2015 shown in the Balance Sheet are after providing depreciation for 2014-2015 at the rate of 10% p.a. and 20% p.a. respectively, on the Book values as at 01.04.2014.

(iv) The Profit and Loss Account of Shuk Ltd. showed a Credit balance of ₹ 27 lakhs on 01.04.14. A dividend of 10% was paid in January, 2015 for the year 2013-2014. This dividend was credited to Profit and Loss A/c of Kush Ltd.

(v) The following point was not considered in making out the accounts:
In the year expenses at ₹ 4,500 per month were incurred by Kush ltd on behalf of Shuk Ltd. it was by mistake debited to Profit and Loss Account of Kush Ltd and nothing has been done in the accounts of Shuk Ltd.

(vi) The Stock of Shuk Ltd included ₹ 4.5 lakhs of Goods received from Kush Ltd invoiced at cost plus 25%.

(vii)Debtors of Shuk Ltd. include ₹ 3.5 lakhs due from Kush Ltd were as Creditors of Kush Ltd include ₹ 3.1 lakhs due to Shuk Ltd the difference being represented by a cheque in transit.

You are requested to show the analysis of Reserves and Surplus and Minority Interest as at 31st March, 2015. [15]

(c) Following are the Balance Sheets of Pandava Ltd and Kaurava Ltd as at 31.03.2015

Equity & Liabilities	Pandava	Kaurava	Assets	Pandava	Kaurava
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets - (i) Tangible		
- Equity Shares of ₹10 each fully paid	6,00,000	1,00,000	- Land & Buildings	2,00,000	1,00,000
(b) Reserves & Surplus			- Machinery	2,80,000	50,000
(i) General Reserve	50,000	30,000	(b) Non-Current Investments		
(ii)Profit & Loss Account	80,000	40,000	- 7,000 Shares in Kaurava	1,00,000	-
(2) Current Liabilities:			(2) Current Assets:		
Trade Payables – (a) Sundry Creditors	1,00,000	40,000	(a) Inventories	70,000	40,000
(b) Bills Payable	10,000	15,000	(b) Trade Receivables		
			(i) Debtors	1,50,000	20,000
			(ii) Bills Receivable	10,000	-

			(c) Cash & Cash Equivalents	30,000	15,000
Total	8,40,000	2,25,000	Total	8,40,000	2,25,000

Prepare Consolidated Balance Sheet as at 31st March 2015 from the following additional Information -

(i) All the Bills Receivable of Pandava Ltd including those discounted were accepted by Kaurava Ltd.
(ii) When Pandava Ltd had acquired 6,000 Shares in Kaurava Ltd, the latter had ₹20,000 in General Reserve and ₹5,000 Credit Balance in Profit and Loss Account.
(iii) At the time of acquisition of further 1,000 Shares by Kaurava Ltd, the latter had ₹25,000 General Reserve and ₹28,000 Credit Balance in Profit and Loss Account, from which 20% dividend was paid by Kaurava Ltd.
(iv) The dividends received by Pandava Ltd on these shares were credited to Profit & Loss Account.
(v) Stock of Kaurava includes goods valued at ₹ 20,000 purchased from Pandava Ltd which has made 25% Profit on Cost.
(vi) For the Financial Year ending 31.03.2015, Pandava Ltd had proposed a dividend of 10% and Kaurava Ltd has proposed a dividend of 15%, but no effect has yet been given in the above Balance Sheets. [15]

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

(a) List the benefits derived by Investment analysts and advisers by using XBRL. [5]

(b) (i) Mr. S buys the following equity Stock Options and seller/writer of the options is Mr. T.

Date of purchase	Type of option	Expiry date	Market Lot	Premium per unit	Strike Price (₹)
29.06.2014	ACD LTD. CALL OPTION	30.08.2014	100	15	230
29.06.2014	NXD LTD. PUT OPTION	30.08.2014	200	20	275

Prepare Journal Entries. Assume price of ACD LTD. on 30.08.2014 is ₹240 and NXD LTD. is ₹290. [6]

(ii) Discuss National Level Environmental Accounting. [4]

(c) (i) G Ltd. provides you the following data to calculate Economic Value Added (EVA):

Particulars	
60 crores Equity Shares of ₹10 each	
2 crores, 15% Preference Shares of ₹100 each	
16 crores, 15% Debentures of ₹100 each	
Tax Rate	30%
Beta Factor	1.5
Market Rate of Return	15.5%
Equity Market Risk Premium	9%
Financial Leverage	1.5 times
Immovable Property (held as Investment)	₹200 crores

[7]

(ii) List the advantages of " Jaggi & Lau Model". [3]

(d) (i) List the characteristics Triple Bottom Line (TBL) reports should possess. [6]

(ii) On April 1, 2015, a company SB Ltd. offered 100 shares to each of its 1,500 employees at ₹40 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant date is ₹50 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹48 per share.

On April 30,2015, 1,200 employees accepted the offer and paid ₹40 per share purchased. Nominal value of each share is ₹10.

Record the issue of shares in book of the SB Ltd. under the aforesaid plan. [4]

Question No. 5 (Answer any three):

(a) State the general principles of Government Accounting. [5]

(b) Discuss the working of the Public Accounts Committee. [5]

(c) State the objective and scope of IGAS 8 on Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements. [5]

(d) List the organizations subject to the audit of the Comptroller and auditor General of India. [5]