Paper – 18: Corporate Financial Reporting

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Full Marks : 100 **Time allowed: 3 hours**

Answer Question No. 1 (carrying 20 marks) which is compulsory and also answer any five questions (carrying 16 marks each) from Question No. 2 to Question No. 8.

1. Answer any four questions from the following: [4×5= 20]

(a) The fair value of plan assets of Prantick Ltd. was ₹2,00,000 in respect of employee benefit pension plan as on 1st April, 2015. On 30th September, 2015, the plan paid out benefits of ₹ 38,000 and received inward contributions of ₹ 98,000. On 31st March, 2016, the fair value of plan assets was ₹3,00,000. On 1st April, 2015, the reporting company made the following estimates, based on market studies and prevailing prices:

	%
Interest and dividend income after tax payable by the fund	**9.25**
Realised gains on plan assets (after tax)	**2.00**
Fund Administrative costs	**(1.00)**
Expected rate of return	**10.25**

Required:

Calculate the Actual and Expected Returns on Plan Assets as on 31st March, 2016, as per AS-15.

Answer :

	Particulars	₹
A.	Closing Balance of Fair Value of Plan Assets	3,00,000
B.	Add: Benefit paid	38,000
C.	Less: Contributions Received	(98,000)
D.	Less: Opening Balance of Fair Value of Plan Assets	(2,00,000)
E.	**Actual Return on Plan Assets**	40,000

	Particulars	₹
A.	Return on Opening Balance of Fair Value of Plan Assets (₹2,00,000 × 0.1025)	20,500
B.	Return on Net Contribution Received [Contribution -Benefits paid] [98,000 – 38,000]× 0.05	3,000
C.	**Expected Return on Plan Assets**	23,500

Note: Equivalent half yearly Compounding Interest rate

$= \sqrt{1+\text{Expected rate of Return}} - 1$

$= \sqrt{(1+0.1025)} - 1$ = 0.05 or 5%

(b) Santro Ltd., acquired a patent at a cost of ₹ 1,10,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹ 13,20,000 per annum. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹ 35,00,000, ₹ 45,00,000, ₹ 48,00,000, ₹ 45,00,000 and ₹ 32,00,000. Find out the amortization cost of the patent for each of the years.

Answer:

Santro Limited amortised ₹13,20,000 per annum for the first two years i.e. ₹26,40,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	Net cash flows (₹)	Amortization Ratio	Amortization Amount (₹)
I	-	0.120	13,20,000
II	-	0.120	13,20,000
III	35,00,000	0.170	14,21,200
IV	45,00,000	0.220	18,39,200
V	48,00,000	0.234	19,56,240
VI	45,00,000	0.220	18,39,200
VII	32,00,000	0.156	13,04,160
Total	2,05,00,000	1.000	1,10,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹83,60,000 has been amortized in the ratio of net cash flows arising from the product of Santro Ltd.

Note: The answer has been given on the basis that the patent is renewable and Santro Ltd. got it renewed after expiry of five years.

(c) What are the organisations that are subject to the audit of Comptroller and Auditor General of India?

Answer:

Following are the organisations that subject to the audit of the Comptroller and Auditor General of India :

(i) All the Union and State Government Departments and offices including Indian Railways, Posts and Telecommunications.

(ii) About 1200 public commercial enterprises controlled by the Union and State governments, i.e. Government companies and corporations.

(iii) Around 400 non-commercial autonomous bodies and authorities owned or controlled by the union or the States.

(iv) Over 4400 authorities and bodies substantially financed from Union or State revenues.

(d) A Ltd. had acquired 80% shares in the B Ltd. for ₹15 lakhs. The net assets of B Ltd. on that day are ₹22 lakhs. During the year, A Ltd. sold the investment for ₹30 lakhs and net assets of B Ltd. on the date of disposal were ₹35 lakhs. Calculate the profit or loss on disposal of this investment to be recognized in the Financial Statements of A Ltd.

Answer:

Calculation of Profit or Loss on disposal of Investment in subsidiary:

Particulars	₹
Proceeds from the sale of Investment	30,00,000
(-) A Ltd. Share in Net Asset of B Ltd.	28,00,000
	2,00,000
(+) Capital Reserve at the time of acquisition of share in B Ltd.	2,60,000
Profit on sale of Investment	4,60,000

Working Note:

Particulars	₹
(i) A Ltd.'s share in Net Asset of B Ltd.	
Net Asset of B Ltd. On the date of disposal	35,00,000
(-) Minority Interest (₹35 lakhs × 20%)	7,00,000
	28,00,000
(ii) Capital Reserve at the time of acquisition of share	
A Ltd.'s share in Net Asset of B Ltd. On the date of acquisition (₹22 lakhs × 80%)	17,60,000
(-) Cost of Investment	15,00,000
	2,60,000

(e) N Ltd. has 80% shares in a joint venture with SK Ltd. N Ltd. sold a plant WDV ₹20 lakhs for ₹30 lakhs. Calculate how much profit N Ltd. should recognize in its book in case joint venture is: (a) jointly controlled operation; (b) jointly controlled asset; (c) jointly controlled entity.

Answer:

As per AS-27, in case of jointly controlled operation and jointly controlled assets joint venture, the venture should recognize the profit to the extent of other venturer's interest.

In the given case, N Ltd. should recognize profit of:

= ₹(30 – 20)lakhs = ₹10 x 20%= ₹2 lakhs only.

However, in case of jointly controlled entities N Ltd. should recognize full profit of ₹10 lakhs in its separate financial statement. However, while preparing consolidated financial statement it should recognize the profit only to the extent of 20% i.e. ₹ 2 lakhs only.

2. Shiva Ltd. and Hari Ltd. decided to amalgamate as on 01.04.2016. Their Balance sheets as on 31.03.2016 were as follows: (₹ In '000)

Particulars	Shiva Ltd.	Hari Ltd.
Source of Funds:		
Equity share capital (₹ 10 each)	**150**	**140**
9% preference share capital (₹ 100 each)	**30**	**20**
Investment allowance reserve	**5**	**2**
Profit and Loss Account	**10**	**6**
10% Debentures	**50**	**30**
Sundry creditors	**25**	**15**
Tax provision	**7**	**4**
Equity dividend proposed	**30**	**28**
Total	**307**	**245**
Application of Funds:		
Building	**60**	**50**
Plant and Machinery	**80**	**70**
Investments	**40**	**25**
Sundry debtors	**45**	**35**
Stock	**36**	**40**
Cash and bank	**40**	**25**
Preliminary expenses	**6**	**----**
Total	**307**	**245**

From the following information, you are to prepare the draft balance sheet as on 01.04.2016 of a new company. Indra Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50% Debentures are to be converted into equity shares of the New Company.
(ii) Out of the investments, 20% are non-trade investments.
(iii) Fixed Assets of Shivas Ltd. were valued at 10% above cost and that of Hari Ltd. at 5% above cost.
(iv) 10% of sundry debtors were doubtful for both the companies. Stocks to be carried at cost.
(v) Preference shareholders were discharged by issuing equal number of 9% preference share at par.
(vi) Equity shareholders of both the transferor companies are to be discharged by issuing equity shares of ₹ 10 each of the new company at a premium of ₹ 5 per share. Amalgamation is in the nature of purchase. [16]

Answer:

Name of the Company: Indra Ltd.

Consolidated Balance Sheet as at 1st April ,2016

Ref No.		Particulars	Note No.	As at 1st April, 2016	As at 1st April, 2015
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		Share capital	1	3,27,990	
		Reserves and surplus	2	1,45,995	
		Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		Long-term borrowings	3	40,000	
		Deferred tax liabilities (Net)			
		Other Long term liabilities			
		Long-term provisions			
	4	Current Liabilities			
		Short-term borrowings			
		Trade payables	4	40,000	
		Other current liabilities			
		Short-term provisions	5	11,000	
		Total		5,64,985	
	II.	Assets			
	1	Non-current assets			
		Fixed assets			
		Tangible assets	6	2,80,000	
		Intangible assets			
		Capital work-in-progress			
		Intangible assets under development			
		Non-current investments	7	65,000	
		Deferred tax assets (Net)			
		Long-term loans and advances			
		Other non-current assets			
	2	Current assets			
		Current investments			
		Inventories	8	76,000	
		Trade receivables	9	72,000	
		Cash and cash equivalents	10	64,985	
		Short-term loans and advances			
		Other current assets	11	7,000	
		Total		5,64,985	

Annexure

Note 1. Share Capital

	₹	₹
Note 1. Share Capital	**As at 1st April, 2016**	**As at 1st April, 2015**
Share Capital 27,799 Equity shares of ₹ 10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	2,77,990	
9 % Preference Share Capital	50,000	
Total	3,27,990	

Reconciliation for Equity Share Capital	**As at 1st April, 2016**		**As at 1st April, 2015**	
Opening Balance as on 1,04,2011	-	-	-	-
Add: Fresh Issue	27,799	₹2,77,990		
Less: Buy Back	-	-		
Total	27,799	₹2,77,990		
Reconciliation for Preference Share Capital	**As at 1st April, 2016**		**As at 1st April, 2015**	
Opening Balance as on 1,04,2011	-	-		
Add: Fresh Issue	500	50,000		
Less: Buy Back	-	-		
Total	500	50,000		

Note 2. Reserves and Surplus	**As at 1st April, 2016**	**As at 1st April, 2015**
Securities Premium (₹1,25,665+13,330)	1,38,995	
Investment Allowance Reserve (₹5,000+₹2,000)	7,000	
Total	1,45,995	

Note 3. Long term Borrowings	**As at 1st April, 2016**	**As at 1st April, 2015**
10% Debentures (₹25,000+₹15,000)	4,50,000	
Total	4,50,000	

Note 4. Trade Payables	**As at 1st April, 2016**	**As at 1st April, 2015**
Sundry Creditors (₹25,000+₹15,000)	40,000	
Total	40,000	

Note 5. Short Term Provision	**As at 1st April, 2016**	**As at 1st April, 2015**
Tax Provision (₹7,000+₹4,000)	11,000	
Equity Dividend Proposed (₹30,000+₹28,000)	58,000	
Total	69,000	

Note 6. Tangible Assets	**As at 1st April, 2016**	**As at 1st April, 2015**
Building (₹ 66,000 + ₹ 52,500)	1,18,500	
Plant and Machinery (₹ 88,000 + ₹ 73,500)	1,61,500	
Total	2,80,000	

Note 7. Non-current Investments	**As at 1st April, 2016**	**As at 1st April, 2015**
Investments (₹ 40,000 + ₹ 25,000)	65,000	
Total	65,000	

Note 8. Inventories	**As at 1st April, 2016**	**As at 1st April, 2015**
Stock (₹ 36,000 + ₹ 40,000)	76,000	
Total	76,000	

Note 9. Trade Receivables	**As at 1st April, 2016**	**As at 1st April, 2015**
Sundry Debtors 90% of (₹ 45,000 + ₹ 35,000)	72,000	
Total	72,000	

Note 10. Cash and Cash Equivalent	As at 1st April, 2016	As at 1st April, 2015
Cash and Bank (₹ 40,000 + ₹ 25,000 - ₹ 15)	64,985	
Total	64,985	

Note 11. Other Current Assets	As at 1st April, 2016	As at 1st April, 2015
Amalgamation adjustment account	7,000	
Total	7,000	

Working Notes:

1. Calculation of value of equity shares issued to transferor companies

		Shiva Ltd.		Hari Ltd.
		₹		₹
Assets taken over:				
Building		66,000		52,500
Plant and machinery		88,000		73,500
Investments (trade and non-trade)		40,000		25,000
Stock		36,000		40,000
Sundry Debtors		40,500		31,500
Cash & Bank		40,000		25,000
		3,10,500		2,47,500
Less: Liabilities:				
10% Debentures	50,000		30,000	
Sundry Creditors	25,000		15,000	
Tax Provision	7,000	82,000	4,000	49,000
		2,28,500		1,98,500
Less: Preference Share Capital		30,000		20,000
		1,98,500		1,78,500

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	Shiva Ltd.	Hari Ltd.	Total
Share (including ₹ 5 premium)			
Equity shares issued @ ₹ 15 per			
1,98,500 divided by 15	13,233 shares*		
1,78,500 divided by 15		11,900 shares	25,133 shares
Equity share capital @ ₹ 10	₹ 1,32,330	₹ 1,19,000	₹ 2,51,330
Securities premium @ ₹ 5	₹ 66,165	₹ 59,500	₹1,25,665
	₹ 1,98,495	₹ 1,78,500	₹ 3,76,995
50% of Debentures are converted into equity shares @ ₹ 15 per share			
25,000 divided by 15	1,666 shares**		
15,000 divided by15		1,000 shares	2,666 shares
Equity share capital @ ₹ 10	₹ 16,660	₹ 10,000	₹ 26,660
Security premium@ ₹ 5	₹ 8,330	₹ 5,000	₹ 13,330
	₹ 24,990	₹ 15,000	₹ 39,990
9% Preference share capital issued	₹ 30,000	₹ 20,000	₹ 50,000

*** Cash paid for fraction of shares = ₹ 1,98,500 - ₹ 1,98,495 = ₹ 5.**

**** Cash paid for fraction of shares = ₹ 25,000 - ₹ 24,990 = ₹ 10.**

3. On 31.03.2016 the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

(in ₹ Lakhs)

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share capital: Authorized	**30,000**	**12,000**	**Land and Buildings**	**5,436**	**-**

Issued and subscribed:			**Plant and Machinery**	**9,810**	**9,800**
Equity shares (₹ 10) Fully paid	**24,000**	**9,600**	**Furniture and fittings**	**3,690**	**1,172**
General reserve	**5,568**	**2,760**	**Investments in shares in S Ltd.**	**6,000**	**-**
Profit and loss account	**5,430**	**3,240**	**Stock**	**7,898**	**3,912**
Bills payable	**744**	**320**	**Debtors**	**5,200**	**2,726**
Sundry creditors	**2,922**	**1,708**	**Cash and bank balances**	**2,980**	**408**
Provision for taxation	**1,710**	**788**	**Bills receivable**	**720**	**398**
Proposed dividend	**2,400**	**-**	**Sundry advances**	**1,040**	**-**
	42,774	**18,416**		**42,774**	**18,416**

The following information is also provided to you:

1. **H Ltd. purchased 360 lakhs shares in S Ltd. on 01.04.2015 when the balances to general reserve and Profit and Loss Account of S Ltd. stood at ₹ 6,000 lakhs and ₹ 2,400 lakhs respectively.**
2. **On 04.07.2015 S Ltd. declared a dividend @ 20% for the year ended 31.03.2015. H Ltd. credited the dividend received by it to its Profits and Loss Account.**
3. **On 01.01.2016 S Ltd. issued 3 fully piad –up shares for every 5 shares held as bonus shares out of balances in its general reserve as on 31.03.2015.**
4. **On 31.03.2016 all the bills payable in S Ltd's balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakhs of these acceptances in hand, the rest having been endorsed in favour of its creditors.**
5. **On 31.03.2016 S Ltd., stock included goods which it had purchased for ₹ 200 lakhs form H Ltd. which made a profit @ 25% on cost.**

Prepare a consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31.03.2016. [16]

Answer:

1. Basic Information

Company Status	**Dates**	**Holding Status**
Holding Company =H Subsidiary = S	Acquisition: 01.04.2015 Consolidation: 31.03.2016	Holding Company = 60% Minority Interest = 40%

Shareholding Pattern - % of Holding by H Ltd.

Date	**Particulars**	**No. of Shares**
01.04.2015	Original Purchase	36
01.01.2016	First Bonus Issue (3/5 x 3,60,000)	21.6
31.03.2016	Total Shares held by H Ltd. in S Ltd.	**57.6**
	Total Shares outstanding in S Ltd. (₹9,600 Lakhs / ₹10)	**96**
	% of Holding (57.60 / 96)	**60%**

2. Analysis of Reserves and Surplus of S Ltd. (₹ Lakhs)

(a) General Reserves

Balance as on 31.03.2016 ₹ 2,760

	Balance on 1.4.2015 (as on acqn. date)	₹ 6,000	Transfer during 2015-16 (upto Consolidation
Less:	Bonus Issue [(960/8)×3 x ₹ 10]	₹ 3,600	(balancing figure) ₹ **360**
	Balance **Capital Profit**	**₹ 2,400**	**Revenue Reserve**

(b) Profit and Loss Account

Balance as on 31.03.2016 ₹ 3,240

	Balance on 01.04.2015 (as on acqn. date)	₹ 2,400	Profit for 2015-16(upto Consolidation)
Less:	Dividend (₹ 6000 x 20%)	₹ 1,200	(balancing figure) ₹ **2,040**
	Balance **Capital Profit**	₹ 1,200	**Revenue Profit**

3. Analysis of Net Worth of S Ltd. (₹ Lakhs)

Particulars			Total	H	Minority
			100%	**60%**	**40%**
(a)	**Equity Capital**		**9,600**	5,760	3,840
(b)	**Capital Profits**	General Reserve	2,400		
		Profit and Loss Account	1,200		
Total Capital Profits			**3,600**	2,160	1,440
(c)	**Revenue Res.**	General Reserve	**360**	216	144
(d)	**Revenue Profit**	Profit and Loss Account	**2,040**	1,224	816
Minority Interest					**6,240**

4. Cost of Control

	Particulars		₹ Lakhs
	Cost of Investment		6,000
Less:	Pre-Acquisition Dividend Received (₹ 3,600 x 20%)		720
	Adjusted Cost of Investment		5,280
Less:	Nominal Value of Share Capital	5,760	
	Share in Capital Profit of S Ltd.	2,160	(7,920)
	Capital Reserve on Consolidation		**2,640**

5. Consolidation of Reserves and Surplus (₹ Lakhs)

	Particulars	Gen. Res.	P&LA/c
	Balance as per Balance Sheet of H Ltd.	5,568	5,430
Less:	Pre-Acquisition Dividend wrongly credited to P&L A/c		(720)
	Adjusted Cost of Investment	5,568	4,710
Add:	Share of Revenue from S Ltd.	216	1,224
	Consolidated Balance	5,784	5,934
Less:	Unrealized Profit on Closing Stock (₹ 200 x 25%/125%)		(40)
	Adjusted Consolidated Balance	**5,784**	**5,894**

Name of the Company: H Ltd. And its subsidiary S Ltd.
Consolidated Balance Sheet as at 31st March 2016

Ref No.		Particulars	Note No.	As at 31st March,2016	As at 31st March,2015
				₹ in lakhs	**₹ in lakhs**
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital @ ₹ 10 each	1	24,000	-
		(b) Reserves and surplus	2	14,318	-
	2	**Minority Interest**		6,240	-
	3	**Current liabilities**			
		(a) Trade payables	3	4,630	-
		(b) Other current liabilities	4	1,019	-
		(c) Short-term provisions	5	4,898	-
		TOTAL (1+2+3)		**55,105**	**-**
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	6	29,908	-
	2	**Current assets**			
		(a) Inventories	7	11,770	-
		(b) Trade receivables	8	7,926	-
		(c) Cash and cash equivalents	9	3,388	-
		(d) Short-term loans and advances (Sundry advance)		1,040	-
		(f) Other current assets	10	1,073	-
		TOTAL (1+2)		**55,105**	-

Note 1. Share Capital		
	As at 31st	**As at 31st**

Note 2. Reserve and Surplus :-		
	As at 31st	**As at 31st**

	March,2016	March,2015
Authorised Capital	30,000	-
1,200 Issued and Paid Up equity shares capital @ ₹10 each	24,000	-
	24,000	-

	March,2016	March,2015
General Reserve	5,784	-
Profit and loss	5,894	-
Capital Reserve on Consolidation	2,640	-
	14,318	-

Note 3. Trade Payable		
	As at 31st March,2016	**As at 31st March,2015**
Sundry Creditors		
H	2,922	-
S	1,708	-
	4,630	-

Note 4. Other Current Liabilities :-		
	As at 31st March,2016	**As at 31st March,2015**
Bills Payable:-		
- H Ltd	744	-
- S Ltd	320	-
	1,064	-
Less: Mutual Oweings	(45)	-
	1,019	-

Note 5. Short Term Provisions		
	As at 31st March,2016	**As at 31st March,2015**
Prov. For taxations		
H Ltd.	1,710	-
S Ltd.	788	-
	2,498	-
Proposed dividend	2,400	-
	4,898	-

Note 6. Tangible Assets:-		
	As at 31st March,2016	**As at 31st March,2015**
Land and Building	5,436	-
Plant and Machinery (9,810 + 9,800)	19,610	-
Furniture (3,690 + 1,172)	4,862	-
	29,908	-

Note 7. Inventories :-		
	As at 31st March,2016	**As at 31st March,2015**
Stock		
H Ltd	7,898	-
S Ltd. (3,912 - 40)	3,872	-
	11,770	-

Note 8. Trade Receivable:-		
	As at 31st March,2016	**As at 31st March,2015**
Debtors		
H Ltd	5,200	-
S Ltd.	2,726	-
	7,926	

Note 9. Cash and cash equivalent :-		
	As at 31st March,2016	**As at 31st March,2015**
Cash & Bank		
H Ltd	2,980	-
S Ltd.	408	-
	3,388	-

Note 10. Other Current assets :-		
	As at 31st March,2016	**As at 31st March,2015**
Bills Receivable		
H Ltd	720	
S Ltd.	398	-
	1118	-
Less: set off	(45)	-
	1,073	-

4. (a) The following was the balance sheet of Mukta Ltd. as on 31st December:

Equity and Liabilities	₹
1. Shareholders Fund:	
(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 & 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: Authorized 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 overvalued 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 expanses, by adoption of the following course –

(i) Forfeit the shares on which the calls 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]

Answer:

A. Journal Entries

	Particulars	Debit	Credit
i.	Equity Share Capital A/c Dr.	60,000	
	To Calls in Arrears A/c		18,000
	To Share Forfeiture A/c		42,000
	(Being 3,000 Shares forfeited for non-payment of calls)		
ii.	Equity Share Capital (₹10) A/c Dr.	1,80,000	
	To Equity Share Capital (₹7)		1,26,000
	To Reconstruction A/c		54,000
	(Being par value and paid up value of Equity Shares brought down to ₹7 per share under the reconstruction scheme		

	approved)		
iii.	Bank A/c Dr. Share Forfeiture A/c (balancing figure) Dr. To Equity Share Capital (Forfeited shares reissued at ₹5 per share as ₹7 paid up. Balance adjusted against Shares Forfeiture Account)	30,000 12,000	 42,000
iv.	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance in Share Forfeiture Account transferred to Capital Reserve)	30,000	 30,000
v.	Reconstruction A/c Dr. Capital Reserve A/c Dr. Provision for Taxation A/c (balancing figure) Dr. To Profit and Loss A/c To Preliminary Expenses A/c To Machinery A/c To Goodwill A/c (Being balance in Reconstruction A/c and Capital Reserve A/c utilized to eliminate overvaluation of assets and write off balances in Preliminary Expenses A/c and Profit and Loss A/c)	54,000 30,000 600	 41,600 3,000 20,000 20,000

B. Balance Sheet of Mukta Ltd. (and Reduced) as at 31st December

		Note	This Year	Prev. Year
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:** Share Capital	**1**	1,68,000	
(2)	**Current Liabilities**			
	(a) Trade Payables - Creditors		30,850	
	(b) Short Term Provisions - Provision for Taxation (8,000 - 600)		7,400	
	Total		**2,06,250**	
II	**ASSETS**			
(1)	**Non-Current Assets** Fixed Assets (Tangible Assets)	**2**	1,22,700	
(2)	**Current Assets**			
	(a) Inventories		20,550	
	(b) Trade Receivables - Book Debts		30,000	
	(c) Cash & Cash Equivalents - (3,000 + 30,000)		33,000	
	Total		**2,06,250**	

Notes to the Balance Sheet:

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: 40,000 Equity Shares of ₹ 10 each	4,00,000	
Issued, Subscribed & **Paid up:** 24,000 Equity Shares of ₹ 7 each	1,68,000	

Note: Reconciliation of Shares (Quantity & Value) will be provided by the Company along with annual Financial Statements.

Note 2: Tangible Assets

Particulars	This Year	Prev. Year
(a) Land & Buildings	41,000	
(b) Machinery	81,700	
Total	**1,22,700**	

(b) Mayank buys the following Equity index option and the seller/writer of this option is Shiva:

Date of buy	**28th March, 2016**
Type of options	**S & P CNX NIFTY- call**
Expiry date	**31st May, 2016**
Premium per unit	**₹ 21**
Contract multiplier (No. of units)	**2,500**
Margin per unit	**₹180**
Strike price	**₹ 920**

Margin calculated by SPAN is as follows:
On, 29.03.2016 is ₹ 5,00,000; On 30.03.2016 is ₹ 3,50,000; On 31.03.2016 is ₹ 4,10,000;
On 31.3.2016 the prevailing premium rate for the above option is ₹ 16 per unit.
Given the accounting treatment in the books of both the parties. **[6]**

Answer:

Books of Mayank (Buyer/Holder):

I. Journal Entries :

Date	Particulars	Debit (₹)	Credit (₹)
28.3.16	Equity Stock Option Premium A/c Dr. To Bank A/c (Being Premium paid @ ₹ 21 per Unit for 2500 Units)	52,500	 52,500
31.3.16	Profit and Loss A/c Dr. To Provision for Loss on Equity Stock Option A/c (Being Provision made for Loss on Equity Stock Option A/c to the extent of ₹ 5 per Unit [₹ 21 – ₹ 16] for 2,500 Units)	12,500	 12,500

II. Extract of Balance Sheet of Mayank as on 31st March, 2016

Liabilities	₹	Assets	₹	₹
		Current Assets, Loans & Advances:		
		Equity Index Option Premium	52,500	
		Less: Provision for Loss	12,500	40,000

Books of Shiva (Seller/Writer)

I. Journal Entries :

Date	Particulars	Debit (₹)	Credit (₹)
28.03.16	Bank A/c Dr. To Equity Stock Option Premium A/c (Premium received ₹ 21 on 2500 units on Sale of Stock option)	52,500	 52,500
28.03.16	Equity Index Option Margin A/c Dr. To Bank A/c (Initial margin paid on option contract at ₹ 180/- per Unit for 2500 Units)	4,50,000	 4,50,000
29.03.16	Equity Index option Margin A/c Dr. To Bank A/c (Further margin collected by the Stock Exchange as per SPAN i.e. ₹ 5,00,000 – ₹ 4,50,000)	50,000	 50,000
30.3.16	Bank A/c Dr. To, To Equity Index Option Margin A/c	1,50,000	 1,50,000

	(Excess margin received as per SPAN i.e. ₹ 5,00,000 – ₹ 3,50,000)		
31.3.16	Equity Index Option Margin A/c Dr. To Bank A/c (Further margin collection by the Stock Exchange as per SPAN (₹4,10,000 –₹3,50,000)	60,000	60,000

Profit on Option (margin money) as on the reporting date should be ignored.

II. Extract Balance Sheet of Shiva as on 31.3.2016:

Liabilities	₹	Assets	₹
Current Liabilities & Provisions:		Current Assets:	
Equity Stock Option Premium	52,500	Equity Index Option Margin	4,10,000

5. (a) A company Amrit Ltd. announced a stock Appreciation Right on 01.04.11 for each of its 500 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31.03.14 but before 30.06.14. The fair value of SAR was ₹ 21 in 2011 – 12, ₹ 23 in 2012-13 and ₹ 24 in 2013-14. In 2011-12 the company estimates that 2% of the employees shall leave the company annually. This was revised to 3% in 2012-13. Actually, 18 employees left the company in 2011-12, 5 left in 2012-13 and 3 left in 2013-14. The SAR therefore actually vested to 482 employees. On 30.06.14 When the SAR was exercised, the intrinsic value was ₹ 25 per share.
Show provision for SAR A/c by fair value method. [8]

Answer:

Provision of SARs Account (For 2011-12)

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance c/d	3,34,600	By Employees Compensation Expense	3,34,600
	3,34,600		3,34,600
Provision of SARs Account (For 2012-13)			
To Balance c/d	7,06,867	By Balance b/d	3,34,600
		By Employee Compensation Expenses	2,63,913
	7,06,867		7,06,867
Provision of SARs Account (For 2013-14)			
To Balance c/d	11,56,800	By Balance b/d	7,06,867
		By Employee Compensation Expenses	4,49,933
	11,56,800		11,56,800

Provision of SARs Account (For 2014-15)			
To Bank (48,200x25)	12,05,000	By Balance b/d	11,56,800
		By Employee Expenses	48,200
	12,05,000		12,05,000

The Provision for SAR is a liability as settlement of SAR is through cash payment equivalent to an excess of market price of company's shares on exercise date over the exercise price.

Working Notes:

Year 2011-12

A. Number of employees to whom SARs were announced (482+18+5+3) = 508 employees

B. Total number of employees after three years, on the basis of the estimation in 2011-12 = (508×0.98×0.98×0.98) = 478 employees

C. No. of SARs expected to vest = 478 employees × 100 = 47,800 SAR

D. Fair value of SARs = 47,800 SARs × ₹21 = 10,03,800

E. Vesting period = 3 years

F. Recognized as expense in 2011-12 = ₹10,03,800/3 years = ₹3,34,600

Year 2012-13

G. Total number of employees after three years, on the basis of the estimation in 2012-13 = [(508-18)×0.97×0.97) =461 employees

H. No. of SARs expected to vest =461 employees × 100 = 46,100 SARs

I. Fair value of SARs = 46,100 SARs × ₹23 = ₹10,60,300

J. Vesting period = 3 years

K. No. of years expired = 2 years

L. Cumulative value of SARs to recognized as expense = 10,60,300/3 × 2 =₹7,06,867

M. SARs recognize as expense in 2012-13 = ₹7,06,867 - ₹3,34,600 = ₹2,63,913

Year 2013-14

N. Fair value of SARs = ₹24

O. SARs actually vested = 482 employees × 100 = 48,200 SARs

P. Fair value = 48,200 SARs × ₹24 = ₹11,56,800

Q. Cumulative value to be recognized = ₹11,56,800

R. Value of SARs to be recognized as an expense = ₹11,56,800 – ₹7,06,867 = ₹4,49,933

Year 2014-15

S Cash payment of SARs = 48,200 SARs× ₹ 25 = ₹ 12,05,000

T Value of SARs to be recognized as an expense in 2014 – 15 = ₹12,05,000 - ₹11,56,800 = ₹48,200

(b) Compute EVA of Vikram Ltd. for 3 years from the information given -

(in ₹ Lakhs)

Year	1	2	3
Average Capital Employed	₹3,000.00	₹3,500.00	₹4,000.00
Operating Profit before Interest (adjusted for Tax Effect)	₹850.00	₹1,250.00	₹1,600.00
Corporate Income Taxes	₹80.00	₹70.00	₹120.00
Average Debt ÷ Total Capital Employed (in %)	40.00	35.00	13.00
Beta Variant	1.10	1.20	1.30
Risk Free Rate (%)	12.50	12.50	12.50
Equity Risk Premium (%)	10.00	10.00	10.00
Cost of Debt (Post Tax) (%)	19.00	19.00	20.00

[8]

Answer:

EVA Statement of Vikram Ltd.

Particulars	Year 1	Year 2	Year 3
(i) Cost of Equity (K_e) = Risk Free Rate + (Beta x Equity Risk Premium)	12.5 + (1.1 x 10) = 23.50%	12.5 + (1.2 x 10) = 24.50%	12.5 + (1.3 x 10) = 25.50%
(ii) Cost of Debt (K_d) (given)	19.00%	19.00%	20.00%
(iii) Debt-Equity Ratio (Debt=given, Equity is bal. fig)	40% & 60%	35% & 65%	13% & 87%
(iv) WACC = [(K_d) x Debt % + (K_e) x Equity%]	**21.70%** (19 x 40% + 23.50 x 60%)	**22.58%** (19 x 35% + 24.50 x 65%)	**24.79%** (20 x 13% + 25.50 x 87%)
(v) Average Capital Employed (given)	3,000.00	3,500.00	4,000.00
(vi) Capital Charge (Fair Return to Providers of Capital i.e. Average Capital Employed x WACC) (4 x 5)	₹3,000 x 21.70% = ₹651.00	₹3,500 x 22.58% = ₹790.30	₹4,000 x 24.79% =₹ 991.60
(vii) Operating Profit before Taxes & Interest	**₹850.00**	**₹1,250.00**	**₹1,600.00**
(viii) **Less:** Taxes Paid	₹80.00	₹70.00	₹120.00
(ix) Operating Profit after Taxes (This is the return to	₹770.00	₹1,180.00	₹1,480.00
(x) Capital Charge (computed in 6 above)	₹651.00	₹790.30	₹991.60
(xi) Economic Value Added (ix) – (x)	**₹119.00**	**₹389.70**	**₹488.40**
(xii) EVA as a % of Average Capital Employed	**3.96%**	**11.13%**	**12.21%**

6. (a)A company purchased a plant for ₹ 40 lakhs during the financial year and installed it immediately. The price charged by the vendor included excise duty (CENVAT credit available) of ₹ 4 lakhs. During this year, the company also produced excisable goods on which excise duty chargeable is ₹ 4.00 lakhs. Show the journal entries describing CENVAT credit treatment. At what amount should the plant be capitalized? [8]

Answer:

1. Journal Entries

Sl. No.	Transaction and Entry	Debit ₹	Credit ₹
1	Fixed Assets A/c Dr.	36,00,000	
	CENVAT Credit Receivable (Capital Goods) A/c Dr.	2,00,000	
	CENVAT Credit Deferred (Capital Goods) A/c	2,00,000	
	Dr.		40,00,00

	To Asset Vendor / Bank A/c (Being Plant purchased recorded, including immediate CENVAT Credit available of 50%, balance 50% (assumed) credit available in subsequent year)		0
2	Excise Duty A/c Dr. To CENVAT Credit Receivable A/c (Capital Goods) (Being set off of CENVAT Credit during the year)	2,00,000	2,00,000
3	Excise Duty A/c Dr. To Bank A/c (Being balance Excise Duty payable ₹4,00,000 - ₹2,00,000 set-off, now settled)	2,00,000	2,00,000
4	**Subsequent Financial Year** CENVAT Credit Receivable (Capital Goods) A/c Dr. To CENVAT Credit Deferred (Capital Goods) A/c (Being transfer of balance CENVAT Credit available on Capital Goods)	2,00,000	2,00,000

2. Balance Sheet (abstract)

Liabilities	₹	Assets	₹
		Fixed Assets: Plant at Cost **Less:** Depreciation **Current Assets, Loans and Advances:** CENVAT Credit Deferred (Cap. Goods)	36,00,000 ?? 2,00,000

(b) Discuss the advantages of preparation of Value Added (VA) Statements. [8]

Answer:

Various advantages of preparation of Value Added (VA) Statements are as under:

- Reporting on VA improves the attitude of employees towards their employing companies. This is because the VA statement reflects a broader view of the company's objectives and responsibilities.
- VA statement makes it easier for the company to introduce a productivity linked bonus scheme for employees based on VA. The employees may be given productivity bonus on the basis of VA / Payroll Ratio.
- VA based ratios (e.g. VA / Payroll, taxation / VA, VA / Sales etc.) are useful diagnostic and predictive tools. Trends in VA ratios, comparisons with other companies and international comparisons may be useful.
- VA provides a very good measure of the size and importance of a company. To use sales figure or capital employed figures as a basis for company's rankings can cause distortion. This is because sales may be inflated by large bought-in expenses or a capital-intensive company with a few employees may appear to be more important than a highly skilled labour–intensive company.
- VA statement links a company's financial accounts to national income. A company's VA indicates the company's contribution to national income.
- VA statement is built on the basic conceptual foundations which are currently accepted in balance sheets and income statements. Concepts such as going concern, matching, consistency and substance over form are equally applicable to VA statement.

7. (a) Discuss the method of Government Accounting. [8]

Answer:

The mass of the Government accounts being on cash basis is kept on Single Entry. There is, however, a portion of the accounts which is kept on the Double Entry System, the main purpose of which is to bring out by a more scientific method the balance of accounts in regard to which Government acts as banker or remitter, or borrower or lender. Such balances are, of course, worked out in the subsidiary accounts of single entry compilations as well but their accuracy can be guaranteed only by a periodical verification with the balance brought out in the double entry accounts.

Business and merchant accounting methods are different than government accounting system because government accounting system is ruling over the nation and keeps various departments i.e. production, service utility or entertainment industry etc. The operations of department of government sometimes include undertaking of a commercial or quasi-commercial character and industrial factory or a store. It is still necessary that the financial results of the undertaking should be expressed in the normal commercial form so that the cost of the services or undertaking may be accurately known. In the government account there are few problems affected adversely. In the case of central and state government transaction communication procedure, bank accounts and uniformity are improper. In the paper it suggested Central and state government should adopt it fully computerized accounting system in routine procedure of all transactions and adopted accounting system should be familiar with global accounting standards. Improvement programs i.e. symposium, seminar is helpful for sustaining the accounting system. Graduate level accounting syllabus should be modified as per government accounting procedure and methods.

Business and merchant accounting methods are different than government accounting system because government accounting system is ruling over the nation and keeps various departments i.e. production, service utility or entertainment industry etc. government accounting system is wider than the any specific company accounts.

(b) Discuss the standard setting procedure of GASAB. [8]

Answer:

Standard-setting Procedure for Accounting Standards

1. The following procedures are adopted by the GASAB for formulating Standards:

   1.1 The GASAB Secretariat identifies areas for Standard formulation and places them before the GASAB for selection and approval. While doing so, the Secretariat places before the GASAB all important suggestions, references, proposals received from various sections of the Union and State Governments, members of GASAB, members of Civil Society, Professional Bodies and other stakeholders. The priorities, as approved by the GASAB, guide further functioning of the GASAB Secretariat.

   1.2 The GASAB Secretariat thereafter prepares the discussion paper on the selected issues for consideration of the GASAB.

   1.3 While doing so, the Secretariat studies the existing rules, codes and principles as internal sources, and documents/pronouncements/Standards issued by other national and international Standard setting and regulatory bodies. The Secretariat may also hold consultation with such other persons as are considered necessary for this purpose.

   1.4 On consideration of the Discussion paper and the comments received thereon, the GASAB finalizes the Exposure Draft.

   1.5 The GASAB may constitute Standing Committee and/or Task based Groups from amongst the Members or their representatives to consider specific areas before finalization.

1.6 The Exposure Draft, as approved for issue by the GASAB, are widely circulated in the public domain and forwarded to all stakeholders. The Exposure Draft is required to be hosted at the website of GASAB.

1.7 Based on the comments received on the Exposure Draft, the Standards are finalized by the GASAB. The Standards, as finalized, are forwarded to the Government for notification in accordance with the provisions of the Constitution of India.

2. The meetings are normally chaired by the Chairperson. In unforeseen circumstances when Chairperson is unable to attend, the senior-most member from the Central Government will chair the meeting. The Comptroller & Auditor General of India will be kept informed of the important developments in the meetings of GASAB.
3. The GASAB may meet as often as is deemed necessary but generally not less than four times in a financial year. The decisions of the GASAB may preferably be by general consensus. In case differences persist, the decision shall be on the basis of voting favoring the recommendation. The dissenting views should also be forwarded to the Government along with the recommendations.
4. GASAB allows an exposure period of 90 days for inviting comments on Exposure Draft.

8. (a)Most Neglected Ltd. furnishes you the following Balance Sheet as at 31st March, 2016

(` in crores)

Particular	₹	₹
Sources of Funds:		
Shareholders Funds		**200**
Share capital: Authorized		
Issued: Equity Shares of ₹ 10 each fully paid	**50**	
12% Redeemable Preference Shares of ₹ 100 each fully paid	**150**	**200**
Reserves and surplus: Capital Reserve	**30**	
Securities Premium	**50**	
Revenue reserves	**520**	**600**
Total		**800**
Application of Fund:		
Non-current Assets: Cost	**200**	
Les: provision for depreciation	**200**	**Nil**
Investments at cost (Market value ₹ 400 crores)		**200**
Net current Assets: Current Assets	**680**	
Less: Current Liabilities	**80**	**600**
Total		**800**

The company redeemed its Preference Shares on 1st April, 2016. It also bought back 100 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the substantial Bank Balances, which appeared as part of Current Assets. You are required to –

- **Prepare the company's balance sheet after the above transactions.**
- **Value the equity shares on net assets basis.** **[10]**

Answer:

Balance Sheet of Most Neglected Ltd (after redemption and buyback)

(₹ in Crores)

	Particulars as at 31st March,2014	Note	This Year	Prev. Yr
I	EQUITY AND LIABILITIES			
(1)	Shareholders' Funds:			
	(a) Share Capital	1	40	
	(b) Reserves & Surplus	2	560	
(2)	Current Liabilities		80	
	Total		680	

II (1) (2)	ASSETS Non-Current Assets (a) Tangible Fixed Assets: (Gross Block 100 less Provision for Deprn 100) (b) Non-Current Investments at Cost (Market Value thereof ₹ 400 Crores) Current Assets (680 - 150 - 50)		 Nil 200 480	
	Total		680	

Notes to the Balance Sheet (₹ in Crores)

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised Capital (Division of Shares and Paid Up Value is not available in Question):	200	
Issued, Subscribed & Paid up: 4 Crore Equity Shares of ₹ 10 each	40	

Note: Reconciliation of Shares (Quantity & Value) will be provided by the Company along with annual Financial Statements.

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Capital Reserve	30	
(b) Capital Redemption Reserve (150 + 10)	160	
(c) Securities Premium Account	50	
(d) Revenue Reserves (520 - 160 - 40)	320	
Total	560	

3. Net Asset Value of an Equity Share

Total Assets = Fixed Assets (Book Value)+Investment (Market Value)+Net Current Assets (Book Value)

= Nil + 400 + 600 = ₹ 1,000 Crores.

Value per Equity Share = ₹ 1,000 Crores ÷ 4 Crore Shares = ₹ 250 per Share.

(b) From the following details, compute the total value of human resources of skilled group of employees according to Lev and Schwartz (1971) model: [6]

	Skilled
(i) Annual average earning of an employee till the retirement age.	**₹ 60,000**
(ii) Age of retirement	**65 years**
(iii) Discount rate	**15%**
(iv)No. of employees in the group	**30**
(v) Average age	**62 years**

Answer:

Valuation of Employees as per Lev and Schwartz method: $V = \sum_{t=r}^{t} \frac{I(t)}{(1+r)^{t-r}}$

Where,

V = the human capital value of a person

I(t) = the person's annual earnings up to retirement.

r = a discount rate specific to the person.

t = retirement age.

Value of Skilled Employees:

$$= \frac{60,000}{(1+0.15)^{65-62}} + \frac{60,000}{(1+0.15)^{65-63}} + \frac{60,000}{(1+0.15)^{65-64}}$$

$$= \frac{60,000}{(1+0.15)^{3}} + \frac{60,000}{(1+0.15)^{2}} + \frac{60,000}{(1+0.15)^{1}} = ₹\ (52,200 + 45,360 + 39,480) = ₹\ 1,37,040.$$

Total value of skilled employees is ₹ 1,37,040× 30 employees = ₹ 41,11,200.