Paper 17- Corporate Financial Reporting

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

Section A
(Section is compulsory)

1. Multiple Choice Questions.(1 mark for right choice and 1 mark for justification) **[10×2=20]**

(a) M Ltd., has equity capital of ₹ 50,00,000 consisting of fully paid equity shares of ₹ 10 each. The net profit for the year 2013-14 was ₹ 75,00,000. It has also issued 48,000, 10% convertible debentures of ₹ 50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. The diluted earnings is —
A. ₹76,68,000;
B. ₹50,00,000;
C. ₹2,25,000;
D. None of the above.

(b) Vishal Construction Ltd. undertook a contract on 1st January, 2016 to construct a building for ₹ 84 lakhs. The company found on 31st March, 2016 that it had already spent ₹ 58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹ 31,50,000. Contract Value to be recognized as turnover in the final accounts for the year ended 31st March, 2016 as per AS 7 (revised) will be:
A. ₹ 84 lakhs
B. ₹ 10 lakhs
C. ₹ 54,60 lakhs
D. None of these

(c) X Ltd has Purchased Raw Material from ABC Ltd on 10-Jul-2016 by paying Sum of ₹2,40,000 for 100 tonnes. The above paid sum includes 20% VAT also. Company takes VAT Credit on Inputs. The closing stock of Raw Material on 31-Mar-2017 is 8 tonnes. Then what is the value of Closing Stock?
A. 16,000
B. 20,000
C. 14,000
D. 19,200

(d) Wealth Ltd. aquired 1,50,000 shares of Health Ltd. on August 1, 2016. The Equity Capital of Health Ltd. is ₹ 20 lakh of ₹ 10 per share. The machinery of Health Ltd. is revalued upwards by ₹ 4,00,000. The minority group interest shown in the Consolidated Balance Sheet as at March 31, 2017 was
A. ₹ 6,00,000
B. ₹ 4,00,000
C. ₹ 1,00,000
D. None of (A), (B) and (C)

(e) Fast Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2016 at ₹1,800 lakh. As at that date value in use is ₹1,350 lakh. If the net selling price is ₹1,275 lakh, recoverable amount of the Asset as per AS-28 will be:
A. ₹ 1,275 lakh
B. ₹ 1,350 lakh
C. ₹ 450 lakh
D. None of the above

(f) The fair value of Plan assets of Tulip Ltd. at beginning and end of the year 2015-2016 were ₹ 4,00,000 and ₹ 5,70,000 respectively. The employer's contribution to the plan during the year was ₹ 1,40,000. If benefit payments to retirees were ₹ 1,00,000 what would be the actual return on plan assets (as per AS- 15) ?
A. ₹ 1,50,000 lakhs
B. ₹ 1,30,000 lakhs
C. ₹ 1,20,000 lakhs
D. Insufficient Information

(g) White Ltd. has imported $ 100,000 worth of goods from Chicago Traders of USA on 30.2.2016 when exchange rate was ₹ 54.60 per US $. The payment for imports was made on 30.6.2016 when exchange rate was ₹ 55.50 per US $. If the rate of exchange on 31.3.2016 is ₹ 55.00 per US $, the exchange difference to be charged/debited to Profit & Loss Account for the year 2016-17 as per AS-11 will be –
A. ₹ 50,000 ;
B. ₹ 45,000 ;
C. ₹ 20,000 ;
D. None of the above.

(h) V Ltd. acquired 2,000 equity shares of D Ltd. on April, 01,2015 for a price of ₹ 3,00,000. D Ltd. made a net profit of ₹ 80,000 during the year 2015-16. D Ltd. issued bonus shares of one share for every five shares held out of the post acquisition profits earned during the year 2015-16. The Share Capital of D Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the share of V Ltd. in the pre-acquisition profit of D Ltd. is ₹ 56,000, the amount of Goodwill/Capital Reserve to be shown in the Consolidated Balance Sheet as on March 31, 2015 is —
A. ₹ 4,000 (Goodwill)
B. ₹ 4,000 (Capital Reserve)
C. ₹ 44,000 (Goodwill)
D. ₹ 50,000 (Goodwill)

(i) On 1-1-2016 Vivan Ltd. has 3,600 equity shares outstanding. On 31-6-2016, it issued 1,200 equity shares for cash (without bonus claim). On 1-11-2016 it bought back 600 equity shares. Calculate the weighted average number of shares as on 31-12-2016?
A. 4,100 shares
B. 5,400 shares
C. 4,800 shares
D. None of the above

(j)

Super Profit (Computed) :	₹ 9,00,000
Normal rate of return :	12%
Present value of annuity of ₹1 for 4 years @ 12% :	3.0374

Value of Goodwill is —
A. ₹2,96,306
B. ₹1,08,000
C. ₹27,33,660
D. None of the above

Section B
(Answer any five questions out of seven questions) [16×5=80]

2. **(a)** Rafik Ltd. purchased machinery from Umar Ltd. on 30.09.2016. The price was ₹555.66 lakhs before charging 8% sales tax and giving a trade discount of 2% on the quoted price. Transport charges were 0.25% on the quoted price and installation charges come to 1% on the quoted price.

A loan of ₹450 lakhs was taken from the bank on which interest at 15% per annum was to bo paid. Expenditure incurred on the trial run was Material ₹52,500, wages ₹37,500 and Overheads ₹22,500.

Machinery was ready for use on 01.12.2016. However it was actually put to use only on 01.05.2017. Find out the cost of the machine and suggest the accounting treatment for the expenses incurred in the interval between the dates 01.12.2016 to 01.05.2017. The entire loan amount remained unpaid on 01.05.2017. **[8]**

(b)

Particulars	₹
Expenditure incurred till 31.03.2016	5,00,000
Interest cost capitalized for the financial year 2015-16 @13%	26,000
Amount borrowed till 31.03.2016 is	2,00,000
Assets transferred to construction during 2016-17	1,00,000
Cash payment during 2016-17	75,000
Progress payment received	3,50,000
New borrowing during 2016-17 @ 13%	2,00,000

Calculate the amount of borrowing cost to be capitalized. **[8]**

3. **(a)** PQ Ltd has got the license to manufacture particular medicines for 10 years at a license fee of ₹ 400 lakhs, given below is the pattern of expected production and expected operating cash inflow.

Year	Production in bottles (In thousands)	Net operating cash flow (₹ in lakhs)
1	300	900
2	600	1800
3	650	2300
4	800	3200
5	800	3200
6	800	3200
7	800	3200
8	800	3200
9	800	3200
10	800	3200

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method. **[8]**

(b) H Ltd. sold machinery having WDV of ₹ 400 Lakhs to B Ltd. for ₹ 500 Lakhs and the same machinery was leased back by B Ltd. to H Ltd. The Lease back is operating lease. Comment if –

(a) Sale price of ₹ 500 lakhs is equal to fair value
(b) Fair value is ₹ 600 lakhs
(c) Fair value is ₹ 450 lakhs and sale price is ₹ 380 lakhs
(d) Fair value is ₹ 400 lakhs and sale price is ₹ 500 lakhs
(e) Fair value is ₹ 460 lakhs and sale price is ₹ 500 lakhs
(f) Fair value is ₹ 350 lakhs and sale price is ₹ 390 lakhs **[8]**

4. Anu Ltd. and Minu Ltd. decided to amalgamate and to form a new company Amuin Ltd. The following are their summarized Balance Sheets as on March 31, 2016.

(Amount in ₹ lakhs)

		Anu Ltd.	Minu Ltd.
	Equity and Liabilities:		
1.	Shareholders' funds:		

	(a) Share Capital:		
	Equity shares of ₹ 100/- each	1,760	1,650
	12% Preference shares of ₹ 100 each	660	440
	(b) Reserves and Surplus:		
	Profit and Loss Account	110	66
	General Reserve	374	330
	Revaluation Reserve	330	220
	Investment Allowance Reserve	110	110
2.	Non-current Liabilities:		
	10% Debentures (₹ 100 each)	132	66
3.	Current Liabilities:		
	Trade payables	924	418
	Total	4,400	3,300
	Assets:		
1.	Non-current assets		
	(a) Fixed Assets:		
	Land and Building	1,210	880
	Plant and Machinery	770	550
	(b) Non-current Investments		
	Investments	330	110
2.	Current Assets:		
	(a) Inventories	770	550
	(b) Trade Receivables	660	770
	(c) Cash and Cash equivalents	660	440
	Total	4,400	3,300

Additional Information:

(i) Amuin Ltd. will issue 5 equity shares for each equity share of Anu Ltd. and 4 equity shares for each equity share of Minu Ltd. The shares are to be issued @ ₹30 each, having a face value of ₹ 10 per share.

(ii) 10% debenture holders of Anu Ltd. and Minu Ltd. are discharged by Amuin Ltd. issuing such numbers of its 15% Debentures of ₹ 100 each, so as to maintain the same amount of interest.

(iii) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of Amuin Ltd. at a price of ₹ 150 per share (face value ₹ 100).

(iv) Investment allowance reserve is to be maintained for 4 more years.

Required:

Prepare the Balance Sheet of Amuin Ltd. as on 1st April, 2016 as per Schedule-III of the Companies Act, 2013, after the amalgamation has been carried out on the basis of amalgamation in the nature of purchase. **[16]**

5. BLU LTD. is a holding company and ANU LTD. and TINU LTD. are subsidiaries of BLU LTD., their Balance Sheets (drafted) as on 31.03.2016 are given below:

(Amount in ₹)

	BLU LTD.	ANU LTD.	TINU LTD.		BLU LTD.	ANU LTD.	TINU LTD.
Share Capital	6,00,000	6,00,000	3,60,000	Fixed Assets	1,20.000	3,60,000	2,58,000
Reserves	2,88,000	60,000	54,000	Investments:			
Profit & Loss Account	96,000	72,000	54,000	Shares in ANU Ltd.	5,70,000	—	—

TINU Ltd. Balance	18,000			Shares in TINU Ltd.	78,000	3,18,000	____
Trade payables	42,000	30,000		Inventories in Trade	72,000		
BLU Ltd. Balance		42,000		ANU Ltd. Balance	48,000		
				Trade receivables	1,56,000	1,26,000	1,92,000
				BLU Ltd. Balance			18,000
	10,44,000	8,04,000	4,68,000		10,44,000	8,04,000	4,68,000

The following particulars are given:

(a) The share capital of all companies is divided into shares of ₹10 each.

(b) BLU Ltd. held 48,000 shares of ANU LTD. and 6,000 shares of TINU LTD.

(c) ANU Ltd. held 24,000 shares of TINU LTD.

(d) All these investments were made on 30.09.2015

(e) On 31.03.2015 the position was as shown below: (Amount in ₹)

	ANU LTD.	TINU LTD.
Reserve	48,000	45,000
Profit and Loss Account	24,000	18,000
Trade payables	30,000	6,000
Fixed Assets	3,60,000	2,58,000
Inventories in trade	24,000	2,13,000
Trade receivables	2,88,000	1,98,000

(f) 10% dividend is proposed by each company.

(g) The whole of inventories in trade of ANU LTD. as on 30.09.2015 (₹24,000) was later sold to BLU Ltd. for ₹26,400 and remained unsold by BLU LTD. as on 31.03.2016.

(h) Cash-in-transit from ANU LTD. to BLU LTD. was ₹ 6,000 as at the close of business.

Required:

Prepare the consolidated Balance Sheet of BLU GROUP as on 31.03.2016 as per requirements of schedule-III of the Companies Act, 2013 with Notes to Accounts.

[16]

6. (a) A company Amrit Ltd. announced a Stock Appreciation Right on 01/04/14 for each of its 525 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 31/03/17 but before 30/06/17. The fair value of SAR was ₹ 21 in 2014-15, ₹ 23 in 2015-16 and ₹ 24 in 2016-17. In 2014-15 the company estimates that 2% of the employees shall leave the company annually. This was revised to 3% in 2015-16. Actually, 10 employees left the company in 2014-15, 5 left in 2015-16 and 3 left in 2016-17. The SAR therefore actually vested to 482 employees. On 30/06/17, when the SAR was exercised, the intrinsic value was ₹ 25 per share.

Show Provision for SAR A/c by fair value method. **[8]**

(b) A firm values goodwill under 'Capitalisation of profits' method. Its average profits for past 4 years has been determined at ₹ 72,000. Net Assets and Capital employed in the business is ₹4,80,000 and ₹ 5,00,000 respectively; and its normal rate of return is 12%.

Determine value of goodwill based on:

(a) Capitalisation of Average Profits

(b) Capitalisation of Super Profits **[4+4=8]**

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

(b) Discuss the structure of Government Accounting Standards Advisory Board. **[8]**

8. Answer the following (any four out of five) **[4×4=16]**

(a) A Factory started activities on 1st April. From the following data, obtain the Value of Closing Stock on 30th April.

- Raw Materials purchased during April = 80,000 kg at ₹12 (out of which Excise Duty = ₹2 per kg). Stock on hand as on 30th April = 5,000 kg.
- Production during April = 14,000 units (of which 10,000 units were sold). In addition to the production, 1,000 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).
- Wages and Production Overheads =₹30 per completed unit.
- Selling Price=₹110 per unit(of which Excise Duty is ₹10 per unit).

(b) Write a note on — Myths regarding XBRL.

(c) Discuss the prerequisites of implementation of TBL Reporting.

(d) Write a note on — Classification of Financial Assets.

(e) List the factors affecting valuation of shares.