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) From the following information determine the amount of unrealized profit to be eliminated. Thanks You Ltd. holds 80% Equity shares of Wel Come Ltd. .

— Thank You Ltd. sold goods costing ₹80,00,000 to Wel Come Ltd. at a profit of 25% on Cost Price. Entire stock were lying unsold as on the date of Balance Sheet.

A. ₹20,00,000
B. ₹80,00,000
C. ₹64,00,000
D. None of the above

(b) FICKLE LTD. has five business segments with operating profits and losses as shown below:

Segment	Operating Profit / (loss) ₹ in Lakhs
P	3
Q	(3)
R	20
X	(9)
Y	(20)

Reportable segments as per AS-17 are

A. P,Q,R,X,Y
B. P,Q,R,Y
C. P, Q, R only
D. R, X, Y only

(c) G Ltd. takes over P Ltd. on 31.03.2016

There is Export Profit Reserve of ₹36,000 in the Balance Sheet of P Ltd. which is to be maintained for two more years. The journal entry will be :

A. Statutory Reserves A/c debit , to Amalgamation Adjustment A/c
B. Amalgamation Adjustment A/c debit , to Statutory Reserves A/c
C. General Reserves A/c debit, to Amalgamation Adjustment A/c
D. None of the above.

(d) On 1st April, 2015 Good Morning Ltd. offered 100 shares to each of its 500 employees at ₹50 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan (ESPP) 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 dated is ₹60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹56 per share.
On 30th April, 2015, 400 employees accepted the offer and paid ₹30 per share purchased. Normal value of each share is ₹10.
Compute the expenses to be recognized in 2014-2015.

A. ₹6.00

B. ₹2,40,000
C. ₹56
D. ₹50

(e) The following data apply to a company's defined benefit pension plan for the year:

		Amount (₹)
Benefit payments	1,00,000	
Contribution	1,30,000	
Fair market value of plan assets		
End of year		6,00,000
Beginning of year		4,00,000

Calculate the actual return on plan assets.

A. ₹2,00,000
B. ₹1,30,000
C. ₹1,00,000
D. ₹1,70,000.

(f) UV Ltd. had 20,00,000 equity shares outstanding as on 1-1-2014. On 1-10-2014 it issued 2 equity shares bonus for each share outstanding on 30-9-2014. Net profit for 2013 was ₹ 18,00,000, net profit for 2014 was ₹60,00,000. Calculate Basic EPS 2014 and adjusted EPS for 2013.

A. ₹1.00, ₹0.30
B. ₹0.30, ₹1.00
C. ₹1.30, ₹2.00
D. None of the above

(g) N LTD. has imported $ 70,000 worth of goods from C TRADERS of USA on 28.02.2014 when exchange rate was ₹ 60.60 per US $. The payment for imports was made on 30.06.2014 when exchange rate was ₹ 59.50 per US $. If the rate of exchange on 31.03.2014 is ₹ 59.00 per US $, the exchange difference to be charged/debited to Profit & Loss Account for the year 2014-15 as per AS-11 will be –

A. ₹ 35,000
B. ₹ 45,000
C. ₹ 20,000
D. None of (A), (B) and (C)

(h) ROOM LTD. holds 25% share in DOOR LTD. at a cost of ₹ 7.50 lakhs as on 31.3.2012 out of DOOR's share capital and Reserve of ₹ 30 lakhs each. For the year ended 31.3.2014, DOOR LTD. made a profit of ₹ 2,40,000 and 30% of it was distributed as dividend. In the Consolidated Financial Statement, the carrying amount of investment as at 31.3.2014 will be –

A. ₹ 15.00
B. ₹ 15.60
C. ₹ 15.42
D. ₹ 14.82

(i) At the end of financial year 2014-15, P Ltd. finds that there is a law suit outstanding. The possible outcome as estimated by the Board is as follows:

	Probability	Loss (₹)
Win	60%	--
Lose (low damage)	30%	2,00,000
Lose (high damage)	10%	4,00,000

Compute the amount of contingent liability to be shown by way of a note to financial statements as per AS - 29.

(j) How would you value the inventory per Kg. of finished goods consisted of :

Particulars	
Material Cost	₹100 per Kg.
Direct Labour Cost	₹20 per Kg.
Direct variable production overhead	₹10 per Kg.

Fixed production charges for the year on normal capacity of one lakhs kgs. Is ₹10 lakhs 2000 kgs of finished goods are on stock at the year end.
Value of inventory per Kg. of finished goods —
A. ₹2,80,000
B. ₹10,00,000
C. ₹10,60,000
D. None of the above

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

2. **(a)** Rose Ltd. entered into agreement with Tulip Ltd. for sale of goods of ₹8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2016. On the same day Tulip Ltd. entered into another agreement with Rose Ltd. to resell the same goods at ₹10.80 lakhs on 1st August, 2016. State the treatment of this transaction in the financial statements of Rose Ltd. as on 31.03.16. The pre-determined re-selling price covers the holding cost of Tulip Ltd. Give the Journal Entries as on 31.03.14 in the books of Rose Ltd. **[8]**

(b) Diamond Ltd. supplied the following information:

Net profit for 2014 – 15	₹33 lakh
Net profit for 2015 – 16	₹49.50 lakh
No. of shares before rights issue	1,65,000
Rights issue ratio	One for every four held
Right issue price	₹270
Date of Exercising rights option	30th June, 2015 (Fully Subscribed on this date)
Fair value of share before rights issue	₹405

You are required to compute:
(i) Basic earnings per share and
(ii) Adjusted earnings per share as per AS- 20. **[8]**

3. **(a)** Aveer Ltd. wants to re-classify its Investment in accordance with AS-13.Decide on the treatment to be given in each of the following cases:

(i) A portion of Current Investments purchased for ₹20 lakhs to be reclassified as long-term Investments, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹25 lakhs.
(ii) Another portion of Current Investments purchased for ₹15 lakhs has to be reclassified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was ₹6.5 lakhs.
(iii) Certain Long-term Investments no longer considered for holding purposes have to be re-classified as Current Investments. The original cost of theses was ₹18 lakhs but they had been written down to ₹12 lakhs to recognize permanent decline as per AS 13. **[8]**

(b) S Ltd. acquired a patent at a cost of ₹60 lacs 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 ₹10 lacs per annum. After two years it was found that the product life-cycle may continue for another 4 years from then. the net cash flows from the product during these 4 years were expected to be ₹49,50,000; ₹54,00,000; ₹58,50,000 and ₹63,00,000. Find out the amortization cost of the patent for each of the year. **[8]**

4. The following are the summarized Balance Sheet (drafted) ZIN Ltd. and VES Ltd. as on March 31,2016.

(Amount in ₹)

Equity and Liability	ZIN Ltd.	VES Ltd.	Assets	ZIN Ltd.	VES Ltd.
1. Shareholders' Funds:			1. Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets	14,00,000	10,00,000
(i) Equity shares of ₹10 each	12,00,000	12,00,000	(b) Non-Current investments		
(ii) 10%Pref. Shares of ₹10 each	4,00,000	4,00,000	(i) 12,000 equity shares of VES Ltd.	1,60,000	
(b) Reserves & Surplus	6,00,000	8,00,000	(ii) 20,000 equity shares of Z in Ltd.		3,20,000
2. Non-Current liabilities:			2. Current Assets:		
Long term Borrowings (12% Debentures)	4,00,000	6,00,000	(a) Inventories	4,80,000	12,80,000
3. Current Liabilities:			(b) Trade Receivables		
Trade Payables			(i) Debtors	7,20,000	7,60,000
(i) Sundry Creditors	4,40,000	5,00,000	(ii) Bills Receivable	1,20,000	80,000
(ii) Bills payable	60,000	1,00,000	(c) Cash & Cash Equivalents	2,20,000	1,60,000
Total	31,00,000	36,00,000	Total	31,00,000	36,00,000

Fixed assets of both the companies are to be revalued at 15% above Book values and stock and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends, preference dividends having been already paid. After the above transactions are given effect to, Zin Ltd. will absorb Ves Ltd. on the following terms:

(a) 8 equity shares of ₹ 10 each will be issued by Zin Ltd. at par against 6 shares of Ves Ltd.

(b) 10% preference share of Ves Ltd. will be paid off at 10% discount, by issue of 10% preference share of ₹100 each in Zin Ltd. at par.

(c) 12% Debenture Holders of Ves Ltd. are to be paid off at a 8% premium by 12% debentures in Zin Ltd. issued at a discount of 10%.

(d) ₹ 60,000 to be paid by Zin Ltd. to Ves Ltd. for liquidation expenses.

(e) Sundry Creditors of Ves Ltd. include ₹40,000 due to Zin Ltd.

You are required to Prepare:

(i) Statement of purchase consideration payable by Zin Ltd.

(ii) Balance Sheet of Zin Ltd. as on March 31, 2016 after its absorption of Ves Ltd. as per Schedule-III to the Companies Act, 2013 with Notes to Accounts. **[3+13 =16]**

5. A Ltd. owned 80% of B Ltd, 35% of C Ltd. and 30% of D Ltd. C Ltd. is jointly controlled entity and D Ltd. is an associate. Balance Sheet of all four companies as on 31.03.2014 are:

(₹ in lakhs)

Particulars	A Ltd.	B Ltd.	C Ltd.	D Ltd.
Liabilities				
Equity share of ₹ 1/- each fully paid-up	1,500	600	1,200	1,200
Retained Earnings	6,000	5,100	5,400	5,400

Creditors	300	450	380	375
Total	7,800	6,150	6,980	6,975
Assets				
Fixed Assets	1,500	1,200	2,100	1,500
Investment in B Ltd.	1,200			
Investment in C Ltd.	900			
Investment in D Ltd.	900			
Current Assets	3,300	4,950	4,880	5,475
Total	7,800	6,150	6,980	6,975

A Ltd. acquired shares in

(i) B Ltd. many years ago, when the company had retained earnings of ₹ 780 lakhs.

(ii) C Ltd. at the beginning of the year, when the company had retained earnings of ₹ 600 lakhs.

(iii) D Ltd. on 01.04.2013, when the company had retained earnings of ₹ 600 lakhs.

The balance of goodwill relating to B Ltd. had been written off three years ago. The value of goodwill in C Ltd. remains unchanged.

Prepare the Consolidated Balance Sheet of A Ltd. as on 31.03.2014 as per AS-21, AS-23 and AS-27. **[16]**

6. **(a)** A Company purchased a plant for ₹50 Lakhs during the financial year and installed it immediately. The price charged by the Vendor included Excise Duty (CENVAT Credit Available) of ₹5 Lakhs. During this year, the Company also produced excisable goods on which Excise Duty chargeable is ₹4.50 Lakhs. Show the Journal Entries describing CENVAT Credit treatment. **[8]**

(b) Following is the Balance Sheet of Uma Ltd. as on 31st March, 2016:

Liabilities	₹ in Lakh	Assets	₹ in Lakh
1,00,000 Equity Shares of ₹10 each	10,00,000	Preliminary expenses	5,00,000
10,000 12% Preference Shares of ₹100 each	10,00,000	Goodwill	15,00,000
General Reserve	6,00,000	Buildings Plant	10,00,000
Profit and Loss Account	4,00,000	Investment in 10% Stock	4,80,000
15% Debentures	10,00,000	Stock	6,00,000
Creditors	8,00,000	Stock-in - trade	4,00,000
		Debtors	1,00,000
		Cash	2,20,000
	48,00,000		**48,00,000**

Additional information are given below:

(a) Nominal value of investment is ₹5,00,000 and its market value is ₹5,20,000.

(b) Following assets are revalued:

(i) Building	₹32,00,000
(ii) Plant	₹18,00,000
(iii) Stock-in-trade	₹4,50,000

(iv) Debtors ₹3,60,000

(a) Average profit before tax of the company is ₹12,00,000 and 12.50% of the profit is transferred to general reserve, rate of taxation being 50%.
(b) Normal dividend expected on equity shares is 8% while fair return on closing capital employed is 10%.
(c) Goodwill may be valued at three year's purchase of super profits.
(d) Ascertain the value of each equity share under fair value method.

[8]

7. **(a)** Write a note on disclosure requirement of IGAS 1. **[8]**

(b) Discuss the differences between government accounting and commercial accounting. **[8]**

8. Write short note (any four out of five): [4×4=16]

(a) While closing its books of accounts on 31stMarch, a NBFC has its advances classified as follows –

Particulars	₹ Lakhs	Particulars	₹Lakhs
Standard Assets	8,400	Unsecured Portion of Doubtful Debts	87
Sub-Standard Assets	910	Loss Assets	24
Secured Portions of Doubtful Debts:			
- Up to one year	160		
- One year to three years	70		
- more than three years	20		

Calculate the amount of provision which must be made against the advances.

(b) Write a note on — "Financial Reporting vis- à-vis Triple Bottom Line Reporting".

(c) Discuss the The features of XBRL Reporting.

(d) A company's plant and machinery was ₹6,000 lakhs as on 01.04.2015. It provided depreciation at 15% per annum under WDV method. However it noticed that about ₹1,000 lakhs worth of imported asset, which is component of above plant and machinery acquired on 01.04.2015, would be obsolete in 2 years. Company wants to write-off this asset over 2 years. Can company do so? – Comment.

(e) Scope of Ind AS 3 (Business Combination)- Discuss.