Paper 17- Corporate Financial Reporting

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

Question No.1 which is compulsory and carries 20 Marks and answer any 5 Question from Q. No 2 to Q No 8

1. **Answer any four questions from the following.** **[10×2=20]**

(a) From the following information determine the amount of unrealized profit to be eliminated. Om Ltd. holds 80% Equity shares of Shanti Ltd.

— Om Ltd. sold goods costing ₹60,00,000 to Shanti Ltd. at a profit of 25% on Cost Price. Entire stock were lying unsold as on the date of Balance Sheet.

A. ₹15,00,000
B. ₹60,00,000
C. ₹12,00,000
D. None of the above

Answer: — A. ₹15,00,000

Transaction	**Sale by Om Ltd. to Shanti Ltd. [Holding ⟶ Subsidiary]**
Nature of Transfer	**Downstream Transaction**
Profit on Transfer	Cost ₹60,00,000 × Profit on Cost i.e. 25% = ₹15,00,000
% of Stock included in Closing Stock	100%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 15,00,000 × 100% = ₹15,00,000

(b) Parthan Ltd. reports quarterly and estimates an annual income of ₹200 crores. Assume Tax rates on first ₹100 crores at 30% and on the balance income at 40%. The estimated quarterly incomes are ₹15 crores, ₹50 crores, ₹75 crores and ₹60 crores respectively. The Tax expenses to be recognized in the last quarter as per AS-25 is
A. ₹24 crores
B. ₹21 crores
C. ₹19 crores
D. Insufficient Information

Answer:— B. ₹ 21 lakhs.

Tax Expenses : 30% on ₹100 Crores = ₹30 Crores.
40% on remaining ₹100 Crores = ₹40 Crores.
Total Tax = (30 + 40) = ₹70 Crores.
Weighted average Annual Income Tax Rate [70 ÷ 200] = 35%
Tax expenses to be recognized in last quarter: 35% on ₹60 Crores = ₹21 Crores.

(c) Q Ltd. acquired 2,000 equity shares of R Ltd. on April, 01,2015 for a price of ₹ 3,00,000. R Ltd. made a net profit of ₹ 80,000 during the year 2015-16. R 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 R Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the share of Q Ltd.

in the pre-acquisition profit of R 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)

Answer:— A. ₹ 4,000 (goodwill)

Cost of investments	₹ 3,00,000
Less: Share of capital profit	₹ 56,000
	2,44,000
Face value of shares (including bonus shares of 400)	₹2,40,000
Cost of control-Goodwill	₹ 4,000

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

There is Export Profit Reserve of ₹15,000 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.

Answer:— A.Statutory Reserves A/c debit , to Amalgamation Adjustment A/c

The entry will be —

Statutory Reserves A/c	Dr.	₹15,000	
To Amalgamation Adjustment A/c			₹15,000

(e) 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

Answer:— C. ₹27,33,660

Value of goodwill = Super profit × P.V of Annuity of ₹ 1for 4 years @ 12% = ₹ 9,00,000 × 3.0374 = ₹ 27,33,660.

(f) 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

Answer: — B. ₹2,40,000

Fair value of an ESPP = ₹56-₹50= ₹6.00
Number of shares issued = 400 employees X 100 shares / employee = 40,000 shares
Fair value of ESPP which will be recognized as expenses in the year 2014-2015
= 40,000 shares X ₹ 6 = ₹2,40,000
Vesting period = 1 month
Expenses recognized in 2014-2015 = ₹ 2,40,000

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

	Amount (₹)
Fair market value of plan assets (beginning of year)	**2,00,000**
Fair market value of plan assets	**2,85,000**
Employer Contribution	**70,000**
Benefit Paid	**50,000**

Calculate the actual return on plan assets.

A. ₹2,85,000
B. ₹65,000
C. ₹2,00,000
D. ₹85,000.

Answer:—B: ₹65,000.

The actual return is computed as follows:

Particulars	**Amount (₹)**	**Amount (₹)**
Fair market value of plan assets (end of year)		2,85,000
Fair market value of plan assets (beginning of year)		2,00,000
Change in plan assets		85,000
Adjusted for		
Employer contributions	70,000	
Less: Benefit Paid	50,000	20,000
Actual return on plan assets		65,000

(h) Mitali Ltd. presents interim financial report quarterly. On 1-4-2015. Mitali Ltd. has carried forward loss of ₹400 lakhs for income-tax purpose for which deferred tax asset has not been recognized. The Mitali Ltd. earns ₹ 500 lakhs in each for quarter ending on 30-6-2015,30-9-2015,31-12-2015 and 31-3-2016 excluding the loss carried forward. Income-tax rate is expected to be 40% Calculate the amount of tax expense to be reported in each quarter.

A. ₹500
B. ₹640
C. ₹160
D. ₹1,600

Answer:—C: ₹160

The estimated payment of the annual tax on ₹ 2,000 lakhs earnings for the current year.

(2,000 lakhs - ₹ 400 lakhs) = ₹ 1,600 lakhs

₹ 1,600 × 40/100 = ₹ 640 lakhs.

Average annual effective tax rate = (640/2,000) × 100 = 32%

Tax expense to be shown each quarter will be 500 × 32/100 = ₹ 160 lakhs.

(i) 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

Answer:—A: ₹1.00, ₹0.30

Earnings per share for the year 2014

$$\frac{₹\ 60,00,000}{(20,00,000+40,00,000)} = ₹\ 1.00$$

Adjusted earnings per share for the year 2013

$$\frac{₹\ 18,00,000}{(20,00,000+40,00,000)} = ₹\ 0.30$$

Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred in the beginning of the year 2014, the earliest period reported.

(j) X Ltd. holds 69% of Y Ltd., Y Ltd. holds 51% of W Ltd., Z Ltd. holds 49% of W. Ltd. As per AS 18, Related Parties are :

A. X Ltd., Y Ltd. & W Ltd;

B. X Ltd. & Z Ltd;

C. Y Ltd. & Z Ltd;

D. X Ltd. & Y Ltd. only.

Answer:—A. X Ltd., Y Ltd. & W Ltd.

X Ltd., YLtd. & W Ltd. are related to each other. Z Ltd. & W Ltd. are related to each other by virtue of Associate relationship. However, neither X Ltd. nor Y Ltd. is related to Z Ltd. and vice versa.

2. (a) A firm of contractors obtained a contract for construction of bridges across river Mitra. The following details are available in the records kept for the year ended 31st March, 2016.

	(₹ in lakhs)
Total Contract Price	**2,000**
Work Certified	**1,000**
Work not Certified	**210**
Estimated further Cost to Completion	**990**
Progress Payment Received	**800**
To be Received	**280**

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by your institute. [8]

Answer:

(a)	Amount of foreseeable loss	(₹ in lakhs)
	Total cost of construction (1,000 + 210 + 990)	2,200
	Less: Total contract price	2,000
	Total foreseeable loss to be recognized as expense	200

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

(b) Contract work-in-progress i.e. cost incurred to date are ₹ 1,210 lakhs

	(₹ in lakhs)
Work certified	1,000
Work not certified	210
	1,210

This is 55% (1,210/2,200 x 100) of total costs of construction.

(c) Proportion of total contract value recognised as revenue as per AS 7 (Revised).

55% of ₹ 2,000 lakhs = ₹ 1,100 lakhs

(d) Amount due from/to customers = Contract costs + Recognised profits - Recognised losses - Progress payments received + Progress payments to be received)
= [1,210 + Nil - 200 - (800 + 280)] ₹ in lakhs
= [1,210 - 200 - 1,080] ₹ in lakhs
Amount due to customers = ₹ 70 lakhs
The amount of ₹ 70 lakhs will be shown in the balance sheet as liability.

(e) The relevant disclosures under AS 7 (Revised) are given below:

	(₹ in lakhs)
Contract revenue	1,100
Contract expenses	1,210
Recognised profits less recognized losses	(200)
Progress billings (800 + 280)	1,080
Retentions (billed but not received from contractee)	280
Gross amount due to customers	70

(b) NM Ltd. had the following borrowings during a year in respect of capital expansion.

Plant	**Cost of Asset (₹)**	**Remarks**
Plant P	**200 lakhs**	**No specific borrowings**
Plant Q	**250 lakhs**	**Bank loan of ₹ 130 lakhs at 10%**
Plant R	**350 lakhs**	**9% Debentures of ₹ 250 lakhs were issued.**

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (1) ₹ 200 lakhs at 10% from CC Bank and (2) ₹ 220 lakhs at 11.50% from SS Bank, to meet its capital expansion requirements.
Determine the amount of borrowing costs to be capitalized in each of the above Plants, as per AS-16. [8]

Answer:

1. Computation of Actual Borrowing Costs incurred during the year

Source	Loan Amount	Interest Kate	Interest Amount
	₹ in lakhs		₹ in lakhs
Bank Loan	130.00	10%	13.00
9% Debentures	250.00	9%	22.50
Term Loan from Corporation Bank	200.00	10%	20.00
Term Loan from State Bank of India	220.00	11.5%	25.30
Total	800.00		80.80
Specific Borrowings included in above	380.00		35,50

2. Weighted Average Capitalisation Rate for General Borrowings

$$= \frac{\text{Total Interest - Interest on Specific Borrowings}}{\text{Total Borrowings - Specific Borrowings}} = \frac{(80.80 - 35.50)}{(800 - 380)} = 45.30 \div 420 = 10.79\%.$$

3. Capitalisation of Borrowing Costs under AS - 16 will be as under:

Plant	Borrowing	Loan Amount	Interest Rate	Interest Amount	Cost of. Asset	
		₹ in lakhs		₹ in lakhs	₹ in lakhs	₹ in lakhs
P	General	200	10.79%	21.58		221.58
Q	Specific	130	10.00%	13.00	143.00	
	General	120	10.79%	12.95	132.95	275.95
R	Specific	250	9.00%	22.50	272.50	
	General	100	10.79%	10.79	110.79	383.29
	Total	800		80.82		880.82

Note: The amount of borrowing costs capitalized should not exceed the actual interest cost.

3. (a) A Ltd. acquired 30% Equity Share Capital of B Ltd. at a cost of ₹ 4,50,000. The comparative balance sheets of B Ltd. on the date of acquisition and year end are given below:

Balance Sheet of B Ltd.

Liabilities	Beginning	Year end	Assets	Beginning	Year end
	₹	₹		₹	₹
Share Capital	**10,00,000**	**10,00,000**	**Fixed Assets**	**6,00,000**	**7,00,000**
General Reserve	**2,00,000**	**3,30,000**	**Investment**	**3,50,000**	**4,80,000**
Securities	**1,00,000**	**1,00,000**	**Current Assets**	**5,00,000**	**5,10,000**
Premium					
Current Liabilities	**1,50,000**	**2,10,000**			
Proposed Dividend	**—**	**50,000**			
	14,50,000	**16,90,000**		**14,50,000**	**16,90,000**

There was no revaluation of asset by B Ltd. during the year. Current Assets of B Ltd. at year-end include stock costing ₹ 60,000 purchased from A Ltd. which sells at cost + 20%. Show the investment in associates in the consolidated balance sheet to be prepared by A Ltd. in the beginning and at year-end. [8]

Answer:

Calculation of Goodwill/Capital Reserve

	₹
Share capital of B Ltd.	10,00,000
General Reserve of B Ltd.	2,00,000
Securities Premium of B Ltd.	1,00,000
Total Equity of B Ltd.	13,00,000

% holding of A Ltd.	30%
Share of A Ltd.	3,90,000
Cost of Acquisition	4,50,000
Goodwill	60,000

Calculation of share of profit earned during the year

	₹
Increase in General Reserve	1,30,000
Proposed dividend	50,000
Total profit for the year	1,80,000
Share of A Ltd. (30%)	54,000

Calculation of Unrealised profit on stock

	₹
Cost of stock to B Ltd.	60,000
Unrealised profit of A Ltd. (20/120)	10,000
Share of A Ltd. in unrealized profit (30%)	3,000

Consolidated Balance Sheet of A Ltd. (Beginning) (Extract)

Liabilities	Amount	Assets	Amount
		Investment in B Ltd. (Including Goodwill ₹ 60,000)	4,50,000

Consolidated Balance Sheet of A Ltd. (Year ending) (Extract)

Liabilities	Amount	Assets	Amount	Amount
		Investment in B Ltd. (Including Goodwill ₹ 60,000)	4,50,000	
		Add: Share of profit (current years)	54,000	
		Less: Unrealised profit on stock	3,000	5,01,000

(b) Mr. A purchased a computer for ₹44,000 and leased out it to Mr. S for four years on leases basis, after the lease period, value of the computer was estimated to be ₹ 3,000; which he realized after selling it in the second hand market. Lease amount payable at the beginning of each year is ₹ 22,000; ₹13,640;₹6,820 & ₹3,410. Depreciation was charged @ 40% p.a. You are required to pass the necessary journal entries in the books of Mr. S. [8]

Answer:

Journal Entries
In the books of Mr. S

Date	Particulars	Dr.(₹)	Cr.(₹)
?	**Purchase of Computer:**	**No Entry**	
	Payment of First Year's Lease: Lease Rent A/c Dr. To, Bank A/c	 22,000	 22,000
	Depreciation for First Year:	**No Entry**	
?	**Transfer to Profit & Loss Account:** Profit and Loss A/c Dr. To, Lease Rent A/c	 22,000	 22,000
?	**Payment of Second Year's Lease:** Lease Rent A/c Dr. To, Bank A/c	 13,640	 13,640
	Depreciation for Second Year:	**No Entry**	
?	**Transfer to Profit & Loss Account:** Profit and Loss A/c Dr. To, Lease Rent A/c	 13,640	 13,640

?	**Payment of Third Year's Lease:** Lease Rent A/c Dr. To, Bank A/c	6,820	 6,820
	Depreciation for Third Year:	**No Entry**	
?	**Transfer to Profit & Loss Account:** Profit and Loss A/c Dr. To, Lease Rent A/c	6,820	 6,820
?	**Payment of Fourth Year's Lease:** Lease Rent A/c Dr. To, Bank A/c	3,410	 3,410
	Depreciation for Fourth Year:	**No Entry**	
?	**Transfer to Profit & Loss Account:** Profit and Loss A/c Dr. To, Lease Rent A/c	3,410	 3,410
	Sale of Lease Assets:	**No Entry**	

4. The following is the Balance Sheet of Winners Ltd as on 30th June-

Equity and Liabilities	₹
(1) Shareholders' Funds:	
(a) Share Capital – 20,000 Shares of ₹ 10 each	**2,00,000**
(b) Reserves & Surplus – General Reserve	**20,000**
(2) Non-Current Liabilities:	
Long Term Borrowings (i) 10% Debentures	**1,00,000**
(ii) Loan from bank	**40,000**
(3) Current Liabilities:	
Trade Payables – Sundry Creditors	**80,000**
Total	**4,40,000**
Assets	
(1) Non-Current Assets:	
(a) Fixed Assets: **(i) Tangible Assets**	
- **Land & Building**	**1,00,000**
- **Plant & Machinery**	**1,45,000**
(ii) Intangible Assets – Goodwill	**25,000**
(b) Other Non-Current Assets	
- **Preliminary expenses**	**16,000**
(2) Current Assets:	
(a) Inventories	**55,000**
(b) Trade Receivables	**65,000**
(c) Cash & Cash Equivalents	**34,000**
Total	**4,40,000**

The balance of Winners Ltd is taken over by Superb Ltd as on that date on the following terms:

(i) All Assets except cash and bank are taken over at Book Value less 10% subject to (ii) below.
(ii) Goodwill is to be valued at 4 years' Purchase of the excess of average (five years) Profits over 8% of the combined account of Share Capital and General Reserve.
(iii) Trade Creditors are to be taken over subject to a discount of 5%.
(iv) Loan from Bank is to be repaid by Winners Ltd.

(v) The Purchase Consideration is to be discharged in Cash to the extent of ₹ 1,50,000 and the balance is fully paid Equity Shares of ₹ 10 each valued at ₹ 12.50 per share.

The average of the five years profit is ₹ 30,100. The expenses of Liquidation amount to ₹ 2,000. Prior to 30th June, Winners Ltd sold goods costing ₹ 30,000 to Superb Ltd for ₹ 40,000. Debtors include ₹ 20,000 still due from Superb Ltd. on the date of absorption, ₹ 25,000 worth of Goods were still in Stock of Superb Ltd.

Show the:
Realisation Account, Bank Account, Sundry Shareholders Account and Shares in Superb Ltd. [16]

Answer:

1. Basic Information

Selling Co: Winners Ltd	Date of B/S: 30th June	Nature of Amalgamation: Purchase (since the Assets are not taken over at Book Value & Purchase consideration discharged is by other than shares)
Buying Co: Superb Ltd	Date of Amalgm: 30th June	

2. Purchase Consideration

	Particulars		₹
1.	Calculation of Goodwill	Average of 5 years Profit (given)	30,100
	Less:	Normal Profit 8% of Capital + Reserves i.e., ₹ 2,20,000	17,600
		Super Profit	12,500
		Goodwill at 4 years purchase 12,500 × 4	50,000
2.	Calculation of purchase consideration		
	Assets taken over -	Land & Building	1,00,000
		Plant & Machinery	1,45,000
		Stock	55,000
		Debtors	65,000
		Total Assets Taken Over	3,65,000
	Less:	Allowance at 10% of Assets Value	36,500
		Balance Assets Value	**3,28,500**
	Add:	Goodwill as calculated above	50,000
		Total value of Assets taken over	**3,78,500**
	Less:	Sundry Creditors less 5% discount =(80,000–5% thereon)	76,000
		Net Purchase Consideration	**3,02,500**
3.	Discharge of Purchase Consideration: (a) Payable in cash		1,50,000
	(b) Given in Shares – 12,200 Shares of ₹ 10 each valued at ₹ 12.50 per share		1,52,500

3. In the Books of Winners Ltd.
(a) Realisation Account

Particulars	₹	Particulars	₹
To Sundry Assets transferred: Goodwill	25,000	By Sundry Creditors	80,000
Land & Building	1,00,000	By Superb Ltd. – Purc. Consideration	3,02,500
Plant & Machinery	1,45,000	By Sundry Shareholders A/c	9,500

		(Loss)	
Stock	55,000		
Debtors	65,000		
To Bank (Expenses)	2,000		
Total	3,92,000	Total	3,92,000

(b) Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	34,000	By Realisation A/c – Expenses	2,000
To Superb Ltd. – amount paid	1,50,000	By 10% Debentures	1,00,000
		By Loan from Bank	40,000
		By Sundry Shareholders	42,000
Total	1,84,000	Total	1,84,000

(c) Sundry Shareholders Account

Particulars	₹	Particulars	₹
To Preliminary Expenses	16,000	By Share Capital	2,00,000
To Loss-on Realisation	9,500	By General Reserve	20,000
To Bank	42,000		
To Shares in Superb Ltd.	1,52,500		
Total	2,20,000	Total	2,20,000

(d) Shares in Superb Ltd. Account

Particulars	₹	Particulars	₹
To Superb Ltd.	1,52,500	By Sundry Shareholders (transfer)	1,52,500

5. **From the following Balance Sheets of a group of companies and the other information provided, draw up the consolidated Balance Sheet as on 31.3.2012. Figures given are in ₹ Lakhs:**

Balance Sheets as on 31.3.2012

Liabilities	X ₹	Y ₹	Z ₹	Assets	X ₹	Y ₹	Z ₹
Shares capital (in shares of ₹ 10 each)	**1,650**	**1,100**	**550**	**Fixed Assets (Tangible)**	**715**	**825**	**550**
Reserves	**275**	**220**	**165**	**Cost of investment in Y Ltd.**	**990**		
Profit and Loss balance	**330**	**275**	**220**	**Cost of investment in Z Ltd.**	**220**		
Bills payables	**55**		**27.5**	**Cost of investment in Z Ltd.**		**440**	
Creditors	**165**	**55**	**55**	**Stock**	**275**	**110**	**110**
Y Ltd. balance			**82.5**	**Debtors**	**385**	**55**	**110**
Z Ltd. balance	**275**			**Bills receivables**		**55**	**110**
				Z Ltd. balance		**55**	
				X Ltd. balance			**165**
				Cash and bank balance	**165**	**110**	**55**
	2,750	**1,650**	**1,100**		**2,750**	**1,650**	**1,100**

i. **X Ltd. holds 8,80,000 shares and 1,65,000 shares respectively in Y Ltd. and Z Ltd.; Y Ltd. holds 3,30,000 shares in Z Ltd. These investments were made on 1.7.2011 on which date the provision was as follows:**

	Y Ltd.	Z Ltd.
	₹	₹
Reserves	**110**	**55**
Profit and loss account	**165**	**88**

ii. **In December, 2010 Y Ltd. invoiced goods to X Ltd. for ₹ 220 lakhs at cost plus 25%. The closing stock of X Ltd. includes such goods valued at ₹ 27.5 lakhs.**

iii. **Z Ltd. sold to Y Ltd. an equipment costing ₹ 132 lakhs at a profit of 25% on selling price on 1.1.2012. Depreciation at 10% per annum was provided by Y Ltd. on this equipment.**

iv. **Bills payables of Z Ltd. represent acceptances given to Y Ltd. out of which Y Ltd. had discounted bills worth ₹ 16.5 lakhs.**

v. **Debtors of X Ltd. Include ₹ 16.5 lakhs being the amount due from Y Ltd.**
X Ltd. proposes dividend at 10%. **[16]**

Answer:

Name of the Company: X Ltd. and its subsidiary Y Ltd. and Z Ltd.
Consolidated Balance Sheet as at 31st December,2012

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	1,650.00	-
		(b) Reserves and surplus	2	835.45	-
		(c)Money received against share warrants		-	-
				2,485.45	-
	2	**Minority Interest**		436.15	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	247.50	-
		(c) Other current liabilities	4	71.50	-
		(d) Short-term provisions	5	165.00	-
				456.50	-
		TOTAL (1+2+3+4)		3,405.60	-
	B	**ASSETS**			

Ref No.		Particulars	Note No.	As at 31st December, 2012	As at 31st December, 2011
				₹	₹
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	6	2,047.10	-
		(ii) Intangible assets		-	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments		-	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				2,047.10	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories	7	489.50	-
		(c) Trade receivables	8	522.50	-
		(d) Cash and cash equivalents	9	192.50	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	10	154.00	-
				1,496	-
		TOTAL (1+2)		3,405.60	-

Annexure

Note 1. Share Capital	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Share Capital in Equity Shares	1,650.00	
Total	1,650.00	

Note 2. Reserves and Surplus	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Capital Reserves	73.70	
Other Reserves	448.80	
Profit & Loss A/c	312.95	
Total	835.45	

Note 3. Other Current Liabilities	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	165.00	
Y Ltd.	55.00	
Z Ltd.	55.00	
	275.00	
Less: Mutual Indebtedness	27.50	
Total	247.50	

Note 4. Other Current Liabilities	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	55.00	
Y Ltd.	27.50	
	82.50	
Less: Mutual Indebtedness	11.00	
	71.50	

Note 5. Short Term Provisions	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Proposed Dividend	165.00	
Total	165.00	

Note 6. Tangible assets	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	715.00	
Y Ltd.	825.00	
Z Ltd.	550.00	
	2,090.00	
Less: Unrealised Profit	42.90	
Total	2,047.10	

Note 7. Inventories	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
X Ltd.	275.00	
Y Ltd.	110.00	
Z Ltd.	110.00	
	495.00	
Less: Unrealised Profit	5.50	
Total	489.50	

Note 8. Trade Receivables	**As at 31st December,**	**As at 31st Decembe**

	2012 (₹)	r, 2011(₹)
X Ltd.	385.00	
Y Ltd.	55.00	
Z Ltd.	110.00	
	550.00	
Less: Mutual Indebtedness	27.50	
Total	522.50	

Note 9. Cash and cash equivalents	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Cash and Bank Balances	330.00	
Current Account Balances [(275.00+82.50)-(55+165)]	137.50	
Total	192.50	

Note 10. Other current assets	**As at 31st December, 2012 (₹)**	**As at 31st December, 2011(₹)**
Y Ltd.	55.00	
Z Ltd.	110.00	
	165.00	
Less: Mutual Indebtedness	11.00	
Total	154.00	

Working Notes:

(₹ in lakhs)

Analysis of Profits of Z Ltd.	**Capital Profit**	**Revenue Reserve**	**Revenue profit**
Reserves on 1.7.2011	55.00		
Profit and Loss A/c on 1.7.2011	88.00		
Increase in Reserves		110.00	
Increase in Profit			132.00
	143.00	110.00	132.00
Less: Minority Interest (10%)	14.30	11.00	13.20
	128.70	99.00	118.80
Share of X Ltd.	42.90	33.00	39.60
Share of Y Ltd.	85.80	66.00	79.20
Analysis of Profits of Y Ltd.			
Reserves on 1.7.2011	110.00		
Profit and Loss A/c on 1.7.2011	165.00		
Increase in Reserves		110.00	
Increase in Profit			110.00
	275.00	110.00	110.00
Share in Z Ltd.		66.00	79.20
	275.00	176.00	189.20
Less: Minority Interest (20%)	55.00	35.20	37.84
Share of X Ltd.	220.00	140.80	151.36

Cost of Control			
Investments in Y Ltd.			990.00
Investments in Z Ltd.			660.00
			1,650.00
Less: Paid up value of investments			
in Y Ltd.	880.00		
in Z Ltd.	495.00	1,375.00	
Capital Profit			
in Y Ltd.	220.00		
in Z Ltd.	128.70	348.70	1,723.70
Capital Reserve			73.70
Minority Interest	**Y Ltd.**	**Z Ltd.**	
Share Capital	220.00	55.00	
Capital Profit	55.00	14.30	
Revenue Reserves	35.20	11.00	
Revenue Profits	37.84	13.20	
	348.04	93.50	
Less: Unrealised profit on stock (20% of 5.5)	1.1		
Unrealised profit on equipment (10% of 42.90)		4.29	
	346.94	89.21	
Total	**436.15**		
Unrealised Profit on equipment sale			
Cost	132.00		
Profit	44.00		
Selling Price	176.00		
Unrealised profit = $44 - 44 \times \frac{10}{100} \times \frac{3}{12}$ = 44.00 – 1.1 = 42.90			
Profit and Loss Account – X Ltd.			
Balance	330.00		
Less: Proposed Dividend	165.00		
	165.00		
Share in Y Ltd.	151.36		
Share in Z Ltd.	39.60		
	355.96		
Less: Unrealised profit on equipment (90% of 42.90)	38.61		
	317.35		
Less: Unrealised profit on stock $\left(27.50 \times \frac{25}{125} \times 80\%\right)$	4.4		
	312.95		
Reserves – X Ltd.			
X Ltd.	275.00		
Share in Y Ltd.	140.80		
Share in Z Ltd.	33.00		
	448.80		

6. **(a) Himalaya Ltd. announced a Stock Appreciation Right (SAR) on 01.04.2011 for each of its 400 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 31.03.2014, but before 30.06.2014. 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 employees shall leave the company annually. This was revised to 3% in 2012-13. Actually, 10 employees left the company in 2011-12,5 left in 2012-13 and 3 left in 2013-14. The SAR therefore actually vested to 382 employees. On 30.06.2014, when the SAR was exercised, the intrinsic value was ₹ 25 per share.
Show the Stock Appreciation Right Account by fair value method. [8]

Answer:

Provision for SAR's Account

Dr. **Cr.**

Year	Particulars	₹	Year	Particulars	₹
2011-12	To, Balance c/d	2,63,200	2011-12	By, Employees Compensation Expenses	2,63,200
		2,63,200			2,63,200
2012-13	To, Balance c/d	5,62,733	2012-13	By, Balance b/d By, Employees Compensation Expenses	2,63,200 2,99,533
		5,62,733			5,62,733
2013-14	To, Balance c/d	9,16,800	2013-14	By, Balance b/d By, Employees Compensation Expenses	5,62,733 3,54,067
		9,16,800			9,16,800
2014-15	To, Balance c/d	9,55,000	2014-15	By, Balance b/d By, Employees Expenses	9,16,800 38,200
		9,55,000			9,55,000

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 share on exercise date over the exercise price.

Working Notes:

Year 2011- 12:

1. No. Of employees to whom SAR's were announced (382+10+5+3)= 400 employees.
2. Total number of employees after 3 years, on the basis of estimation in 2011-12 = (400 × 0.98 × 0.98 × 0.98) = 376 employees.
3. No of SAR's expected to vest = 376×100 = 37,600 SAR.
4. Fair value of SAR's = 37,600 × ₹21 = ₹7,89,600.
5. Recognised as expense in 2011-12 = ₹ 7, 89,600 / 3 years = ₹2,63,200

Year 2012- 13:

1. Total number of employees after 3 years, on the basis of estimation in 2012-13 = (400 - 10) ×0.97× 0.97 = 367 employees.
2. No of SAR's expected to vest = 367 × 100 = 36,700 SAR.
3. Fair value of SAR's = 36,700×₹23 = ₹8,44,100.
4. Cumulative value of SAR's to be recognised as an expense = ₹ 8, 44,100 ×2/3 = ₹5,62,733.
5. SAR's recognise as expense in 2012-13 = ₹5,62,733 – ₹ 2,63,200 = ₹ 2,99,533.

Year 2013-14:

1. Fair value of SAR's = ₹24.
2. SAR actually vested = 382 ×100 = 38,200 SAR
3. Fair Value = 38,200 × ₹24 = ₹9,16,800.
4. Cumulative value of SAR's to be recognised = ₹9,16,800.
5. Value of SAR's to be recognised as an expense = ₹9,16,800 – ₹5,62,733 = ₹3,54,067.

Year 2014-15:

1. Cash payment of SAR's = 38,200 SAR's × ₹25 = ₹9,55,000.

2. Value of SAR's to be recognised as an expense in 2014-15 = ₹9,55,000 – ₹9,16,800 = ₹38.200.

(b) The following abridged Balance Sheet as on 31st March, 2016 pertains to S Ltd.

Liabilities	₹ in lakhs	Assets	₹ in lakhs
Share Capital :		**Goodwill, at cost**	**420**
180 lakh Equity shares of ₹10 each, fully paid up	**1,800**	**Other Fixed Assets**	**11,166**
		Current Assets	**2,910**
90 lakh Equity shares of ₹10 each, ₹8 paid up	**720**	**Loans and Advances**	**933**
		Miscellaneous Expenditure	**171**
150 lakh Equity shares of ₹5 each, fully paid-up	**750**		
Reserves and Surplus	**5,628**		
Secured Loans	**4,500**		
Current Liabilities	**1,242**		
Provisions	**960**		
	15,600		**15,600**

You are required to calculate the following for each one of three categories of equity shares appearing in the above mentioned Balance Sheet:

(i) Intrinsic value on the basis of book values of Assets and Liabilities including goodwill;
(ii) Value per share on the basis of dividend yield.
Normal rate of dividend in the concerned industry is 15%, whereas Glorious Ltd. has been paying 20% dividend for the last four years and is expected to maintain it in the next few years; and
(iii) Value per share on the basis of EPS.

For the year ended 31st March, 2016 the company has earned ₹1,371 lakh as profit after tax, which can be considered to be normal for the company. Average EPS for a fully paid share of ₹10 of a Company in the same industry is ₹2.

[8]

Answer:

(A) Calculation of Intrinsic value [Based on book value]

	₹
Goodwill	420
Fixed Assets	11,166
Current Assets	2,910
Loan Advances	933
Total	15,429
Less: Provision	960
Current liabilities	1,242
Secured loans	4,500
Net Assets available for Equity share holder	8,727
Add: Notional calls [90x2]	180

Total Assets	8,907
÷ Equity share capital [1,800 + 900 + 750)	3,450
Intrinsic value per Rupee	2.58
Paid up value ₹10 x 2.58 =	25.8
Paid up value ₹8 x 2.58 =	20.64
Paid up value ₹5 x 2.58 =	12.90

(B) $$\text{Dividend Yield} = \frac{\text{Dividend Rate}}{\text{Normal rate of Return}} \times \text{Paid up Share Capital}$$

$$\text{Paid up value } 10 = \frac{20\%}{15\%} \times 10 = ₹13.33$$

$$\text{Paid up value } 8 = \frac{20\%}{15\%} \times 8 = ₹10.67$$

$$\text{Paid up value } 5 = \frac{20\%}{15\%} \times 5 = ₹6.67$$

(C) $$\text{Earning per Rupee of Share Capital} = \frac{\text{Earning after tax}}{\text{Paid up Share Capital}}$$

$$= \frac{1,371}{3,270} = 0.419$$

Earning per fully paid shares of ₹10 = 0.419×₹10 = ₹4.19
Earning per share of ₹10 each, ₹ 8 paid-up = ₹0.419×8=₹3.35
Earning per share of ₹5, fully paid-up = ₹0.419 × 5= ₹2.10

Value of fully paid share of ₹10 = $₹\frac{4.19}{2} \times 10 = ₹20.95$

Value of share of ₹10, ₹8 paid-up = $₹\frac{4.19}{2} \times 8 = ₹16.75$

Value of fully paid-up share of ₹5 = $₹\frac{4.19}{2} \times 5 = ₹10.50$.

7. (a) List the features of Government Accounting. [8]

Answer:

Features of Government Accounting

Government Accounting is a unique application area which has certain characteristics of its own. Some of the main features of Government Accounting are discussed as under:

1. **Specific system of accounting:** It is a specific accounting system which is followed by government in its departments, offices and institutions.
2. **Reporting of utilisation of public funds:** The government and its institutions are public institution whose main objective is to provide services to the society and also to maintain law and order in the country. So, the accounting system used by such institutions has to reveal how public funds and properties have been used for that purpose. It is to be noted that government accounting is not done for revealing any profit and loss.
3. **Government Regulations:** Government accounting is maintained according to government rules and regulations. The financial policies, rules and regulations as determined from time to time provide the system of government accounting.
4. **Double Entry System:** Government accounting is based on the principles and assumptions of double entry system of book keeping system. Accordingly, every financial

transactionentered into by a government/ government office/ institution are recorded showing their double effects. It implies that for each government financial transaction one aspect of the transaction is debited and the other aspect is credited.

5. **Budget Heads:** All the expenses of government offices are classified into different budget heads and expenditures are made only on approved budget heads.
6. **Budgetary Regulation:** Government expenditures are governed by budgetary regulations. In other words, no government office can make expenditure more than the amount allocated in the budget. Thus, in effect, government accounting gets regulated by the budget.
7. **Mode of Transaction:** All government transactions are supposed to be performed through banks.
8. **Fund-based Accounting:** Apeculiar characteristic of governmental accounting is the employment of separate funds. The government is engaged in an ever-growing number of operations and activities which are quite unrelated to each other. The particular sources of revenue or income often are dedicated to use for a particular phase of the government's operations. The accounts must segregate these specially dedicated resources and isolate them from all other transactions in a separate "fund."
9. **Auditing:** The audit the books of accounts maintained by government departments, offices or institutions are to be audited by a recognised department of the government so as to ensure proper governance and also to prevent misuse and misappropriation of public funds.

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

Answer:

The general principles of government accounting are highlighted hereunder:

1. Classification of expenditures: The Government Expenditures are classified under Sectors, major heads, minor heads, sub-heads and detailed heads of account. The method of budgeting and accounting under the service heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates.

2. Based on budget: government accounting is based on the annual budget of the government. In its budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the later. Similarly, in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts, Government determines:
   (a) whether it will be justified in curtailing or expanding its activities; and
   (b) whether it can and should increase or decrease taxation accordingly.

3. End products of government accounting: In the field of Government accounting, the end products are the monthly accounts and the annual accounts. The monthly accounts serve the needs of the day-to-day administration, while the annual accounts present a fair and correct view of the financial stewardship of the Government during the year.

4. Period of Accounts: The annual accounts of the central, state and union territory government shall record transactions, which take place during financial year running from 1st April to 31st March.

5. Cash basis of accounting: With the exception of such book adjustments as may be authorized by these rules on the advice of the Comptroller and Auditor General of

India (C&AG),the transactions in government accounts shall represents the actual cash receipt and disbursement during a financial year.

6. Form of Accounts: The accounts of Government are kept in three parts namely, Consolidated Fund, Contingency Fund and Public Account.

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

(a) Write a short note on — Meaning of XBRL;

Answer:

XBRL is a language for the electronic communication of business and financial data which is revolutionising the business reporting around the world. The term XBRL includes four terminologies – Extensible, Business, Reporting and Language. These terms are briefly discussed hereunder:

- Extensible: This term implies that the user can extend the application of a particular business data beyond its original intended purpose. The major advantage in it is that the extended use can be determined even by the users and not just the ones who merely prepare the business data. This is achieved by adding tags which are both human and machine readable – describing what the data is.
- Business: This platform is relevant to any type of business transaction. It is to be noted that XBRL focus is on describing the financial statements for all kinds of entities.
- Reporting: The intention behind promoting the use of XBRL is to have all companies report their financial statements in a consolidated manner using the specified formats.
- Language: XBRL is based on 'eXtensible Markup Language' (XML). It is one of a family of "XML" languages which is becoming a standard means of communicating information between businesses and on the internet. It prescribes the manner in which the data can be "marked-up" or "tagged" to make it more meaningful to human readers as well as to computers-based system.

(b) 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.

Answer:

Particulars	**Loan (₹ Lakhs)**	**Provision (%)**	**Provision (₹Lakhs)**
Standard Assets	8,400	Nil	Nil
Sub- Standard Assets	910	10%	91
Secured Portions of Doubtful Debts:			
- Up to one year	160	20%	32
- 1 year to 2 years	70	30%	21
- more than three years	20	50%	10
Unsecured Portions of Doubtful Assets	87	100%	87

Loss Assets	24	100%	24
Total			265

(c) Write a note on — Users of Triple Bottom Line Reporting.

Answer:

All types of entities viz. Businesses, non-profits organisations and government entities alike can all use the TBL.

Businesses: The TBL and its core value of sustainability have become compelling in the business world due to accumulating anecdotal evidence of greater long-term profitability. For example, reducing waste from packaging can also reduce costs. Among the firms that have been exemplars of these approaches are General Electric, Unilever, Proctor and Gamble, 3M among others.

Non-profit Organisations: Many non-profit organizations have adopted the TBL and some have partnered with private firms to address broad sustainability issues that affect mutual stakeholders. Companies recognize that aligning with nonprofit organizations makes good business sense, particularly those nonprofits with goals of economic prosperity, social well-being and environmental protection.

Government: State, regional and local governments are increasingly adopting the TBL and analogous sustainability assessment frameworks as decision-making and performance-monitoring tools.

(d) Discuss the characteristics of IFRS.

Answer:

The characteristics of IFRS are:

- These are global accounting standards.
- These standards are 'principle based', and not 'rule-based'.
- IFRS are developed and maintained by the IASB.
- These are issued with the intention of applying these standards across the globe on a consistent basis.
- It ensures high quality transparent reporting that would ensure comparability among the entities across the globe.
- Every standard has a specific structure to ensure uniformity and facilitate reading, interpretation and application. They are: Introduction, Standards, Basis of Conclusion (BC), Implementation Guidelines (IG), Illustrative Examples (IE), and Dissenting Opinions of board members.

(e) Venus Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2015 at ₹ 1,000 lakhs. As at that date the value in use is ₹ 800 lakhs and the net selling price is ₹ 750 lakhs.
From the above data:
(i) Calculate impairment loss.
(ii) Give journal entries for adjustment of impairment loss.

Answer:

Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Thus, Impairment loss = Carrying amount – Recoverable amount*****
= ₹1000 lakhs – ₹ 800 lakhs = ₹ 200 lakhs

*****Recoverable amount is higher of asset's net selling price ₹ 750 lakhs and its value in use ₹800 lakhs.

∴ Recoverable amount = ₹ 800 lakhs

Journals

	Particulars	Debit Amount (₹ in lakhs)	Credit Amount (₹ in lakhs)
(a)	Impairment loss A/c Dr. To Asset A/c (Being the entry for accounting impairment loss)	200	 200
(b)	Profit and loss A/c Dr. To Impairment loss A/c (Being the entry to transfer impairment loss to profit and loss account)	200	 200