Paper – 18 - Corporate Financial Reporting

This paper contains 5 questions, divided in sub-questions. Each question represents the specified weightage in sections as prescribed syllabus for this paper. Answers must be given against all questions. However, students are requested to read the instructions against each individual question also. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

Question No. 1 is compulsory. [2×5=10]

(a) Discuss the treatment of reversal of impairment loss for goodwill with reference to Accounting Standards(applicable in India) and IFRS.

(b) 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.

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

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

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

The consideration was agreed to be paid as follows-

(i) A payment of ₹5 per share in BD Ltd, and
(ii) The issue of ₹10 each in AD Ltd.on the basis of 2 Equity Shares (valued at ₹15) and one 10% Cumulative Preference Share (Valued at ₹10) for every 5 shares held in BD Ltd.
The whole of the Share Capital consists of shareholding in exact multiple of five except the following holding-
(iii) P-116 share, (ii)Q-76 shares, (ii)R-72 shares, (iv)S-28 shares, (v)Other Individuals-8 shares (eight members holding one share each).Total of such fractional holding =300 shares.

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

(a) The summarized Balance Sheets of R Ltd. and S Ltd. for the year ended 31.3.2014 are as under:

Equity and Liabilities	R Ltd. (₹)	S Ltd. (₹)
(1) Shareholders' funds		
(a)Share Capital		
Equity share capital (in shares of ₹10 each)	24,00,000	12,00,000
8% Preference Share Capital(in shares of ₹10 each)	8,00,000	-
10% Preference share Capital (in shares of ₹10 each)	-	4,00,000
(b) Reserves and Surplus	30,00,000	24,00,000
Current Liabilities	18,00,000	10,00,000
Total	80,00,000	50,00,000
Assets		
Non-current Assets	55,00,000	27,00,000
Current Assets	25,00,000	23,00,000
Total	80,00,000	50,00,000

The following information is provided:

	R Ltd. (₹)	S Ltd. (₹)
Profit before tax	10,64,000	4,80,000
Taxation	4,00,000	2,00,000
Preference Dividend	64,000	40,000
Equity Dividend	2,88,000	1,92,000

The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.

R Ltd. proposes to absorb S Ltd. as on 31.03.2014. The terms of absorption are as under:

(i) Preference Shareholders of S Ltd. will receive 8% preference shares of R Ltd. sufficient to increase the income of preference shareholders of S Ltd. by 10%.

(ii) **The equity shareholders of S Ltd. will receive equity shares of R Ltd. on the following basis:**

- **The equity shares of S Ltd. will be valued by applying to the earnings per share of S Ltd.75% of price earnings ratio of R Ltd. based on the results of 2013-14 of both the companies.**
- **The market price of equity shares of R Ltd. is ₹40 per share.**
- **The number of shares to be issued to the equity shareholders of S Ltd. will be based on the above market value.**
- **In addition to equity shares , 8% preference shares of R Ltd. will be issued to equity shareholders of S Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2013-14.**

The assets and liabilities of S Ltd. as on 31.03.2014 are revalued by professional valuer as under:

	Increased by (₹)	Decreased by (₹)
Fixed Assets	1,00,000	-
Current assets	-	2,00,000
Current Liabilities	-	40,000

For the next two years, no increase in the rate of equity dividend is expected.
You are required to:
(i) Set out in detail the purchase consideration.
(ii) Give the Balance Sheet as on 31.03.2014 after absorption. **[10]**

(c) The following are the summarized Balance Sheets of Sand Ltd. and Snow Ltd. as on 31.3.14:

Particulars	(₹ in thousands)	
	Sand Ltd.	Snow Ltd.
Equity and Liabilities:		
Shareholders' Funds		
Share capital-		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves and Surplus	800	(800)
Non-current Liabilities		
10% Debentures	500	—
Loans from Banks	250	450
Current Liabilities		
Bank overdrafts	—	50
Trade payables	300	300
Proposed dividend	200	—
Total	4,050	1,000

Assets		
Non-current assets	**2,700**	**850**
fixed assets	**700**	**—**
Non-current Investments (including investments in Snow Ltd.)	**400**	**150**
Current assets		
Trade receivables	**250**	**—**
Cash at bank	**—**	**800**
Total	**4,050**	**1,000**

Snow Ltd. has acquired the business of Sand Ltd. The following scheme of merger was approved:

(i) Banks agreed to waive off the loan of ₹ 60 thousands of Snow Ltd.

(ii) Snow Ltd. will reduce its shares to ₹10 per share and then consolidate 10 such shares into one share of ₹ 100 each (new share).

(iii) Shareholders of Sand Ltd. will be given one share (new) of Snow Ltd. in exchange of every share held in Sand Ltd.

(iv) Proposed dividend of Sand Ltd. will be paid after merger to shareholders of Sand Ltd.

(v) Trade payables of Snow Ltd. include ₹ 100 thousands payable to Sand Ltd.

(vi) Sand Ltd. will cancel 20% holding in Snow Ltd. as investment, which was held at a cost of ₹250 thousands.

Pass necessary entries in the books of Snow Ltd. [10]

(d) Most Neglected Ltd furnishes you the following Balance Sheet as at 31st March, 2014

(₹ in Crores)

Particulars	**₹**	**₹**
SOURCES OF FUNDS:		
Shareholders' Funds		**200**
Share Capital: Authorised	**50**	
Issued: Equity Shares of ₹ 10 each fully paid	**150**	**200**
12% Redeemable Preference Shares of ₹ 100 each fully paid	**30**	
Reserves and Surplus: Capital Reserve	**50**	
Securities Premium	**520**	**600**
Revenue Reserves		
Total		**800**
APPLICATION OF FUNDS:		
Non Current Assets: Cost	**200**	
Less: Provision for Depreciation	**200**	**Nil 200**
Investments at Cost (Market Value ₹ 400 Crores)		
Net Current Assets: Current Assets	**680**	**600**
Less: Current Liabilities	**80**	
Total		**800**

The Company redeemed its Preference Shares on 1st April,2014. 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]**

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

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

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

(ii) Sales by D Ltd. to C Ltd.
- **Goods sold for ₹75,000 on which D made profit of 25% on cost. Entire stock was at C's godown as on the Balance Sheet date.**
- **Goods sold for ₹90,000 on which D made profit of 15% on sale price. 70% of the values of goods were included in closing stock of C. [10]**

(b) D Ltd. own 80% of S, 40% of J and 40% of A. J is Jointly controlled entity and A is an Associate. Balance Sheet of four companies as on 31.03.2013 are-

I. Equity &Liabilities	D	S	J	A
Share Capital ₹1 equity share	1,000	400	800	800
Reserves and Surplus – Retained earnings	4,000	3,400	3,600	3,600
Trade payables-creditors	200	300	250	250
Total	5,200	4,100	4,650	4,650
II. Assets	D	S	J	A
Non-current assets – fixed assets	1,000	800	1,400	1,000
Non-current Investments				
Investment in S	800	-	-	-
Investment in J	600	-	-	-
Investment in A	600	-	-	-
Current assets	2,200	3,300	3,250	3,650
Total	5,200	4,100	4,650	4,650

D Ltd. acquired shares in S many years ago when retained earnings of S were ₹520. D Ltd acquired its shares in J at the beginning of the year when retained earnings of J were ₹400. D Ltd. acquired its shares in A on 01.04.2012 when retained earnings of A were ₹400.
The Balance of goodwill relating to S had been written off three years ago. The value of goodwill in J remains unchanged. Prepare the Consolidated Balance Sheet of D Ltd as on 31.03.2013 as per AS-21,23 and 27. [15]

(c) On 31st March, 2013 BB Ltd. became the holding company of CCLtd. and DD Ltd. by acquiring 900 lakhs fully paid shares in CC Ltd. for ₹ 13,00 lakhs and 480 lakhs fully paid

shares in DD Ltd. for ₹ 4,320 lakhs. On that date, CC Ltd. showed a balance of ₹ 5,100 lakhs in General Reserve and a credit balance of ₹ 1,800 lakhs in Profit and Loss Account. On the same date, DD Ltd. showed a debit balance of ₹ 720 lakhs in Profit and Loss Account. While its Preliminary Expenses Account showed a balance of ₹ 60 lakhs.

After one year, on 31st March, 2014 the Balance Sheets of three companies stood as follows:

			(₹ in Lakhs)
Liabilities	BB Ltd.	CC Ltd.	DD Ltd.
Fully paid equity shares of ₹ 10 each	54,000	15,000	6,000
General Reserve	66,000	6,300	–
Profit and Loss Account	18,000	2,400	1,500
15 lakh fully paid 9.5%			
Debentures of ₹ 100 each	–	–	3,000
Loan from CC Ltd.	–	–	150
Bills Payable	–	–	300
Sundry Creditors	28,200	5,400	1,860
	1,66,200	29,100	12,810
Assets			
Machinery	78,000	15,000	4,200
Furniture and Fixtures	12,000	3,000	1,200
Investments:			
900 lakhs shares in CC Ltd.	13,500	–	–
480 lakhs shares in DD Ltd.	4,320	–	–
6 lakhs debentures in DD Ltd.	588	–	–
Stocks	33,000	6,000	3,000
Sundry Debtors	18,000	2,700	2,580
Cash and Bank balances	6,402	2,100	1,800
Loan to DD Ltd.	–	180	–
Bills Receivable	390	120	–
Preliminary Expenses	–	–	30
	1,66,200	29,100	12,810

The following points relating to the above mentioned Balance Sheets are to be noted:

(i) **All the bills payable appearing in DD Ltd.'s Balance Sheet were accepted in favour of CC Ltd. out of which bills amounting to ₹ 150 lakhs were endorsed by CC Ltd. in favour of BB Ltd. and bills amounting to ₹ 90 lakhs had been discounted by CC Ltd. with its bank.**

(ii) **On 29th March, 2014 DD Ltd. remitted ₹ 30 lakhs by means of a cheque to CC Ltd. to return part of the loan; CC Ltd. received the cheque only after 31st March, 2014.**

(iii) Stocks with CC Ltd. includes goods purchased from BB Ltd. for ₹ 400 lakhs. BB Ltd. invoiced the goods at cost plus 25%.

(iv) In August, 2013 CC Ltd. declared and distributed dividend @ 10% for the year ended 31st March, 2013. BB Ltd. credited the dividend received to its Profit and Loss Account.

You are required to compute

- **The pre and post acquisition profit;**
- **Minority Interest;**
- **Cost of Control; and**
- **The amount of consolidated General Reserve and Profit and Loss Account as at 31st March, 2014. [3+4+4+4=15]**

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

(a) Describe the working principle of XBRL. [5]

(b) (i) A company has a capital base of ₹6 crores and has earned profits of ₹66 lakhs.Return on Investment of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by ₹15 lakhs over and above the target profit. Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him. [5]

Particulars	₹
Capital base	6,00,00,000
Actual Profit	66,00,000
Target Profit	75,00,000

(ii) List the disclosures required by an enterprise as per AS-29 for each class of contingent liability at the balance sheet date. [5]

(c) The following particulars in respect of Stock Options granted by a company are available:

Grant date	April1, 2011
Number of Employees covered	50
Number of Options granted per employee	1000
Fair value of Option per share on grant date(₹)	9

The Option will vest to employees serving continuously for 3 years from vesting date, provided the share price is ₹70 or above at the end of 2013-14.
The estimates of number of employees satisfying the condition of continuous employment were 48 on 31.03.2012 and 47 on 31.03.2013.The number of employees actually satisfying the condition of continuous employment was 45. The share price at the end of 2013-14 was ₹68.
Compute the expenses to recognize in each year and show Stock Options Outstanding Account in books of the company. [10]

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

(ii) The following information is available for a concern. Compute EVA.

Debt Capital 12%	₹4,000 crores	Risk free rate	9%
Equity capital	₹1000 crores	Beta factor	1.05
Reserves & Surplus	₹15,000 crores	Market rate of return	19%
Capital Employed	₹20,000 crores	Equity(market) risk premium	10%
Operating profit after tax	₹4,200 crores	Tax rate	30%

[4]

Question No. 5 (Answer any three):

(a) State the objectives and scope of Indian Government Accounting Standard-5. [5]
(b) List the functions of the Committee on Public Undertakings. [5]
(c) State the purpose of constitution of Government Accounting Standards Advisory Board by Comptroller and Auditor General of India? [5]
(d) Describe the process of election of Public Accounts Committee. [5]