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.

(a) What are the disclosure and presentation requirements of AS-24 on discontinuing operations? **[5]**

(b) **(i)** M Ltd. has equity capital of ₹40,00,000 consisting of fully paid equity shares of ₹10 each. The net profit for the year 2013-14 was ₹60,00,000.It has also issued 36,000, 10% convertible debentures of ₹50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. Compute the diluted earnings. **[3]**

(ii) State the basic principles of IFRS 5 on Non-Current Assets held for Sale and Discontinuing Operations. **[2]**

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

(a) Discuss the treatment of Statutory Reserves in case of Amalgamation as per AS – 14. **[5]**

(b) Owings The following is the Balance Sheet of Perfect 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 Loan from Bank	1,40,000
(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	50,000
(b) Trade Receivables	70,000
(c) Cash & Cash Equivalents	34,000
Total	4,40,000

The balance of Perfect Ltd is taken over by Best Ltd. as on that date on the following terms:

(i) All Assets except Cash at 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 amount 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 Perfect Ltd.

(v) The Purchase Consideration is to be discharged in Cash to the extent of ₹1,50,000 and the balance in 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.

Show:

- Work out the purchase consideration and
- Journal Entries in the books Best Ltd. **[10]**

(c) The following was the Balance Sheet of Mukta Ltd. as on 31st December –

Equity and Liabilities	₹
(1) Shareholders' Funds:	
(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 & L 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
Current Assets:	
(2) (a) Inventories	20,550
(b) Trade Receivables - Book Debts	30,000

(c) Cash & Cash Equivalents	3,000
Total	2,19,250

Note: Authorised 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 Expenses, by adoption of the following course -

(i) Forfeit the Shares on which the Call is 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]**

(d) Sea Fish Ltd. was hugely unsuccessful and had to be reconstructed. For this purpose, Testy Sea Foods Ltd. was incorporated with an Authorised Capital of ₹ 5,00,000 broken into 50,000 Shares of ₹10 each. The Shareholders of Sea Fish Ltd. were to receive 2 shares of ₹10 each credited as ₹ 6 paid for every 3 Shares held. The balance of ₹ 4 was to be paid as to ₹ 2 application and ₹ 2 on allotment.

The Trial Balance of Sea Fish Ltd. on the date of reconstruction was as follows-

Particulars	₹	₹
Share Capital 50,000 Shares of ₹ 10 each, fully paid		5,00,000
Patent Rights	2,50,000	
Sundry Debtors / Creditors	1,45,000	1,50,000
Stock	70,000	
Cash at Bank	15,000	
Preliminary Expenses	20,000	
Profit & Loss A/c	1,50,000	
Total	6,50,000	6,50,000

Preferential Creditors amount to ₹20,000 and were to be settled in full in Cash. The Balance amounts due to other Creditors were to be settled as under:

Creditors for ₹ 80,000	₹ 50,000 in Cash
Creditors for ₹ 50,000	₹ 50,000 in 10% Debentures

Liquidation Expenses amounted to ₹ 3,000 which met by Testy Sea Foods Ltd.
Fractions of Shares in all amounted to 133.33 Shares in terms of Shares of Tasty Sea Foods Ltd. for which cash was paid. The other Shares were duly allotted and all payments due in respect of them received by Testy Sea Foods Ltd.
5,000 of the unissued shares offered, were taken up and paid for in Cash by the General Public.
Give the journal entries in the books of Testy Sea Food Ltd. and calculate the balance of Cash and Cash Equivalent to be shown in the balance sheet after reconstruction. The value of Patent Rights can be adjusted to the required extent. **[10]**

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

(a) P Ltd. own 80% of S and 40% of J. J is Jointly Controlled Entity. Balance Sheet of four Companies as on 31.03.14 are-

(₹ in lakhs)

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

P Ltd acquired Shares in S many years ago when retained earnings of S were ₹520. P Ltd acquired its shares in J at the beginning of the year when retained earnings of J 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 P Ltd as on 31.03.2014 as per AS-21 and 27. **[10]**

(b) The Balance Sheets of Ping-Pong Ltd. and its subsidiary Pluto Ltd. as on 31st March, 2013

(₹ in lakhs)

Equity and Liabilities	Ping-Pong Ltd.	Pluto Ltd.	Assets	Ping-Pong Ltd.	Pluto Ltd.
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets -		
(i) Equity Shares of ₹10 each	48.00	20.00	(i) Tangible		
(ii) 10% Pref. Shares of ₹ 10 each	7.00	3.80	- Plant & Machinery	12.00	5.00
(b) Reserves & Surplus			- Motor Vehicles	9.50	7.50
(i) General Reserve	5.50	4.20	- Furniture & Fittings	6.50	4.00
(ii) Profit & Loss Account	10.00	6.00	(ii) Intangible - Goodwill	4.50	3.00
(2) Current Liabilities:			(b) Non-Current Investments	26.00	4.50
(a) Short Term Borrowings			(2) Current Assets:		
- Bank Overdraft	1.20	0.70	(a) Inventories	4.50	7.20
(b) Trade Payables			(b) Trade Receivables		
(i) Creditors	4.30	4.80	(i) Debtors	9.30	7.80
(ii) Bills Payable	-	1.60	(ii) Bills Receivable	1.45	-
			(c) Cash & Cash Equivalents	2.25	2.10
Total	76.00	41.10	Total	76.00	41.10

Details of information:

Nature of Shares	Nos. acquired	Date of Acquisition	Cost of Acquisition
Preference Shares	14,250	01.04.2010	3,10,000
Equity Shares	80,000	01.04.2011	9,50,000
Equity Shares	70,000	01.04.2012	8,00,000

Other information:

(i) On 1.04.2012 Profit and Loss Account and General Reserve of Pluto Ltd. had credit balances of ₹ 3,00,000 and ₹ 2,00,000 respectively.

(ii) Dividend @ 10% was paid by Pluto Ltd. for the year 2011-2012 out of its Profit and Loss A/c balance as on 1.04.2012. Ping-Pong Ltd. credited its share of dividend to its Profit and Loss A/c.

(iii) Pluto Ltd. allotted Bonus Shares out of General Reserve at the rate of 1 Share for every 10 Shares held. Accounting thereof has not yet been made.

(iv) Bills Receivable of Ping-Pong Ltd. were drawn upon Pluto Ltd.

(v) During the year 2012-2013 Ping-Pong Ltd. purchased goods from Pluto Ltd for ₹1,00,000 at a Sale Price of ₹1,20,000. 40% of these goods remained unsold at close of the year.

(vi) On 1.04.2012 Motor Vehicles of Pluto Ltd. were overvalued by ₹1,00,000. Applicable Depreciation rate is 20%.

(vii) Dividends recommended for the year 2012-2013 in the Holding and the Subsidiary Companies are 15% and 10% respectively.

Prepare consolidated Balance Sheet as on 31st March 2013. **[15]**

(c) Parrot Ltd. had acquired 51% in Sparrow Ltd. for ₹75.80 Lakhs on April, 1st 2012. On date of the acquisition Sparrow's Assets stood at ₹196 Lakhs and Liabilities at ₹16 Lakhs. The Net Asset position of Sparrow Ltd. as on 31st March, 2013 & 30th September 2013 were ₹280 Lakhs & ₹395 Lakhs respectively, the increase resulting from profits earned during the period.

On 1st Oct, 2013 25.5% holdings were sold for ₹125 Lakhs. You are required explain the nature of the relationship between the two companies on the relevant dates and the accounting adjustments that are necessary as a result of any change in the relationship. The profit arising on part sale of Investment, carrying value of the portion unsold, Goodwill/Capital Reserve that arises on change in nature of the Investment are also required to be worked out by you. **[15]**

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

(a) 'An effective sustainability reporting cycle should benefit all reporting organizations.' – List them. **[5]**

(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

[10]

(c) (i) From the following details, compute according to Lev and Schwartz (1971) model, the value of human resources of skilled employees group.

- Annual average earning of an employee till the retirement age ₹2,00,000
- Age of Retirement 65 years
- Discount rate 15%
- No. of employees in the group 20
- Average age 62 years

[5]

(ii) Write a note on the books and records to be maintained by Merchant Bankers. **[5]**

(d) (i) Discuss the advantages of preparation of Value Added (VA) statements. **[6]**

(ii) Mithila grants 120 share options to each of its 240 employees. Each grant is conditional on the employee working for Mithila over the next three years. Mithila has estimated that the fair value of each share option is ₹24.

Mithila astimates that 25% of employees will leave during the three –year period and so forfeit their rights to the share options.

Everything turns out exactly as expected.

Calculate the amounts to be recognised as expense during the vesting period. **[4]**

Question No. 5 (Answer any three):

(a) Identify the differences between Commercial Accounting and Government Accounting. **[5]**

(b) Discuss the scope of IGAS-3 on Cash Flow Statements. **[5]**

(c) Describe how the Public Accounts Committee regularize the excess expenditure spent on a service. **[5]**

(d) List the responsibilities of the Government Accounting Standards Advisory Board. **[5]**