Paper – 18: Corporate Financial Reporting

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL C	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identity	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
		Decide	To solve or conclude
	EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify
		Evaluate	Appraise or asses the value of
		Recommend	Propose a course of action

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.

1. (a) From the following details of an asset (i) Find out impairment loss and (ii) Treatment of impairment loss.

Cost of asset	₹112 lakhs
Useful life period	10 years
Salvage Value	Nil
Current carrying value	₹54.60 lakhs
Useful life remaining	3 years
Recoverable amount	₹24 lakhs
Upward revaluation done in last year	₹28 lakhs

[5]

(b) Z Limited began construction of a new plant on 1st April 2014 and obtained a special loan of ₹16 lakhs to finance the construction of the plant. The rate of interest on loan was 10 per cent per annum.
The expenditure that was made on the project of plant construction was as follows:

	₹
01.04.2014	20,00,000
01.08.2014	48,00,000
01.01.2015	8,00,000

The Company's other outstanding non-specific loan was ₹92,00,000 at an interest of 12% per annum.
The construction of the plant was completed on 31.03.2015. You are required to calculate the amount of interest to be capitalized as per the provision of AS 16 of the borrowing cost (including cost). [5]

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

2. (a) Given below are the Balance Sheets of X Ltd. and Y Ltd. as at 31st March 2015 at which date Y Ltd. was taken over by X Ltd.

Equity and Liabilities	X Ltd.	Y. Ltd.	Assets	X Ltd.	Y Ltd.
Shareholders' Funds: Equity Share of ₹10 each	5.00	10.00	Non-Current Assets:Fixed assets	22.00	11.00
Reserves	22.50	4.00	Current Assets	9.30	4.65
Non-Current Liabilities 12% Debentures	2.20	1.10			
Current Liabilities: Trade Payables for Goods	1.60	.55			
	31.30	15.65		31.30	15.65

The market value of an equity share of X Ltd. At present is ₹100.

If X Ltd. agrees to take over only the assets of Y Ltd. and to discharge the purchase consideration to the extent of one quarter in cash and the balance in the form of equity shares of ₹10 each at ₹55 each. An equity share in Y Ltd. is valued @ ₹15. [5]

2. (b) The following is the Balance Sheet of V Ltd. as at 31st March, 2015

Equity and Liabilities	₹	Assets	₹
Shareholders' Funds: 20,000 Shares of ₹10 each	2,00,000	Non-Current Assets:	
General Reserve	20,000	Land and Building	1,00,000
Non-current Liabilities 10% Debentures	84,000	Plant and Machinery Goodwill	1,45,000 25,000
Current Liabilities Loan from Bank	40,000	Current Assets: Inventories	55,000
Trade Payables	80,000	Trade Receivables	65,000
		Cash at Bank	34,000
	4,24,000		4,24,000

The business of V Ltd. is taken over by P 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 of 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% and other liabilities to be discharged by P Ltd. at book value.

(iv) The purchase consideration is to be discharged in cash to the extent of ₹10,000 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. Prior to 31st March 2015 (Ltd. sold goods costing ₹30,000 to P Ltd. for ₹40,000. Trade Receivables include ₹20,000 still due from P Ltd. On the date of absorption, ₹25,000 worth of goods were still in stock of P Ltd.

Required: (a) Give Journal entries in the books of P Ltd. [10]

2. (c) The following are the Balance Sheets of A Ltd. and B Ltd. as at 31.03.2015:

Equity and Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Shareholders' Funds: Equity Shares of ₹10 each	36,00,000	18,00,000	Non-Current Assets: Fixed assets	50,00,000	30,00,000
10% Preference Shares of ₹100 each	12,00,000	-	Non-Current Investments	5,00,000	5,00,000
12% Preference Shares of ₹100 each	-	6,00,000	Current Assets: Inventories	18,00,000	12,00,000
Statutory Reserve	1,00,000	1,00,000	Trade Debtors	15,00,000	12,00,000
General Reserve	25,00,000	17,00,000	Bills Receivable	50,000	10,000
Non-Current Liabilities: 15% Debentures	5,00,000	-	Cash at Bank	1,50,000	90,000
12% Debentures		5,00,000			
Current Liabilities: Trade Creditors	10,80,000	12,80,000			
Bills Payable	20,000	20,000			

	90,00,000	60,00,000		90,00,000	60,00,000

Contingent liabilities for Bills receivable discounted ₹20,000.

(A) The following additional information is provided to you:

	A Ltd. ₹	B Ltd. ₹
Profit before Interest and Tax	14,75,000	7,80,000
Rate of Income-tax	40%	40%
Preference Dividend	1,20,000	72,000
Equity Dividend	3,60,000	2,70,000

Balance Profit transferred to Reserve account.

(B) The equity shares of both the companies are quoted on the Mumbai Stock Exchange. Both the companies are carrying on similar manufacturing operations.

(C) A Ltd. Proposes to absorb business of B Ltd. as on 31.03.2015. The agreed terms for absorptions are:

(i) 12% Preference shareholders of B Ltd. will receive 10% Preference Shares of A Ltd. sufficient to increase their present income by 20%.

(ii) The Equity shareholders of B Ltd. will receive equity shares of A Ltd. on the following terms:

(a) The Equity shares of B Ltd. will be valued by applying to the earnings per share of B Ltd. 60 per cent of price earnings ratio of A Ltd. based on the results of 2014-2015 of both the Companies.

(b) The market price of Equity shares of A Ltd. is ₹40 per share.

(c) The number of shares to be issued to Equity shareholders of B Ltd. will be based on the 80% of market price.

(d) In addition to Equity shares, 10% Preference Shares of A Ltd. will be issued to the equity shareholders of B Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2014-2015.

(iii) 12% Debenture holders of B Ltd. are to be paid at 8% premium by 15% debentures in A Ltd. issued at a discount of 10%.

(iv) ₹16,000 is to be paid by A Ltd. to B Ltd. for liquidation expenses. Trade Payables of B Ltd. include ₹20,000 due to A Ltd. Bills receivable discounted by A Ltd. were all accepted by B Ltd.

(v) Fixed assets of both the companies are to be revalued at 20% above book value. Inventories are to be taken over at 10% less than their book value.

(vi) Statutory reserve has to be maintained for two more years.

(vii) For the next two years no increase in the rate of equity dividend is anticipated.

Required:

(a) Calculate the Purchase consideration.

(b) Give journal entries in the books of A Ltd. **[10]**

2. (d) The following are the Balance Sheets of Andrew Ltd. and Barry Ltd. as at 31.03.2015.

(in ₹000)

Equity and Liabilities	Andrew Ltd. ₹	Barry Ltd. ₹	Assets	Andrew Ltd. ₹	Barry Ltd. ₹

Shareholders' Funds: **Equity Shares of ₹10 each**	**3,000**	**1,000**	**Non-Current Assets:** **Fixed Assets**	**3,400**	**6,800**
10,000 Preference Shares of ₹100 each	**1,000**	**-**	**Current Assets:** **Inventories (Pledged with secured loan creditors)**	**18,400**	**-**
General Reserve	**400**	**2,800**	**Other Current Assets**	**3,600**	**9600**
Non-Current Liabilities: **Secured Loans (secured against pledge of stocks)**	**16,000**	**8,000**	**Profit & Loss A/c**	**16,600**	**-**
Unsecured Loans	**8,600**				
Current Liabilities	**13,000**	**4,600**			
	42,000	**16,400**		**42,000**	**16,400**

Both the companies go into liquidation and Charlie Ltd., is formed to take over their businesses. The following information is given:

(1) All Current assets of two companies, except pledged stock are taken over by Charlie Ltd. The realisable value of all Current assets are 80% of book values in case of Andrew Ltd. and 70% for Barry Ltd. Fixed assets are taken over at book value.

(2) The break up of Current liabilities is as follows:

	Andrew Ltd. **₹**	**Barry Ltd.** **₹**
Statutory liabilities (including ₹22 lakh in case of Andrew Ltd. in case of a claim not having been admitted shown as contingent liability)	**72,00,000**	**10,00,000**
Liability to employees	**30,00,000**	**18,00,000**

The balance of Current liability is miscellaneous creditors.

(3) Secured loans include ₹16,00,000 accrued interest in case of Barry Ltd.

(4) 2,0,000 equity shares of ₹10 each are allotted by Charlie Ltd. at par against cash payment of entire face value to the shareholders of Andrew Ltd. And barry Ltd. In the ratio of shares held by them in Andrew Ltd. And Barry Ltd.

(5) Preference shareholders are issued Equity shares worth ₹2,00,000 in lieu of present holdings.

(6) Secured loan creditors agree to continue the balance amount of their loans to Charlie Ltd. after adjusting value of pledged security in case of Andrew Ltd. And after waiving 50% of interest due in the case of Barry Ltd.

(7) Unsecured loans are taken over by Charlie Ltd. at 25% of Loan amounts.

(8) Employees are issued fully paid equity shares in Charlie Ltd. In full settlement of their dues.

(9) Statutory liabilities are taken over by Charlie Ltd. At full value and miscellaneous creditors are taken over at 80% of the book value.

Required: Show the opening Balance Sheet of Charlie Ltd. **[10]**

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

3. **(a) H Ltd. acquired 30,000 equity shares in S Ltd. on 01.07.2014 for ₹5,00,000. The credit balance of Profit and Loss Account of S Ltd. as on 01.04.2014 was ₹2,00,000. Following are the extracts of Balance Sheets:**

EXTRACTS OF BALANCE SHEETS OF H LTD. AND S LTD. AS AT 31ST MARCH, 2015

	H Ltd. ₹	S Ltd. ₹
Equity Share Capital (₹10)	10,00,000	5,00,000
Profit & Loss A/c	3,00,000	2,50,000
Investments in S Ltd.	5,00,000	-

Required: Calculate the Share of Minority Shareholders and Holding Company in the pre acquisition and post-acquisition profits of a subsidiary company and also give the rectifying entry to rectify the wrong recording of the receipt of dividends in the books of H Ltd. in the following case

(a) On 31.03.2015 S Ltd. declared an interim dividend @ 10% for the year 2014-2015. H Ltd. credited the receipt of dividend to its Profit & Loss Account. [10]

3. **(b) Hinduja Ltd made an offer to acquire all the Shares of Leyland Cargo Ltd, to be satisfied by the allotment of 5 Shares in Hinduja Ltd at ₹25 per Share for every 4 Shares in Leyland Cargo Ltd. By the date of expiration of the offer, which was on 01.01.2013, Shareholders owning 75% of the Shares Leyland Cargo Ltd accepted the offer and the acquisition was effective from that date.**

The accounting date of Leyland Cargo Ltd was on 31st March in each year, but to conform with Hinduja Ltd, the accounts were prepared to 30.06.2013, covering the Fifteen Months to the date.

The draft summarized accounts of the Companies on 30.06.2013 which do not include any of Shares in Leyland Cargo Ltd were as follows -

Equity and Liabilities	Hinduja	Leyland	Assets	Hinduja	Leyland
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital - Authorised	3,00,000	75,000	(a) Fixed Assets - Tangible		
- Issued & Fully paid (₹10)	1,50,000	60,000	(i) P & M at Cost	50,000	12,000
			Less: Depreciation	18,000	3,000
(b) Reserves & Surplus				32,000	9,000
- General Reserve	55,000	-	(ii) Freehold Prop, (at cost)	2,00,000	38,000
- Profit & Loss A/c	62,000	20,000			
(2) Current Liabilities:			(b) Non-Current Investments		
(a) Other Current Liabilities	27,000	7,000	(Quoted Invt at Cost)	7,000	-
(b) Short Term Provisions					
- Provision for Taxation	33,000	6,000	(2) Current Assets:		
			(a) Inventories	32,000	21,000
			(b) Trade Receivables - Drs	41,000	17,000
			(c) Cash & Cash Equivalents	15,000	8,000
Total	3,27,000	93,000	Total	3,27,000	93,000

Profit & Loss Account – period ending 30.06.2013

Particulars	Hinduja	Leyland
Period	12 Months	15 Months
Balance brought forward	14,000	12,000
Add: Profit for the period	80,000	18,000
Total	94,000	30,000
Taxation for the period	32,000	6,000
Interim Dividend paid, 30th Nov 2012	-	4,000
Balance carried forward	62,000	20,000
Total	94,000	30,000

The Directors of Hinduja Ltd recommended a final dividend of 20% to the Shareholders on register as on 30.06.2013. The Directors of Leyland Cargo Ltd proposed a final dividend of 12.50% payable on 30.09.2013.

You are required to prepare the Consolidated Balance Sheet of Hinduja Ltd and Leyland Cargo as on 30.06.2013. [15]

3. (c) On 01.01.2011, Ganpat Ltd acquired 8,000 Shares of ₹10 each of Hari Ltd at ₹90,000. The Balance Sheet of Ganpat Ltd and Hari Ltd as at 31.12.2013 are given below -

Equity and Liabilities	Ganpat	Hari	Assets	Ganpat	Hari
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital			(a) Fixed Assets	60,000	1,10,000
- Equity Share of (₹10)	1,00,000	1,00,000	(b) Non-Current Investments	1,00,000	15,000
(b) Reserves & Surplus			(2) Current Assets:		
(i) General Reserve	40,000	26,000	(a) Inventories	30,000	40,000
(ii) Profit & Loss A/c	36,000	35,000	(b) Trade Receivables - Drs	25,000	20,000
(2) Current Liabilities:			(c) Cash & Cash Equivalents	32,000	24,000
Trade Payable – Sundry Crs	71,000	48,000			
Total	2,47,000	2,09,000	Total	2,47,000	2,09,000

1. At the time of acquiring Shares, Hari Ltd had ₹ 24,000 in General Reserve and ₹15,000 (Cr.) in P & L A/c.
2. Hari Ltd paid 10% Dividends in 2011,12% in 2012,15% in 2013 for 2010,2011 and 2012 respectively. All Dividends received have been credited to the Profit & Loss Account of Ganpat Ltd.
3. Proposed Dividend for both the Companies for 2013 is 10%.
4. One Bonus Share for five fully paid Shares held has been declared by Hari Ltd out of pre-acquisition reserve on 31.12.2013. No effect has been given to that in the above accounts.
5. On 01.01.2011, Building of Hari Ltd which stood at ₹50,000 was revalued at ₹60,000 but no adjustment has been made in the books. Depreciation has been charged @ 10% p.a. on reducing balance method.
6. In 2013, Ganpat Ltd purchased from Hari Ltd, goods for ₹10,000 on which Hari Ltd made a Profit of 20% on Sales. 25% of such goods are lying unsold on 31.12.2013.

Prepare the consolidated balance Sheet as at 31.12.2013. [15]

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

4. (a) 'By introducing XBRL for reporting, regulators and other government authorities can obtain certain benefits.'- List them. [5]

4. (b) B (ESOP) Ltd. provides you the following particulars in respect of stock options granted:

Grant Date	April 1, 2011
Number of employees covered	1050
Number of Options granted per employee	50
Vesting Condition: Continuous employment for 3 years	
Nominal value per share (₹)	100
Exercise Price per share (₹)	125
Market price per share on grant date (₹)	149
Vesting Date	March 31, 2014

Exercise Date	March 31,2015
Fair Value of Option per share on Grant Date (₹)	30

Position on	31.03.2012	31.03.2013	31.03.2014
Estimated Annual Rate of Departure	2%	3%	
Number of Employees left	30	20	16
Number of employees entitled to exercise option			984

On 31st March, 2015, 960 employees exercised the option and 24 employees did not exercise the option.

Required: Compute Expenses to be recognized in each year by Fair Value Method and prepare Employees Compensation Expense Account and ESOP Outstanding Account in books of the company. [10]

4. (c) VA Ltd. furnishes the following Profit and Loss A/c:

Profit and Loss A/c for the year ended 31st March,2015

Income	Notes	₹('000)
Turnover	1	29,872
Other Income		1,042
		30,914
Expenditure		
Operating expenses	2	26,741
Interest on 8% Debenture		987
Interest on Cash Credit	3	151
Excise duty		1,952
		29,831
Profit before depreciation		1,083
Less: Depreciation		(342)
Profit before tax		741
Provision for tax	4	376
Profit after tax		365
Less: Transfer to Fixed Assets Replacement Reserve		(65)
		300
Less: Dividend paid		(125)
Retained Profit		175

Notes:

(1) Turnover is based on invoice value and net of sales tax.
(2) Salaries, wages and other employee benefits amounting to ₹14,761 ('000) are included in operating expenses.
(3) Cash Credit represents a temporary source of finance. It has not been considered as a part of capital.
(4) Transfer of ₹54('000) to the credit of deferred tax account is included in provision for tax.

Prepare Value Added Statement for the year ended 31st March, 2015 and reconcile total value added with profit before taxation. [10]

4. (d) From the following data in respect of an employer, calculate the total value of human capital under 'Lev and Schwartz' Model.

Distribution of employees of A Limited

Age	Unskilled		Semi-skilled		Skilled	
	No.	Avg. Annual Earnings	No.	Avg. Annual Earnings	No.	Avg. Annual Earnings
30-39	100	18,000	60	36,000	40	84,000
40-49	50	30,000	30	48,000	20	1,20,000
50-54	30	36,000	20	60,000	10	1,80,000

Retirement age is 55 year. Apply 20% discount factor. In calculation of total value of human factor the lowest age of each class should be taken. Annuity factors @20 per cent are:

Years	5	10	15	20	25
Annuity Factor @20%	2.991	4.192	4.675	4.870	4.948

[10]

Question No. 5 (Answer any three):

5. (a) Distinguish between Commercial and Government Accounting. [5]

(b) Discuss the functions of the Public Accounts Committee. [5]

(c) List the structure of the Government Accounting Standards Advisory Board. [5]

(d) Describe the objective and scope of Guarantees given by Governments: Disclosure Requirements[IGAS1] [5]