Paper-18 : CORPORATE FINANCIAL REPORTING

1. (a) Write a note on IFRS.

(b) Accounts of R Ltd. show a net profit of ₹7,20,000 for the third quarter of 2014 after incorporating the following:

(i) Bad debts of ₹40,000 incurred during the year. 50% of the bad debts have been deferred to the next quarter.

(ii) Extra ordinary loss of ₹35,000 incurred during the quarter has been fully recognized in this quarter.

(iii) Additional depreciation of ₹45,000 resulting from the change in the method of charge of depreciation.

Ascertain the correct quarterly income.

(c) A company with a turnover of ₹500 crores and an annual advertising budget of ₹4 crore had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹50 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of ₹4 crore incurred on extensive special initial advertisement campaign for the new product. Is the procedure adopted by the company correct?

(d) J Ltd. has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested ₹160 crores in the eligible investments. The company is eligible for the subsidy and has received ₹40 crores from the government in February 2015. The company wants to recognize the said subsidy as its income to improve the bottom line of the company.

Do you approve the action of the company in accordance with the Accounting Standard?

Answer:

1.(a)

The term IFRS refers to the International Financial Reporting Standards issued by International Accounting Standard Board (IASB). It also encompasses the International Accounting Standards (IAS) issued by the International Accounting Standard Committee (IASC). Interpretations of IASs and IFRSs are developed by the International Financial Reporting Interpretations Committee (IFRIC). IFRIC is the new name for the Standing Interpretations Committee (SIC) approved by the IASC Foundation Trustees. IFRS includes these interpretations also.

1.(b)

In this case, the quarterly income has not been correctly stated as per AS-25 'Interim Financial Reporting'. The quarterly income should be adjusted and restated as follows:

Bad debt of ₹40,000 has been incurred during the current quarter. Out of this, the company has deferred 50% i.e. ₹20,000 to next quarter. This is not correct. ₹20,000 therefore should be deducted from ₹7,20,000.

The treatment of extraordinary loss of ₹35,000 being recognized in the same quarter and recognized the additional depreciation of ₹45,000 in the quarter is correct and in tune with AS-25, so no adjustment required for the two items.

The company should report the quarterly income as ₹7,20,000 - ₹20,000 = ₹7,00,000

1.(c)

According to AS-26 'Intangible Assets' expenditure of an intangible item should be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset.

In the given case, advertisement expenditure of ₹4 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of ₹50 crores. Here, no tangible asset or other asset is acquired or created that can be recognized. Therefore, the accounting treatment by the company of debiting the entire advertisement expenditure of ₹4 crores to the Profit and Loss Account of the year is correct.

1.(d)

The action of the company is not justified in view of AS-12 'Accounting for Government Grants'.

Where the government grants are of the nature of promoter contribution i.e. they are given with reference to the total investment in an undertaking or by way of promoters contribution towards its total capital outlay and no repayment is ordinary expected in respect thereof the grants are treated as capital reserve, which can be neither distributed as dividend nor considered as deterred income.

Therefore it is inappropriate to recognize Government Grants in the P&L statement, since they are not earned but represent an incentive provided by Government without related cost.

2. (a) Z Ltd. began construction of a new plant on 1st April 2011 and obtained a special loan of ₹16 lakhs to finance the construction of the plant. The rate of interest on loan was 10% per annum. The expenditure that was made on the project of plant construction was as follows:

1-4-2011	**20,00,000**
1-8-2011	**48,00,000**
1-1-2012	**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 31.3.2012. 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).

(b) State the Disclosure requirement of Contingent liability as per AS-29.

(c) Explain the classification criteria of IFRS 5 (Non-Current Assets held for sale and discontinued operations)

Answer:

2. (a)

(i) Calculation of average accumulated expenses

₹20,00,000 ×12/12	20,00,000
₹48,00,000 × 8/12	32,00,000
₹8,00,000 × 3/12	2,00,000
	54,00,000

(i) Non-specific borrowings = Average accumulated capital expenses–Specific borrowings

= ₹54,00,000 - ₹16,00,000 = ₹38,00,000

(ii) Interest on average accumulated expenses

Specific borrowings (₹16,00,000 ×10%)	1,60,000
Non-specific borrowings (₹38,00,000 ×12%)	4,56,000
Amount of interest to be capitalized	6,16,000

(iii) Total expenses to be capitalized for plant

Cost of Plant (20,00,000 + 48,00,000 + 8,00,000)	76,00,000
Add: Amount of interest to be capitalised	6,16,000
Total cost of Plant	82,16,000

Answer:

2. (b) An enterprise should disclose for each class of contingent liability at the balance sheet date

- A brief description of the nature of the contingent liability where practicable.
- An estimate of the amount as per measurement principles as prescribed for provision.
- Indications of the uncertainties relating ti outflow
- The possibility of any reimbursement

Where any of the information required as above is not disclosed because it is not practicable to do so, that fact should be stated

Answer:

2. (c) Classification criteria —

- Management is committed to a plan to sell
- The asset is available for immediate sale
- An active programme to locate a buyer is initiated
- The sale is highly probable, within one year of classification as held for sale
- The asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- Actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

The criteria sale is highly probable within one year of classification as held for sale needs is not evidenced when the management is indecisive whether the particular asset will be sold or leased out.

3. (a) ADS Ltd. has three segments viz. A, D and S. The total assets of the company is ₹15 crores. The assets of Segment A is ₹1.85 crores, Segment D is ₹6.15 crores and Segment S is ₹7.00 crores. Assets of each segment include deferred tax assets of ₹0.50 crores in A, ₹0.40 crores in D and ₹0.30 crores in S. The accountant of ADS Ltd. contends that all segments are reportable segments. Based on segment assets criteria, determine the veracity of the contention of the accountant.

(b) X Ltd. purchased a fixed asset four years ago for ₹300 lakhs and depreciates it at 10% p.a. on straight line method. At the end of the fourth year it has revalued the asset at ₹150 lakhs and has written off the loss on revaluation to the profit and loss account. However on the date of revaluation, the market price is ₹135 lakhs and expected disposal cost are ₹6 lakhs. What will be the treatment in respect of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹120 lakhs

Answer:

3. (a) Statement showing percentage of Segment net assets to total assets of the company

₹ in crores

Particulars	**Segments**		**Total**	
	A	D	S	
Segment Assets	1.85	6.15	7.00	15.00
Less: Deferred Tax Assets	(0.50)	(0.40)	(0.30)	(1.20)
Net Segment assets	1.35	5.75	6.70	13.80
Percentage to total net segment assets	9.78%	41.67%	48.55%	100%

As per AS-17 Segment Reporting,one of the basis of segment asset criteria for identification of a business segment or geographical segment as a reportable segment is when its segment assets are 10% or more of the total assets of all segments. Accordingly, the reportable segments will be segments B and C only. Therefore, the contention of the accountant that all the segments are reportable segments is not tenable.

(b) According to AS 28 'Impairment of Assets' if the recoverable amount (higher of net selling price and its value in use) of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount.

In the given case, net selling price is ₹129 lakhs (₹135 lakhs -₹6 lakhs) and value in use is ₹120 lakhs.

Thus recoverable amount will be ₹129 lakhs. Impairment loss will be calculated as 21 lakhs [₹150 lakhs – 129 lakhs, i.e. (carrying amount after revaluation – Recoverable amount)]

Therefore, impairment loss of ₹21 lakhs should be recognized as an expense in the statement of Profit and Loss immediately since there was downward revaluation of asset which was already charged to Statement of Profit and Loss.

Working Note:

Calculation of carrying amount of the fixed asset at the end of the fourth year on revaluation

Particulars	**₹ in lakhs**
Purchase price of a fixed asset	300.00

Less: Depreciation for four years [(300/10 years) × 4 years	120.00
Carrying value at the end of fourth year	180.00
Less: Downward revaluation charged to Profit and loss account	30.00
Revalued carrying amount	150.00

4. Following is the Extract of Balance Sheet of M/s Sunny Ltd and Money Ltd as on 31.03.2014 -

Equity and Liabilities	Sunny Ltd	Money Ltd
Authorised Share Capital	15,00,000	5,00,000
Equity Share Capital of ₹ 10 each fully paid	8,00,000	2,00,000
General Reserve	1,10,000	45,000
Profit and Loss Account	42,000	18,000
Statutory Fund	16,000	8,000
Trade Payables	45,000	24,000
Provisions	95,000	12,000
Total	11,08,000	3,07,000
Assets	Sunny Ltd	Money Ltd
Goodwill	20,000	0
Machines & Plant	5,10,000	1,95,000
Other Fixed Assets	90,000	15,000
Current Assets Inventories	1,85,000	35,000
Debtors	1,00,500	35,000
Prepaid Expenses	24,500	2,000
Cash in Hand & Bank	1,78,000	25,000
Total	11,08,000	3,07,000

The two Companies have entered into a scheme of Amalgamation and a new company Z Ltd is formed. The Amalgamation is to take place in the following manner -

i. **For the purpose of Amalgamation a new Company Z is to be formed with an Authorized Share Capital of 2,50,000 Equity Shares of ₹ 10 each.**

ii. **Z Ltd to issue fully paid Shares to the shareholders of Sunny Ltd and Money Ltd at a price of ₹ 5 and ₹ 3 above the Intrinsic Value of the Shares respectively.**

iii. **The scheme of Amalgamation was not supported by 100 shareholders of Sunny Ltd and has to be paid ₹ 10 per Share above Intrinsic Value as consideration. The amount of the dissenting shareholders was borne by Z Ltd.**

iv. **Fixed Assets of Sunny Ltd were last revalued in the year 2010 after which there has been an increase of 15% in the values, while assets of Money Ltd have not shown any change in prices. The Current Assets of Money Ltd include Debtors of ₹ 20,000 which are considered bad.**

v. **Money Ltd's Stock-in-Trade as on 31.03.2014 includes Stock of ₹ 25,000 purchased from Sunny Ltd at a Profit of 25% on Cost Price.**

vi. **The Statutory Fund of the Companies is to be maintained by Z Ltd for a period of 3 years.**

vii. **Sunny Ltd had declared Dividend of 10% on 31.03.2014 which has still not been paid.**

viii. **Goodwill shown in books of Sunny Ltd was considered to be worthless.**

ix. **All the Assets of the Companies are taken over by Z Ltd at the revalued amounts. Liabilities have to be paid in full.**

Calculate the Purchase Consideration paid by Z Ltd to the Shareholders of both the Companies.

Answer:

4.

1. Basic Information

Selling Co : Sunny Ltd and Money Ltd.	**Date of B/S:** 31.03.2014	Nature of Amalgamation: Purchase (Since all Assets are not taken over at Book Value)
Buying Co : Z Ltd.	**Date of Amg:** 31.03.2014	

2. Computation of Purchase Consideration

Particulars	Sunny Ltd	Money Ltd
Machines and Plant (Revalued Figure)	5,86,500	1,95,000
Other Fixed Assets (Revalued Figure)	1,03,500	15,000
Inventories **(See Note Below)**	1,85,000	30,000
Debtors Less Bad Debts	1,00,500	15,000
Prepaid Expenses	24,500	2,000
Cash in Hand and Bank	1,78,000	25,000
Total Assets	**11,78,000**	**2,82,000**
Less: Trade Payables	(45,000)	(24,000)
Less: Provisions	(95,000)	(12,000)
Net Asset Value / Intrinsic Value	10,38,000	2,46,000
No. of Equity Shares	80,000	20,000
Intrinsic Value per share	12.98	12.3
Issue Price (₹ 5 and ₹ 3 above the Intrinsic Value respectively)	(12.98 + 5) 17.98	(12.3 + 3) 15.3
Purchase Consideration - Assenting Shareholders	(79,900 Shares x 17.98) = 14,36,602	(20,000 Shares x 15.3) = 3,06,000
Purchase Consideration - Dissenting Shareholders	(100 Shares x 22.98) = 2,298	-
Total Purchase Consideration	**14,38,900**	**3,06,000**

Note: Profit included in the Stock of Money Ltd is 25% on Cost Price or 20% on Sales = 20% of 25,000 = X 5,000. Therefore, Value of Inventory = ₹ 35,000 - ₹ 5,000 = ₹ 30,000.

5. Purchasing Company holding Shares in Selling Co.
The following is the Balance Sheet of H Ltd and S Ltd as at 31st March 2014- (₹ Lakhs)

Equity and Liabilities	H Ltd	S Ltd	Assets	H Ltd	SLtd
(1) Shareholders' Funds:			**(1) Non-Current Assets:**		
(a) Share Capital (Shares of 10 each)	**50**	**10**	**(a) Fixed Assets**	**60**	**18**
(b) Reserves & Surplus (i) General Res.	**50**	**20**	**(b) Non-Current Investments**		
(ii) Profit & Loss Account	**20**	**15**	**Invt in S Ltd (60,000 Shares)**	**6**	**-**
(2) Non-Current Liabilities:			**(2) Current Assets:**		
Secured Loans	**20**	**3**	**(a) Inventories**	**30**	**25**
(3) Current Liabilities:	**30**	**2**	**(b) Trade Receivables -Debtors**	**35**	**5**
			(c) Cash & Cash Equivalents	**39**	**2**
Total	**170**	**50**	**Total**	**170**	**50**

H Ltd holds 60% of the Paid Up Capital of S Ltd, and balance is held by a Foreign Collaborating Company. The Foreign Company agreed with H Ltd as under -

i. **The Shares held by the Foreign Company will be sold to H Ltd at ₹ 50 above than Nominal Value per Share.**

ii. **The actual Cost of the Shares to the Foreign Company was ₹ 11, Gain arising to Foreign Company is taxable at 20%. Tax payable will be deducted from the Sale proceeds and paid to the Government by H Ltd. 50% of the consideration (after payment of tax) will be remitted to Foreign Company by H Ltd and also any Cash for fractional Shares allotted.**

iii. **For the balance of consideration, H Ltd would issue its Shares at their Intrinsic Value.**

It was also decided that H Ltd would absorb S Ltd simultaneously by writing down Fixed Assets of S Ltd by 10%. The Balance Sheet figures included a sum of ₹ 1 Lakh due by S Ltd to H Ltd. H Ltd's Inventories included a stock of ₹ 1.25 Lakhs purchased from S Ltd, who sold them at cost plus 20%.

Pass Journal entries in the books of H Ltd to record the above arrangement on 31.03.2014.

Answer:

5.

1. Basic Information

<table>
<tr><td>Selling Co: S Ltd</td><td>Date of B/S: 31.03.2014</td><td rowspan="2">Nature of Amalgamation:
Purchase (since the Assets are not taken over at Book Value)</td></tr>
<tr><td>Buying Co : H Ltd</td><td>Date of Amg: 31.03.2014</td></tr>
</table>

2. Intrinsic Value per Share of H Ltd.

Particulars	₹ Lakhs
Fixed Assets Sundry Debtors Inventories Cash and Bank Investments in S Ltd (assuming ₹ 60 to be Fair Value per Share) (₹ 60 x 0.6 Lakhs Shares)	60.00 35.00 30.00 39.00 36.00
Less: Secured Loans Current Liabilities	(20.00) (30.00)
Net Asset Value	**150.00**
NAV per Share = $\frac{₹ 150 \text{ Lakhs}}{5 \text{ Lakhs Shares}}$	**₹ 30.00**

Note: Shares of S Ltd are valued at ₹ 60 (Nominal Value ₹ 10 + Premium ₹ 50) for discharge Foreign Company. Such value is assumed to be the Fair Value. Alternatively, Investments based on Intrinsic Value of S Ltd.

3. Purchase Consideration and Discharge

Description		₹
Shares held by Foreign Company [40% of 1,00,000] Price per share for transfer purposes [Nominal Value ₹ 10 + Premium ₹ 50]		40,000 60
Total Consideration (in ₹ Lakhs) (0.4 Lakh Shares x ₹ 60 per Share)		24,00,000
Gain on Transfer [₹ 24,00,000 - Cost (40,000 Shares x ₹ 11)]		**19,60,000**
Tax on Gain @ 20% (deductible and payable to Government)		3,92,000
Consideration payable to Foreign Company (Total ₹ 24.00 - ₹ 3.92 Lakhs)		20,08,000

(a) Settled by issue of Equity Shares (50% of ₹ 20.08 Lakhs)		10,04,000
No. of Equity Shares to be issued = $\frac{₹10,04,000}{30}$	33,466.67	
Discharge in the form of Shares at ₹ 30 per Share In Cash (6.67 Shares x ₹ 30) (immediate settlement)	33,460.00 6.67	10,03,800 200
(b) Settled immediately by Cash (50% of ₹ 20.08 Lakhs)		10,04,000
Total Cash to be paid in the beginning		10,04,200

4. Journal Entries in the Books of H Ltd.

Particulars		Debit	Credit
1. Business Purchase A/c	Dr.	24,00,000	
To Foreign Company A/c			24,00,000
(Being Purchase Consideration Due to the Foreign Company for purchase of shares held by them and absorption of S Ltd)			
2. Foreign Company A/c	Dr.	24,00,000	
To Bank A/c			10,04,200
To Equity Share Capital A/c (33,460 Shares of ₹ 10 each)			3,34,600
To Securities Premium A/c (33,460 Shares x ₹ 20)			6,69,200
To TDS Deducted (Payable to Central Government)			3,92,000
(Being Discharge of Purchase Consideration to the Foreign Company by issue of Shares, cash settlement after deduction of tax at source)			
3. Fixed Assets A/c (₹ 18,00,000 - 10%)	Dr.	16,20,000	
Sundry Debtors A/c	Dr.	5,00,000	
Stock in Trade A/c	Dr.	25,00,000	
Cash and Bank A/c	Dr.	2,00,000	
To Business Purchase A/c			24,00,000
To Investments in S Ltd A/c			6,00,000
To Secured Loans A/c			3,00,000
To Current Liabilities A/c			2,00,000
To Capital Reserve A/c (Balancing Figure)			13,20,000
(Being Assets taken over and incorporated in the books of H Ltd)			
4. Sundry Creditors A/c	Dr.	1,00,000	
To Sundry Debtors A/c			1,00,000
(Being cancellation of Mutual Owings)			
5. Capital Reserve A/c	Dr.	25,000	25,000
To Stock in Trade A/c			
(Being Unrealized Profit on Inter-Company transfer adjusted. 25/125 x ₹1,25,000)			
6. TDS Payable to Government A/c	Dr.	3,92,000	3,92,000
To Bank A/c			
(Being TDS deducted, remitted to Central Government)			

6. The Balance Sheet of Mickey Ltd and Donald Ltd are given below as at 31st December-

Equity and Liabilities	Mickey	Donald	Assets	Mickey	Donald
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(b) Share Capital (Shares of ₹10)	2,00,000	4,00,000	(a) Fixed Assets		
(c) Reserves & Surplus	44,000	1,00,000	(i) Tangible Assets	3,10,000	5,90,000
(2) Non-Current Liabilities:			(ii) Loan to Donald Ltd	30,000	-
- Long Term Borrowings			(b) Non-Current Investments	50,000	-
(i) 7% Debentures (₹100 each)	1,00,000	-	(5,000 Shares of Donald Ltd)		
(ii) Loan from Mickey Ltd	-	30,000	(2) Current Assets: Cash		10,000
(3) Current Liabilities:	46,000	70,000			
Total	3,90,000	6,00,000	Total	3,90,000	6,00,000

Donald takes over Mickey on the following terms:

i. **Donald will issue sufficient number of its Shares at ₹ 11 each and pay ₹ 0.50 Cash per Share held by Members of Mickey.**

ii. **7% Debentures of Mickey are to be paid at 8% Premium by issue of sufficient number of 8% Debentures of Donald Ltd at ₹ 90.**

Show Journal Entries in Donald's books and draft the Balance Sheet of Donald Ltd after absorption.

Answer:

6.

A. Basic Information

Selling Co: Mickey Ltd	**Date of B/S:** 31st Dec	**Nature of Amalgamation:**
Buying Co : Donald Ltd	**Date of Amg:** 31st Dec	Purchase (Since Purchase Consideration is discharged other than by way of Equity shares)

B. Computation of Purchase Consideration by Net Assets Method

Particulars	₹
Tangible Assets	3,10,000
Loan to Donald Ltd	30,000
Invt in Shares of Donald Ltd taken at Fair Value = Issue Price (5,000 Shares x ₹ 11)	55,000
Total of Assets	3,95,000
Less: Liabilities: 7% Debentures (1,00,000 + 8% Premium)	(1,08,000)
Current Liabilities	(46,000)
Net Assets taken over = Total Consideration due	**2,41,000**

C. Settlement of Purchase Consideration

Particulars	₹
(a) Total Value of Assets taken over = Consideration due as calculated above	2,41,000
(b) Cash Paid at ₹ 0.50 per share to all members of Mickey Ltd = 20,000 Shares x 0.50	10,000
(c) Balance Consideration to be settled in terms of Shares	2,31,000
(d) Number of Shares of Donald Ltd issuable at ₹ 11 per Share = ₹ 2,31,000 /11	21,000 Shares
(e) Shares of Donald Ltd already held by Mickey Ltd	5,000 Shares
(f) Balance Shares now issuable	16,000 Shares
(g) Equity Share Capital = 16,000 x ₹ 10 per Share	1,60,000

(h) Securities Premium = 16,000 x ₹ l per Share	16,000
(i) Total Purchase Consideration settled (b) + (g) + (h)	1,86,000

D. Journal Entries in the books of Donald Ltd.

	Particulars		Debit	Credit
1.	Business Purchase	Dr.	1,86,000	
	To Liquidator of Mickey Ltd			1,86,000
	(Being consideration due for Purchase of Business of Mickey Ltd)			
2.	Tangible Assets	Dr.	3,10,000	
	Loan to Donald Ltd	Dr.	30,000	
	To Debenture holders			1,08,000
	To Current Liabilities			46,000
	To Business Purchase			1,86,000
	(Being Asset and Liabilities of Mickey Ltd incorporated in accounts)			
3.	Liquidator of Mickey Ltd.	Dr.	1,86,000	
	To Equity Share Capital			1,60,000
	To Securities Premium			16,000
	To Bank			10,000
	(Being settlement of Purchase Consideration in the form of Cash and Shares)			
4.	Debentureholders	Dr.	1,08,000	
	Discount on issue of debentures	Dr.	12,000	
	To 8% Debentures			1,20,000
	(Being Debentureholders settled by issue of own 8% Debentures at ₹ 90)			
5.	Loan from Mickey Ltd.	Dr.	30,000	
	To Loan to Donald Ltd.			30,000
	(Being mutual cancellation of Inter-Company Owings)			

E. Balance Sheet of Donald Ltd as at 31st December

	Particulars as at 31st March	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	1	5,60,000	
	(b) Reserves & Surplus	2	1,04,000	
(2)	**Non—Current Liabilities:** Long Term Borrowings (8%		1,20,000	
(3)	**Debentures) Current Liabilities** (46,000 + 70,000)		1,16,000	
	Total		**9,00,000**	
II	**ASSETS**		9,00,000	
	Non-Current Assets: Fixed Assets: (Tangible Assets)			
	[Existing Assets 6,00,000 + Taken Over 3,10,000 (-) Cash paid 10,000]			
	Total		**9,00,000**	

Notes to the Balance Sheet

Note 1: Share Capital

Particulars	This Year	Prev. Year

Authorised: ……… Equity Shares of ₹ 10 each		
Issued, Subscribed & Paid up: (40,000 + 16,000) 56,000 Equity Shares of ₹ 10 each (Of the above, 16,000 shares were issued for Non-Cash Consideration pursuant to a scheme of amalgamation, Order No. ……., dated .../.../...)	5,60,000	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Securities Premium	16,000	
(b) Other Reserves (Assumed Revenue)	1,00,000	
(c) Discount on issue of Debentures	(12,000)	
Total	**1,04,000**	

7. The Balance Sheet of Gupta Ltd as at 31st December is as follows -

Equity and Liabilities	₹	Assets	₹
(a) Share Capital		(1) Non-Current Assets:	
- 8,000 Equity Shares of ₹ 100 fully paid	8,00,000	(a) Fixed Assets: (i) Tangible Assets	
(b) Reserves & Surplus -P&L Account	(10,70,000)	- Land, Buildings & Machinery	14,30,000
(2) Non-Current Liabilities: - Long Term Borrowings		(b) Non-Current Investments	17,000
- Debentures 14,00,000		(2) Current Assets:	
Add: Interest Accrued 70,000	14,70,000	(a) Inventories	80,000
		(b) Trade Receivables - Sundry Drs	30,000
(3) Current Liabilities:		(c) Cash & Cash Equivalents	1,03,000
(a) Trade Payables - Sundry Creditors	4,50,000		
(b) Other Current Liabilities			
- Sundry Creditors: Income Tax	10,000		
Total	16,60,000	Total	16,60,000

The Fixed Assets are heavily overvalued. The Debentureholders have a Floating Charge on the Assets of the Company. They are prepared to accept a modification of their claims in consideration of a substantial Interest in the Share Capital. A scheme of reorganisation is accordingly prepared and confirmed by the Court. The salient points of the scheme are the following –

i. **Each Share shall be subdivided into 20 fully paid Equity Shares of ₹ 5 each.**
ii. **After sub-division, each Shareholder shall surrender to the Company 95% of his holding, for the purpose of reissue to Debentureholders and Creditors so far as may be required, and otherwise for cancellation.**
iii. **Of those surrendered, 46,000 Shares of ₹ 5 each shall be converted into 8% Participating Preference Shares of ₹ 5 each fully paid.**
iv. **Debentureholders' total claim shall be reduced to ₹ 2,30,000. This will be satisfied by the issue of 46,000 Participating Preference Shares of ₹ 5 each fully paid.**
v. **Liability for Income Tax is to be satisfied in full.**
vi. **Claims of Unsecured Creditors shall be reduced by 80% and the balance shall be satisfied by allotting them Equity Shares of ₹ 5 each, fully paid, from the Share surrendered.**
vii. **Shares surrendered and not reissued shall be cancelled.**

Pass the Journal Entries and draft the Balance Sheet after giving effect to the above scheme.

Answer:

7.

A. Journal Entries

	Particulars		Debit	Credit
1.	Equity Share Capital (₹ 100) A/c	Dr.	8,00,000	
	To Equity Share Capital (₹ 5) A/c			8,00,000
	(Being sub-division of Shares under the scheme of Reconstruction)			
2.	Equity Share Capital A/c (₹ 5)	Dr.	7,60,000	
	To Shares Surrendered A/c			7,60,000
	(Being surrender of shares (8,00,000 x 95%) owing to scheme of reconstruction)			
3.	Debentures A/c	Dr.	14,00,000	
	Accrued Interest A/c	Dr.	70,000	
	To Debenture holders			2,30,000
	To Reconstruction			12,40,000
	(Being amount due to debenture holders under the scheme of reconstruction)			
4.	Shares Surrendered A/c	Dr.	2,30,000	
	To 8% Participating Preference Share Capital			2,30,000
	(Being Participating Preference Shares issued out of shares surrendered (46,000 Shares x ₹ 5) under the scheme of reconstruction)			
5.	Debenturehoiders A/c	Dr.	2,30,000	
	To Reconstruction			2,30,000
	(Being cancellation of liability pursuant to the scheme of reconstruction)			
6.	Income Tax A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Being Income Tax Liability Settled in Full)			
7.	Sundry Creditors A/c	Dr.	3,60,000	
	To Reconstruction A/c			3,60,000
	(Being waiver of Liability to Creditors (4,50,000 x 80%) under the scheme)			
8.	Shares Surrendered A/c	Dr.	90,000	
	To Equity Share Capital			90,000
	(Being Equity Shares issued to Creditors (4,50,000 - 3,60,000) issued out of Shares Surrendered balance)			
9.	Creditors A/c	Dr.	90,000	
	To Reconstruction A/c			90,000
	(Being cancellation of liability owing to the scheme of reconstruction)			
10.	Shares Surrendered A/c	Dr.	4,40,000	
	To Reconstruction A/c			4,40,000
	(Being shares surrendered not reissued cancelled by transfer to Reconstruction)			
11.	Reconstruction A/c	Dr.	23,60,000	
	To Profit & Loss A/c			10,70,000
	To Land, Buildings & Machinery			12,90,000
	(Being balance in Reconstruction Account utilized to write off			

	overvalued assets and debit balance in Profit and Loss Account)		

B. Reconstruction Account

Particulars	₹	Particulars	₹
To Profit & Loss A/c - w/off	10,70,000	By Debentures A/c	12,40,000
To Land, Building, & Machinery	12,90,000	By Debentureholders	2,30,000
		By Creditors	3,60,000
		By Creditors	90,000
		By Shares Surrendered	4,40,000
Total	**23,60,000**	**Total**	**23,60,000**

C. Balance Sheet of Gupta Ltd as at 31st December (and Reduced)

	Particulars as at 31st December	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES**			
	Shareholders' Funds: Share Capital	1	3,60,000	
	Total		**3,60,000**	
II	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Fixed Assets: - Tangible Assets (14,30,000 - 12,90,000)		1,40,000	
	(b) Non-Current Investments		17,000	
(2)	**Current Assets**			
	(a) Inventories		80,000	
	(b) Trade Receivables - Debtors		30,000	
	(c) Cash & Cash Equivalents (1,03,000 - Tax 10,000)		93,000	
	Total		**3,60,000**	

Notes to the Balance Sheet Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised Capital (Division of Shares and Paid Up Value is not available in Question):	8,00,000	
Issued, Subscribed & Paid up:		
26,000 Equity Shares of ₹ 5 each	1,30,000	
(Of the Above, 18,000 Equity Shares were issued for Non-Cash Consideration)	2,30,000	
46,000 8% Preference Shares of ₹ 5 each		
(All of the Above were issued for Non-Cash Consideration under a Scheme of Reconstruction)		
Total	**3,60,000**	

Note: Reconciliation of Shares (Quantity & Value) will be provided by the Company along with annual Financial Statements.

8. Globetrotters Ltd. has two divisions – 'Inland' and 'International'. The Balance Sheet as at 31st December, 2014 was as under:

	Inland	International	Total
	(₹ crores)	**(₹ crores)**	**(₹ crores)**
Fixed Assets:			

Cost	300	300	600
Depreciation	250	100	350
W.D.V. (written down value)	50	200	250
Net Current Assets:			
Current assets	200	150	350
Less: Current liabilities	100	100	200
	100	50	150
Total	150	250	400
Financed by:			
Loan funds:			
(Secured by a charge on fixed assets)	–	50	50
Own Funds:			
Equity capital (fully paid up ₹ 10 shares)			25
Reserves and surplus			325
	?	?	350
Total	150	250	400

It is decided to form a new company 'Beautiful World Ltd.' for international tourism to take over the assets and liabilities of international division.

Accordingly 'Beautiful World Ltd.' was formed to takeover at Balance Sheet figures the assets and liabilities of international division. 'Beautiful World Ltd.' is to allot 2.5 crore equity shares of ₹ 10 each in the company to the members of 'Globetrotters Ltd.' in full settlement of the consideration. The members of 'Globetrotters Ltd.' are therefore to become members of 'Beautiful World' as well without having to make any further investment.

i. **You are asked to pass journal entries in relation to the above in the books of 'Globetrotters Ltd.' and also in 'Beautiful World Ltd'. Also show the Balance Sheets of both the companies as on 1st January, 2015 showing corresponding figures, before the reconstruction also.**
ii. **The directors of both the companies ask you to find out the net asset value of equity shares pre and post-demerger.**
iii. **Comment on the impact of demerger on "shareholders wealth".**

Answer:

8.

Journal of Globetrotters Ltd.

(₹ in Crores)

Particulars	Dr. (₹)	Cr.(₹)
Currentliabilities A/c Dr.	100	
Loanfund(Secured)A/c Dr.	50	
ProvisionfordepreciationA/c Dr.	100	
LossonreconstructionA/c(Balancingfigure) Dr.	200	
To Fixed assets A/c		300
To Current assets A/c		150
(being the assets and liabilities of International division taken out of the books on transfer of the division to Beautiful World Ltd.; the consideration being allotment to the members of the company of one equity share of ₹10		

each of that company at par every share held in the company vide scheme of reorganization)*		

Journal of Beautiful World Ltd.

(₹ in cores)

Particulars	Dr. (₹)	Cr.(₹)
FixedassetsA/c(300–100) Dr.	200	
CurrentassetsA/c Dr.	150	
To Current liabilities A/c		100
To Loan funds (secured) A/c		50
To Equity share capital A/c		25
To Capital reserve A/c		175
(being the assets and liabilities of international division of Globetrotters Ltd. taken over by Beautiful World Ltd. and allotment of 2.5 crore equity shares of ₹10 each at par as fully paid up to the members of Globetrotters Ltd.)		

Name of the Company: Globetrotters Ltd.
Balance Sheet as at: 1st January, 2015

(₹ in cores)

Ref No.		Particulars	Note No.	After Reconstruction		Before Reconstruction	
				As at 1st January, 2015	As at 1st January, 2014	As at 1st January, 2015	As at 1st January, 2014
	I	**EQUITY AND LIABILITIES**					
	1	Shareholder's Fund					
		(a) Share capital	1	25		25	
		(b) Reserves and surplus	2	125		325	
		(c)Money received against share warrants					
	2	**Share application money pending allotment**					
	3	**Non-current liabilities**					
		(a) Long-term borrowings					
		(b)Deferred tax liabilities (Net)					
		(c) Other Long term liabilities					
		(d) Long-term provisions					
	4	**Current Liabilities**					
		(a) Short-term borrowings	3			50	
		(b) Trade payables					
		(c)Other current liabilities	4	100		200	
		(d) Short-term provisions					
		Total (1+2+3+4)		**250**		**600**	
	II	**ASSETS**					
	1	Non-current assets					
		(a) Fixed assets					
		(i) Tangible assets	5	50		250	

		(ii) Intangible assets					
		(iii) Capital work-in-progress					
		(iv) Intangible assets under development					
		(b) Non-current investments					
		(c) Deferred tax assets (Net)					
		(d) Long-term loans and advances					
		(e) Other non-current assets					
	2	**Current assets**					
		(a) Current investments					
		(b) Inventories					
		(c) Trade receivables					
		(d) Cash and cash equivalents					
		(e) Short-term loans and advances					
		(f) Other current assets	6	200		350	
		Total (1+2)		**250**		**600**	

(₹ in Crores)

	After Reconstruction		**Before Reconstruction**	
Note 1. Share Capital	**As at 1st January, 2015**	**As at 1st January, 2014**	**As at 1st January, 2015**	**As at 1st January, 2014**
Authorized, Issued, Subscribed and paid-up Share capital:				
Equity share of ₹ 10 each	25		25	
Total	25		25	

RECONCILIATION OF SHARE CAPITAL

	After Reconstruction				**Before Reconstruction**			
FOR EQUITY SHARE	**As at 1st January, 2015**		**As at 1st January, 2014**		**As at 1st January, 2015**		**As at 1st January, 2014**	
	Nos.	**Amount (₹)**	**Nos.**	**Amount (₹)**	**Nos.**	**Amount (₹)**	**Nos.**	**Amount (₹)**
Opening Balance as on 1st January ,2014	2.5	25			2.5	25		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)								
	2.5	25			2.5	25		
Less: Buy Back of share								
Total	2.5	25			2.5	25		

	After Reconstruction	**Before Reconstruction**

Note 2. Reserve & Surplus	**As at 1st January, 2015**	**As at 1st January, 2014**	**As at 1st January, 2015**	**As at 1st January, 2014**
Reserve & Surplus	125		325	
Total	125		325	

	After Reconstruction		**Before Reconstruction**	
Note 3. Short term Borrowings	**As at 1st January, 2015**	**As at 1st January, 2014**	**As at 1st January, 2015**	**As at 1st January, 2014**
Secured Loans (Assumed to be payable within 1 year)			50	
Total			50	

	After Reconstruction		**Before Reconstruction**	
Note 4. Other Current Liabilities	**As at 1st January, 2015**	**As at 1st January, 2014**	**As at 1st January, 2015**	**As at 1st January, 2014**
Other Current Liabilities	100		200	
Total	100		200	

	After Reconstruction		**Before Reconstruction**	
Note 5. Tangible Assets	**As at 1st January, 2015**	**As at 1st January, 2014**	**As at 1st January, 2015**	**As at 1st January, 2014**
Fixed Assets Less Depreciation (₹300-₹250) (₹600-₹350)	50		250	
Total	50		250	

	After Reconstruction		**Before Reconstruction**	
Note 6. Other Current Assets	**As at 1st January, 2015**	**As at 1st January, 2014**	**As at 1st January, 2015**	**As at 1st January, 2014**
Other Current Assets	200		350	
Total	200		350	

Computation of Reserves and Surplus

(₹ in Crores)

Particulars	**After Reconstruction** ₹	**Before Reconstruction** ₹
A. Reserves and surplus	325	325
Less: Loss on reconstruction	200	-

	125	325

Note to Accounts: Consequent to reconstruction of the company and transfer of international divisions of Globetrotters Ltd. to newly incorporated Company Beautiful World Ltd.; the members of the company have been allotted 2.5 crore equity shares of ₹10 each at par of 'Beautiful World Ltd.;

Name of the Company: Beautiful World Ltd.
Balance Sheet as on January 01, 2015

(₹ in Crores)

Ref No.	Particulars		Note No.	As at 1st January, 2015	As at 1st January, 2014
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		Share capital	1	25	
		Reserves and surplus	2	175	
		Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		Long-term borrowings			
		Deferred tax liabilities (Net)			
		Other Long term liabilities			
		Long-term provisions			
	4	Current Liabilities			
		Short-term borrowings	3	50	
		Trade payables			
		Other current liabilities	4	100	
		Short-term provisions			
		Total		350	
	II.	Assets			
	1	Non-current assets			
		Fixed assets	5	200	
		Tangible assets			
		Intangible assets			

		Capital work-in-progress			
		) Intangible assets under development			
		Non-current investments			
		Deferred tax assets (Net)			
		Long-term loans and advances			
		Other non-current assets			
	2	Current assets			
		Current investments			
		Inventories			
		Trade receivables			
		Cash and cash equivalents			
		Short-term loans and advances			
		Other current assets	6	150	
		Total		350	

Annexure

	₹	₹
Note 1. Share Capital	**As at 1st January, 2015**	**As at 1st January, 2014**
Share Capital 2.5 Equity shares of ₹ 10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	25	
Total	25	

Reconciliation for Equity Share Capital	**As at 1st January, 2015**		**As at 1st January, 2014**	
	No.	**Amount (₹)**	**No.**	**Amount (₹)**
Opening Balance as on 1.01.2010	-	-	-	-
Add: Fresh Issue	2.5	25		
Less: Buy Back	-	-		
Total	2.5	25		

Note 2. Reserves and Surplus	**As at 1st January, 2015**	**As at 1st January, 2014**
Reserves and Surplus	175	
Total	175	

Note 3. Short term Borrowings	**As at 1st January, 2015**	**As at 1st January, 2014**
Secured Loans (to be payable within 1 year)	50	

Total	50	

Note 4. Other Current Liabilities	As at 1st January, 2015	As at 1st January, 2014
Current Liabilities	100	
Total	100	

Note 5. Tangible Assets	As at 1st January, 2015	As at 1st January, 2014
Fixed Assets	200	
Total	200	

Note 6. Other Current Assets	As at 1st January, 2015	As at 1st January, 2014
Current Assets	150	
Total	150	

A. Net Asset Value of an equity share

Particulars		
Globetrotters Ltd.	Pre – Demerger ₹350 Crores 2.5 Crore Share = ₹140	Post – Demerger ₹150 Crores 2.5 Crore Shares = ₹60
Beautiful World Ltd.		$\frac{₹200 \text{ Crores}}{2.5 \text{ Crore Shares}}$ = **₹80**

B. Demerger into two companies has no impact on 'net asset value' of shareholding. Pre-Demerger, it was ₹140 per share. After Demerger, it is ₹60 + ₹80 = ₹140 per original share. It is only the yield valuation that is expected to changes because of separate focusing on two distinct business whereby profitability is likely to improve in account of de – merger.

9. The following are the Extracted Balance sheets of AB Ltd. and XY Ltd. as on 31.03.2015.

('000)

Liabilities	**AB Ltd. ₹**	**XY Ltd. ₹**	**Assets**	**AB Ltd. ₹**	**XY Ltd. ₹**
Share capital:			**Fixed assets**		
Equity Shares of ₹ 100	**2,000**	**1,000**	**(net of depreciation)**	**2,700**	**850**
each fully paid up			**Investments**	**700**	**–**
Reserves and surplus	**800**	**–**	**Sundry Debtors**	**400**	**150**
10% Debentures	**500**	**–**	**Cash and Bank**	**250**	**–**
Loan from Financial			**Profit and Loss A/c**	**–**	**800**
Institutions	**250**	**400**			
Bank Overdraft	**–**	**100**			
Sundry creditors	**300**	**300**			
Proposed Dividend	**200**	**–**			
Total	**4,050**	**1,800**	**Total**	**4,050**	**1,800**

Note: Loan from financial institution is assumed to be of more than 12 months (ignoring interest) hence treated as long term borrowings.

It was decided that XY Ltd. will acquire the business of AB Ltd. for enjoying the benefit of carry forward of business loss. After acquisition, XY Ltd. will be renamed as Z Ltd. The following scheme has been approved for the merger.

- **i.** **XY Ltd. will reduce its shares to ₹ 10 and then consolidate 10 such shares into one share of ₹ 100 each (New Share).**
- **ii.** **Financial institutions agreed to waive 15% of the loan of XY Ltd.**
- **iii.** **Shareholders of AB Ltd. will be given one new share of XY Ltd. in exchange of every share held in AB Ltd.**
- **iv.** **AB Ltd. will cancel 20% holdings of XY Ltd. Investments were held at ₹ 250 thousands.**
- **v.** **After merger, the proposed dividend of AB Ltd. will be paid to the shareholders of AB Ltd.**
- **vi.** **Authorised Capital of XY Ltd. will be raised accordingly to carry out the scheme.**
- **vii.** **Sundry creditors of XY Ltd. includes payables to AB Ltd. ₹ 1,00,000.**

Pass the necessary entries to implement the scheme in the books of AB Ltd. and XY Ltd.

Answer:

9.

Part - I Purchase consideration

WN # 1 : Shareholding of AB Ltd. in XY Ltd.

	Particulars	*Amount ₹*
a.	Original Share capital of XY Ltd.	10,00,000
	[10,000 equity shares of ₹ 100 each]	
b.	Share capital of XY Ltd. after reduction	1,00,000
	[10,000 equity shares of ₹ 10 each]	
c.	Share capital of XY Ltd. after reconsolidation	1,00,000
	[1000 equity shares of ₹ 100 each]	
d.	Holding of AB Ltd in XY Ltd.	20%
e.	Value of holding of AB Ltd in XY Ltd.	20,000
	[200 equity shares of ₹ 100 each]	

WN # 2 : Purchase consideration

a.	No. of equity shares of AB Ltd. (20,00,000 ÷ 100)	20,000
b.	Exchange ratio	1:1
c.	No. of equity shares to be given by XY Ltd. to AB Ltd.	20,000
d.	Less : No. of Equity shares held by AB Ltd. in XY Ltd.	200
e.	No. of shares now to be given	19,800
f.	Purchase consideration (19,800 equity shares of ₹ 100 each)	19,80,000

Part - II : Journal entries in the books of AB Ltd.

(₹ '000)

Particulars	**Debit**	**Credit**

1. a. Transfer to realisation account of all Assets taken over except investment held by selling company in purchasing company			
Realisation A/c	Dr.	3,800	
To Fixed assets A/c			2,700
To Investments [700 - 250] A/c			450
To Sundry Debtors A/c			400
To Cash and Bank A/c			250
b. Transfer to realisation account of all liabilities taken over			
10% Debentures A/c	Dr.	500	
Loan from financial institations A/c	Dr.	250	
Sundry Creditors A/c	Dr.	300	
Proposed Dividend A/c	Dr.	200	
To Realisation A/c			1250
2. Purchase consideration			
a. Due entry			
XY Ltd. A/c	Dr.	1,980	
To Realisation A/c			1,980

Particulars		Debit	Credit
b. Receipt			
Shares in XY Ltd. A/c	Dr.	1,980	
To XY Ltd. A/c			1,980
3. Transfer of realisation loss to share holders			
Equity shareholders A/ c	Dr.	570	
To Realisation A/c			570
4. Transfer of Share capital and Reserves and surplus to equity share holders			
Share capital A/c	Dr.	2,000	
Reserves and surplus A/c	Dr.	800	
To Equity shareholders			2,800
5. Settlement to share holders by transfer of purchase consideration now received and shares already held by AB Ltd. in XY Ltd.			
Equity shareholders A/c	Dr.	2,230	
To Equity shares of XY Ltd.			2,230

Part. III. Journal entries in the books of XY Ltd.

(₹ '000)

Particulars			Debit	Credit
1. Reduction of Share capital				
Equity Share Capital (₹ 100) A/c		Dr.	1,000	
To Equity Share Capital (₹ 10) A/c				100
To Reconstruction A/c				900
2. Consolidation of equity shares of ₹10 each to ₹ 100 each				
Equity Share Capital (₹ 10) A/c		Dr.	100	
To Equity Share Capital (₹ 100) A/c				100
3. Waiver of loan by financial institution				
Loan from financial institution A/c		Dr.	60	
To Reconstruction A/c				60
4. Write off the debit balance of Profit and Loss A/c by utilising Reconstruction A/c and balance of Reconstruction A/c transferred to Capital reserve				
Reconstruction A/c		Dr.	960	
To Profit and Loss A/c				800
To Capital Reserve A/c				160

Entries relating to Amalgamation :

- Nature of Amalgamation - Merger
- Method of Accounting - Pooling of Interest Method (₹ '000)

Particulars			Debit	Credit
1. For Purchase Consideration Due				
Business Purchase A/c		Dr.	1,980	
To Liquidator of AB Ltd. A/c				1,980
2. For assets and liabilities taken over				
Purchase consideration now paid				
Shares already held by AB Ltd.	200			
Total consideration	2,230			
Less: Paid-up Share capital of AB Ltd.	2,000			
Excess Purchase Consideration Paid	230			
This excess is to be adjusted against reserves of AB Ltd.				
Reserves of AB Ltd. 800				
Less: Excess as above 230				
Balance to be incorporated 570				
Fxed assets (net of depreciation) A/c		Dr.	2,700	
Investment A/c		Dr.	450	

Sundry Debtors A/c	Dr.	400	
Cash and Bank A/c	Dr.	250	
To Reserves and Surplus A/c			570
To Debentures A/c			500
To Loan from financial institutions A/c			250
To Sundry Creditors A/c			300
To Proposed Dividend A/c			200
To Business Purchase A/c			1,980
3. Discharge of purchase consideration			
Liquidator of AB Ltd. A/c	Dr.	1,980	
To Equity Share capital of XY Ltd. A/c			1,980
4. Payment of proposed divided to shareholders of AB Ltd.			
Proposed Dividend A/c	Dr.	200	
To Bank A/c			200
5. Cancellation of intercompany Owings			
Sundry Creditors A/c	Dr.	100	
To Sundry Debtors A/c			100

10. The following are the Balance Sheets as at 31st December of Laila Ltd and Majnu Ltd

Equity and Liabilities	Laila Ltd	Majnu Ltd	Assets	Laila Ltd	Majnu Ltd
(1) Shareholders' Funds:			(1) Non-Current Assets:		
(a) Share Capital	4,00,000	3,00,000	(a) Fixed Assets	1,50,000	1,00,000
– Equity Shares of ₹ 10 each			(i) Tangible – Mchny	30,000	10,000
(b) Reserves & Surplus	60,000	80,000	(ii) Intangible –	10,000	
(2) Current Liabilities:			Goodwill	40,000	18,000
Trade Payables – Sundry Crs	40,000	30,000	(b) Other Non-Current	2,10,000	72,000
			Assets	60,000	1,20,000
			– Prelim Expenses		90,000
			(2) Current Assets:		
			(a) Inventories		
			(b) Trade Receivables – Drs		
			(c) Cash & Cash Equivalents		
Total	**5,00,000**	**4,10,000**	**Total**	**5,00,000**	**4,10,000**

Goodwill of the Companies is to be valued at ₹ 50,000 and ₹ 40,000 respectively. Machinery of Laila s worth ₹ 2,00,000 and of Majnu ₹ 90,000. Stock of Majnu has been shown at 90% of its cost. It is decided that Laila will acquire Majnu, without liquidating the latter, by issue of shares at the Intrinsic Value. You are required to draft the Balance Sheet of Laila Ltd. after takeover of Manju's assets & liabilities.

Answer:

10.

A. Basic Information

Selling Co : Majnu Ltd	**Date of B/S:** 31st Dec	**Nature of Amalgamation:**
Buying Co : Laila Ltd	**Date of Amg:** 31st Dec	Purchase Method (Assets and Liabilities are not taken over at Book Values)

B. Computation of Intrinsic Value of Laila's Shares and Net Assets Value of Majnu Ltd

Particulars	Laila	Majnu
Goodwill (as agreed)	50,000	40,000
Machinery (as per valuation)	2,00,000	90,000
Stock	40,000	$\frac{72,000}{90\%}$ = 80,000
Debtors	2,10,000	1,20,000
Bank	60,000	90,000
Total Assets	5,60,000	4,20,000
Less: Creditors	(40,000)	30,000
Net Assets Value	**5,20,000**	**3,90,000**
Intrinsic Value per Share = $\frac{\text{Net Assets}}{\text{40,000 Shares}}$	₹13	

C. Purchase Consideration and Discharge thereof

- Purchase Consideration = Net Assets Value of Majnu Ltd = ₹ 3,90,000
- Shares of Laila Ltd, issuable at the Intrinsic Value of ₹ 13 = $\frac{₹3,90,000}{₹13}$ = 30,000 shares.
- Hence, the Shares of ₹ 10 each are issuable at a premium of ₹ 3 each.

D. Revaluation Reserve of Laila Ltd

Upward Revaluation of Goodwill (₹ 50,000 - ₹ 30,000)	₹ 20,000
Upward Revaluation of Machinery (₹ 2,00,000 - ₹ 1,50,000)	₹ 50,000
Total Revaluation Reserve	₹ 70,000
Less: Own Goodwill written off (See Note below)	₹ 50,000
Balance Revaluation Reserve taken to Balance Sheet	**₹ 20,000**

Note: As per AS-26, only purchased goodwill can be shown in the accounts, so at the earliest, inherent own goodwill of ₹ 50,000 has been adjusted against Revaluation Reserve. However, the balance of Revaluation Reserve can be utilised to write off the Purchased Goodwill of ₹40,000 (relating to Majnu Ltd) partly.

E. Capital Reserve of Majnu Ltd

Upward Revaluation of Goodwill	(₹ 40,000 - ₹ 10,000)	₹ 30,000
Upward Revaluation of Stock	(₹ 80,000 - ₹ 72,000)	₹ 8,000
Total of above Less: Downward Revaluation of Machinery	(₹ 1,00,000 - ₹ 90,000)	₹ 38,000 ₹ 10,000
Net Amount taken to Capital Reserve	(after takeover of entire business)	₹ 28,000

Note: The term "Revaluation Reserve" is relevant for Laila which will continue its trading business, whereas the term "Capital Reserve" may be used for Majnu which will now be an Investment Company only.

F. Balance Sheet of Laila Ltd (after takeover of Majnu's assets and liabilities)

	Particulars as at 31st March	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	1	7,00,000	
	(b) Reserves & Surplus	2	1,60,000	
(2)	**Current Liabilities** Trade Payables - Creditors (40,000 + 30,000)		70,000	
	Total		**9,30,000**	
II	**ASSETS**			
(1)	**Non-Current Assets** Fixed Assets: (i) Tangible Assets (2,00,000 + 90,000) (ii) Intangible Assets - Goodwill		 2,90,000 40,000	
(2)	**Current Assets** (a) Inventories (40,000 + 80,000) (b) Trade Receivables (2,10,000 + 1,20,000) (c) Cash & Cash Equivalents (60,000 + 90,000)		 1,20,000 3,30,000 1,50,000	
	Total		**9,30,000**	

Notes to the Balance Sheet: **Note 1: Share Capital**

Particulars	This Year	Prev. Year
Authorised: …….. Equity Shares of ₹ 10 each		
Issued, Subscribed & Paid up: 70,000 Equity Shares of ₹ 10 each (Of the above, 30,000 shares are allotted as fully paid up for consideration other than cash)	7,00,000	
Total	**7,00,000**	

Note 2: Reserves and Surplus

Particulars		This Year	Prev. Year
(a) Securities Premium	(30,000 Shares at ₹ 3 each)	90,000	
(b) Revaluation Reserve	(after adjusting own goodwill)	20,000	
(c) Other Reserves		60,000	
(d) Surplus (Balance in P & L A/c)	- Being Prelim Exp. Written off	(10,000)	
Total		**1,60,000**	

11. In each of the following cases, ascertain (a) Unrealized Profits to be eliminated, (b) Unrealized Profits adjusted against Holding Company's Reserve and Minority Interest, and (c) balance in Asset Account as appearing in the Consolidated Balance Sheet -

(i) A Rolling Machine costing ₹ 35,00,000 has been sold by HiFi Ltd to its subsidiary Down to Earth Ltd for ₹ 42,00,000. During the year Down to Earth Ltd has charged Depreciation of ₹ 3,50,000 on the Machinery. HiFi Ltd holds 80% of the Equity of Down to Earth Ltd. Machinery Account balance as appearing in the books of Companies – HiFi Ltd ₹95,75,000, Down to Earth Ltd ₹ 68,50,000.

(ii) C Ltd sold 8 Workstations to its parent S Ltd at ₹ 2,50,000 each. The total cost of the Workstations to C Ltd was ₹ 9,75,000. S Ltd holds 70% of the Equity Capital in C Ltd. The balances in the Asset Account "Computer and Peripherals" were – C Ltd ₹ 25,00,000, S LTd ₹ 50,00,000. Depreciation at 30% was charged by S Ltd on the Workstations purchased from C Ltd.

Answer:

11.

Particulars	Case A	Case B
Sold by	HiFi Ltd (Holding Co.)	C Ltd (Subsidiary Co.)
Purchased by	Down to Earth Ltd (Subsidiary Co.)	S Ltd (Holding Co.)
Nature of transfer	Downstream Transfer	Upstream Transfer
Sale Price **Less:** Cost to Seller	₹ 42,00,000 ₹ 35,00,000	₹ 2,50,000 x 8 = ₹ 20,00,000 ₹9,75,000
A. Profit on Transfer	₹ 7,00,000	₹ 10,25,000
B. Rate of Depreciation	3,50,000/42,00,000 = 8.33%	30%
C. Depn. on profit element (A x B)	7,00,000 x 8.33% = ₹ 58,310	10,25,000 x 30% = ₹ 3,07,500
Unrealized Profit to be eliminated (A - C)	₹ 6,41,690	**₹ 7,17,500**
- Adjusted against Holding Co's Reserves	100% x ₹ 6,41,690 = ₹6,41,690	Share of Holding Co. 70% x ₹ 7,17,500 = **₹ 5,02,250**
- Adjusted against Minority Interest	Unrealized Profits on Downstream Transfer are adjusted fully against Group Reserves only.	Share of Minority 30% x ₹ 7,17,500 = **₹ 2,15,250**
Consolidated Asset Balance (Holding Co. bal. + Subsidiary Co. bal. **Less** Unrealized Profit)	95,75,000 + 68,50,000 - 6,41,690 = ₹ **1,57,83,310**	25,00,000 + 50,00,000 - 7,17,500 = ₹ **67,82,500**

12. On 31.03.2009, Rajiv Ltd acquired 1,05,000 Shares of Naresh Ltd for ₹ 12,00,000. The Balance Sheet of Suresh Ltd on that date was as under – (₹ 000's)

Equity and Liabilities	₹	Assets	₹
(1) Shareholders' Funds:		**(1) Non-Current Assets:**	
(a) Share Capital		**Fixed Assets**	**1,050**
-1,50,000 Eq Sh of ₹ 10 each fully paid	**1,500**	**(2) Current Assets**	**645**
(b) Reserves & Surplus			
(i) Pre-Incorporation Profits	**30**		
(ii) Profit & Loss A/c	**60**		
(2) Current Liabilities: Trade Payables (Sundry Creditors)	**105**		
Total	**1,695**	**Total**	**1,695**

On 31.03.2015, the Balance Sheets of the two Companies were as follows - (₹ 000's)

Equity and Liabilities	Rajiv Ltd	Naresh Ltd	Assets	Rajiv Ltd	Naresh Ltd
(1) Shareholders' Funds:			**(1) Non-Current Assets:**		
(a) Share Capital			**(a) Fixed Assets**	**7,920**	**2,310**
- Eq Sh of ₹ 10 each fully paid (before Bonus Issue)	**4,500**	**1,500**	**(b) Non-Current Investments -1,05,000 Equity Shares in**		

			Naresh Ltd at cost	1,200	—
(b) Reserves & Surplus					
- Securities Premium	900	-	(2) Current Assets:	4,410	1,755
- Pre-Incorporation Profits	-	30			
- General Reserve	6,000	1,905			
- Profit & Loss A/c	1,575	420			
(2) Current Liabilities:					
Trade Payables (Crs)	555	210			
Total	**13,530**	**4,065**	**Total**	**13,530**	**4,065**

Directors of Suresh Ltd made a Bonus Issue on 31.03.2010 in the ratio of one Equity Share off 10 each fully paid for every two Equity Shares held on that date.

Calculate as on 31.3.2015 (i) Cost of Control/Capital Reserve, (ii) Minority Interest, (iii) Consolidated Profit and Loss Account in each of the following cases: (1) Before issue of Bonus Shares, (2) Immediately after the issue of Bonus Shares. It may be assumed that Bonus Shares were issued out of Post-Acquisition Profits by using General Reserve.

Prepare a Consolidated Balance Sheet after the Bonus Issue.

Answer:

12.

A. Basic Information

Company Status	Dates	Holding Status
Holding Company = Rajiv	Acquisitiuon: 31.03.2009	Holding Company = 70%
Subsidiary = Naresh	Consolidation: 31.03.2015	Minority Interest = 30%

B. Analysis of Reserves and Surplus of Naresh Ltd

(a) Pre-Incorporation Profits = ₹ 30,000 - **Capital Profit**

(b) General Reserve

Before Bonus Issue	After Bonus Issue
As on 31.3.2015 = 19,05,000 As on 01.04.2009: **NIL** **Capital** Tfr between 01.04.2009 & 31.3.2015: **19,05,000** **Revenue** Group Interest-Pre = 19,05,000 x 70% = 13,33,500 Minority Interest = 19,05,000 x 30% = 5,71,500	As on 31.3.2015 19,05,000 Bonus Issue 7.50.000 (15 Lakhsx1/2) Corrected Bal 11,55,000 01.04.2009: **NIL** **Capital** Tfr between 1.4.2009 & 31.3.2015: **11,55,000 Revenue** Group Interest-Pre = 11,55,000 x 70% = 8,08,500 Minority Interest = 11,55,000x30% = 3,46,500

C. Profit & Loss Account

As on 31.03.2015 = ₹ 4,20,000

As on 01.04.2009 60,000 **Capital**		Profits between 01.04.2009 & 31.03.2015 **3,60,000** **Revenue**	
Group Interest-Pre = 60,000 x 70% = 42,000	Minority Interest = 60,000 x 30% = 18,000	Group Interest-Post = 3,60,000 x 70% = 2,52,000	Minority Interest = 3,60,000 x 30% = 1,08,000

D. Consolidation of Balances (amounts in ₹)

Particulars	**Total**	**Minority Interest**	**Pre-Acquisition**	**Post Acquisition**		
Naresh Ltd (Holding - 70%, Minority - 30%)				**General Reserve**	**P&L A/c**	**Securities Premium**
BEFORE BONUS ISSUE						
Equity Capital	15,00,000	4,50,000	10,50,000	–	–	–
Pre-incorporation profits	30,000	9,000	21,000	–	–	–
General Reserves	19,05,000	5,71,500	–	13,33,500	–	–
Profit & Loss A/c	4,20,000	1,26,000	42,000	–	2,52,000	–
Minority Interest		**11,56,500**				
Total [Cr]			**11,13,000**	**13,33,500**	**2,52,000**	
Cost of Investment [Dr.]			(12,00,000)			
Parent's Balances				60,00,000	15,75,000	9,00,000
For Consolidated Balance Sheet		**11,56,500 Minority**	**(87,000) Goodwill**	**73,33,500 Gen. Res**	**18,27,000 P & L A/c**	**9,00,000 Sec Prem**
AFTER BONUS ISSUE						
Equity Capital [15,00,000 + 7,50,000]	22,50,000	6,75,000	15,75,000			
Pre-incorporation Profits	30,000	9,000	21,000			
General Reserve	11,55,000	3,46,500		8,08,500	2,52,000	
Profit & Loss A/c	4,20,000	1,26,000	42,000			
Minority Interest		**11,56,500**				
Total [Cr]			**16,38,000**	**8,08,500**	**2,52,000**	
Cost of Investment [Dr.]			(12,00,000)			
Parent's Balances				60,00,000	15,75,000	9,00,000
For Consolidated Balance Sheet		**11,56,500 Minority**	**4,38,000 Cap. Res.**	**68,08,500 Gen. Res**	**18,27,000 P & L A/c**	**9,00,000 Sec Prem**

E. Consolidated Balance Sheet of Rajiv Ltd and its Subsidiary Naresh Ltd as at 31.03.2015

	Particulars as at 31st March	**Note**	**31.03.2015**	**31.03.2014**
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	**1**	45,00,000	
	(b) Reserves & Surplus	**2**	99,73,500	
(2)	**Minority Interest**		11,56,500	
(3)	**Current Liabilities** - Trade Payables (5,55,000 + 2,10,000)		7,65,000	
	Total		**1,63,95,000**	
II	**ASSETS Non-Current Assets**			
(1)	Fixed Assets = 79,20,000 + 23,10,000		1,02,30,000	
(2)	**Current Assets** = 44,10,000 + 17,55,000		61,65,000	
	Total		**1,63,95,000**	

Notes to the Balance Sheet: **Note 1: Share Capital**

Particulars	31.03.2015	31.03.2014
Authorised: .... Equity Shares of ₹ 10 each		
Issued, Subscribed & Paid up: 4,50,000 Equity Shares of ₹ 10 each	45,00,000	
Total	**45,00,000**	

Note 2: Reserves and Surplus

Particulars	31.03.2015	31.03.2014
(a) Capital Reserve on Consolidation	4,38,000	
(b) Securities Premium	9,00,000	
(c) Other Reserves - General Reserve	68,08,500	
(d) Surplus (Balance in P & L A/c)	18,27,000	
Total	**99,73,500**	

13. Kapil Ltd has made the following investments in Lily Ltd a few years before -

i. **60,000 Equity Shares of ₹ 10 each at ₹ 15,00,000.**
ii. **2,000 12% Preference Shares of ₹ 100 each at ₹ 3,00,000.**
iii. **5,000 10% Debentures at ₹ 95 per Debenture.**

The Capital Profits of Lily Ltd have been ascertained at ₹ 9,60,000.

Determine the cost of control, under the following situations -

Shares were purchased Ex-Dividend and Equity Dividend was declared at 20% and the dividends were

(a) **Credited to Profit and Loss Account**
(b) **Credited to the Investment Accounts**

Answer:

13.

Cost of Control

Particulars	Ex-Dividend	
Credited to	**P&L A/c**	**Invt. A/c**
Nominal Value of Equity Capital (60,000 x ₹ 10)	6,00,000	6,00,000
Nominal Value of Pref. Capital (2,000 x ₹ 100)	2,00,000	2,00,000
Share in Capital Profit	9,60,000	9,60,000
Adjustment for Dividend out of Pre-Acquisition Profits		
Less: Only for Ex-Dividend Purchase		
Preference Dividend (12% x ₹ 2,00,000)	–	(24,000)
Equity Dividend (20% x ₹ 6,00,000)	–	(1,20,000)
Total Cr. (A)	**17,60,000**	**16,16,000**
Less: Cost of Investment	15,00,000	15,00,000
Equity Capital Preference Capital	3,00,000	3,00,000
Total Cost of Investment (B)	**18,00,000**	**18,00,000**
Capital Reserve (if A > B) (A - B)	**-**	**-**
Goodwill (if B > A) (B - A)	**40,000**	**1,84,000**

14. On 31.03.2014 the Balance Sheets (draft) of H Ltd. and its subsidiary S Ltd. stood as follows:

(in ₹ Lakhs)

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share Capital:			Land and Buildings	2,718	–
Authorised	15,000	6,000	Plant and Machinery	4,905	4,900
Issued and Subscribed:			Furniture and Fittings	1,845	586
Equity Shares (₹ 10) Fully Paid	12,000	4,800	Investments in shares in S Ltd.	3,000	–
General Reserve	2,784	1,380	Stock	3,949	1,956
Profit and Loss Account	2,715	1,620	Debtors	2,600	1,363
Bills Payable	372	160	Cash and Bank Balances	1,490	204
Sundry Creditors	1,461	854	Bills Receivable	360	199
Provision for Taxation	855	394	Sundry Advances	520	–
Proposed Dividend	1,200	–			
	21,387	9,208		21,387	9,208

The following information is also provided to you:

i. **H Ltd. purchased 180 Lakhs shares in S Ltd. on 01.04.2013 when the balances to General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 Lakhs and ₹ 1,200 Lakhs respectively.**

ii. **On 04.07.2013 S Ltd. declared a dividend @ 20% for the year ended 31.03.2013. H Ltd. credited the dividend received by it to its Profits and Loss Account.**

iii. **On 01.01.2014 S Ltd. issued 3 fully paid-up shares for every 5 shares held as Bonus Shares out of balances in its General Reserve as on 31.03.2013.**

iv. **On 31.03.2014 all the Bills Payable in S Ltd.'s Balance Sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 Lakhs of these acceptances in hand, the rest having been endorsed in favour of its Creditors.**

v. **On 31.03.2014 S Ltd.'s stock included goods which it had purchased for ₹ 200 Lakhs from H Ltd. which made a profit @ 25% on cost.**

Prepare the Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31.03.2014 bearing in mind the requirements of AS 21.

Answer:

14.

A. Basic Information

Company Status	Dates	Holding Status
Holding Company = H Subsidiary = S	Acquisition: 01.04.2013 Consolidation: 31.03.2014	Holding Company = 60% Minority Interest = 40%

Shareholding Pattern - % of Holding by H Ltd.

Date	Particulars	No. of Shares (Lakhs)

01.04.2013 01.01.2014 31.03.2014	Original Purchase First Bonus Issue (3/5 x 1,80,000) Total Shares held by H Ltd. in S Ltd.	180 108 **288**
	Total Shares outstanding in S Ltd.	**480**
	% of Holding (28.8 / 48)	**60%**

B. Analysis of Reserves and Surplus of S Ltd. (₹ Lakhs)

(a) General Reserves

Balance as on 31.03.2014 ₹ 1,380

	Balance on 1.4.2013 (as oi. acqn. date)	₹ 3,000	Transfer during 2013-14 (upto Consolidation
Less:	Bonus Issue (108/60% x ₹ 10)	₹ 1,800	(balancing figure) ₹ **180**
	Balance **Capital Profit**	**₹ 1,200**	**Revenue Reserve**

(b) Profit and Loss Account

Balance as on 31.03.2014 ₹ 1,620

	Balance on 01.04.2013(as on acqn. date)	₹ 1,200	Profit for 2013-14 (upto Consolidation)
Less:	Dividend (₹ 3000 x 20%)	₹ 600	(balancing figure) ₹ **1020**
	Balance **Capital Profit**	₹ 600	**Revenue Profit**

C. Analysis of Net Worth of S Ltd. (₹ Lakhs)

Particulars			Total 100%	H 60%	Minority 40%
(a)	**Equity Capital**		**4,800**	2,880	1,920
(b)	**Capital Profits**	General Reserve	1,200		
		Profit and Loss Account	600		
		Total Capital Profits	**1,800**	1,080	720
(c)	**Revenue Res.**	General Reserve	**180**	108	72
(d)	**Revenue Profit**	Profit and Loss Account	**1,020**	612	408
Minority Interest					**3,120**

D. Cost of Control

	Particulars		₹ Lakhs
	Cost of Investment		3,000
Less:	Pre-Acquisition Dividend Received (₹ 1,800 x 20%)		360
	Adjusted Cost of Investment		2,640
Less:	Nominal Value of Share Capital	2.880	
	Share in Capital Profit of S Ltd.	1,080	(3,960)
	Capital Reserve on Consolidation		**1,320**

E. Consolidation of Reserves and Surplus (₹ Lakhs)

	Particulars	Gen. Res.	P&LA/c
	Balance as per Balance Sheet of H Ltd.	2,784	2,715
Less:	Pre-Acquisition Dividend wrongly credited to P&L A/c		(360)
	Adjusted Cost of Investment	2,784	2,355
Add:	Share of Revenue from S Ltd.	108	612
	Consolidated Balance	2,892	2,967
Less:	Unrealized Profit on Closing Stock (₹ 200 x 25%/125%)		(40)
	Adjusted Consolidated Balance	**2,892**	**2,927**

Name of the Company: H Ltd. And its subsidiary S Ltd.

Consolidated Balance Sheet as at 31st March 2014

Ref No.		Particulars	Note No.	As at 31st March, 2014	As at 31st March, 2013
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital @ ₹ 10 each	1	12,000	-
		(b) Reserves and surplus	2	7,139	-
	2	**Minority Interest**		3,120	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings		-	-
		(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	2,315	-
		(c) Other current liabilities	4	487	-
		(d) Short-term provisions	5	2,449	-
				5,251	-
		TOTAL		27,510	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	6	14,954	-
		(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		-	-
				14,954	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories	7	5,865	-
		(c) Trade receivables	8	3,963	-
		(d) Cash and cash equivalents	9	1,694	-
		(f) Short-term loans and advances (Sundry advance)		520	-
		(f) Other current assets	10	514	-
				12,556	-
		TOTAL		27,510	-

Note 1. Share Capital		
	As at 31st March, 2014	As at 31st March, 2013
Authorised Capital	15,000	-
Issued and Paid Up	12,000	-
Total	12,000	-

Note 2. Reserve and Surplus		
	As at 31st March, 2014	As at 31st March, 2013
General Reserve	2,892	-
Profit and loss	2,947	-
Capital Reserve on Consolidation	1,320	-
Total	7,159	-

Note 3. Trade Payable		
	As at 31st March, 2014	As at 31st March, 2013
Sundry Creditors		
H	1,461	-
S	854	-
Total	2,315	-

Note 4. Other Current Liabilities		
	As at 31st March, 2014	As at 31st March, 2013
Bills Payable:-		
- H Ltd	372	-
- S Ltd	160	-
	532	-
Less: Mutual Owings	45	-
	487	

Note 5. Short Term Provisions		
	As at 31st March, 2014	As at 31st March, 2013
Prov. For taxations		
H Ltd.	855	-
S Ltd.	394	-

	1,249	-
Proposed dividend	1,200	-
Total	2,449	-

Note 6. Tangible Assets		
	As at 31st March, 2014	**As at 31st March, 2013**
Land and Building	2,718	-
Plant and Machinery		
(4905+4900)	9,805	-
Furniture		
(1845+586)	2,431	-
Total	14,954	-

Note 7. Inventories		
	As at 31st March, 2014	**As at 31st March, 2013**
Stock		
H Ltd	3,949	-
S Ltd.	1,956	-
	5,905	-
Less: Unrealized profit	40	-
Total	5,865	-

Note 8. Trade Receivable		
	As at 31st March, 2014	**As at 31st March, 2013**
Debtors		
H Ltd	2,600	-
S Ltd.	1,363	-
Total	3,963	-

Note 9. Cash and Cash Equivalents		
	As at 31st March, 2014	**As at 31st March, 2013**
Cash & Bank		
H Ltd	1,490	-
S Ltd.	204	-
Total	1,694	-

Note 10. Other Current assets		
	As at 31st March, 2014	As at 31st March, 2013
Bills Receivable		
H Ltd	360	-
S Ltd.	199	-
	559	-
Less: set off	45	-
Total	514	-

15. The summarised Balance Sheet of Apple Ltd., Orange Ltd. and Banana Ltd. as on 31st March, 2014 are given below:
(₹ in, 000)

Liabilities	Apple Ltd.	Orange Ltd.	Banana Ltd.	Assets	Apple Ltd.	Orange Ltd.	Banana Ltd.
Shareholders' Funds: Equity Share	**300**	**200**	**120**	**Non-Current Assets: Fixed Assets**	**140**	**240**	**206**
Reserves and Surplus				**Non-Current Invt -**			
Reserves	**100**	**80**	**60**	**(at cost): Shares in Orange Ltd. Shares in Banana Ltd.**	**180 80**	**100**	
Profit & Loss A/c	**120**	**100**	**80**	**Current Assets:**			
Current Liabilities				**Inventories**	**80**	**60**	**40**
Trade Payables —				**Trade Receivables —**			
Sundry Creditors	**60**	**70**	**50**	**Sundry Debtors**	**40**	**50**	**60**
Apple Ltd.	**—**	**20**	**16**	**Due from:**			
				Orange Ltd.	**24**		
				Banana Ltd.	**16**		
				Cash & Cash Equivalents	**20**	**20**	**20**
Total	**580**	**470**	**326**	**Total**	**580**	**470**	**326**

Additional information:
(i) Apple Ltd., held 16,000 shares of Orange Ltd. and 3,600 shares of Banana Ltd.
(ii) Orange Ltd. held 7,200 shares of Banana Ltd.
(iii) All investments were made on 1st July, 2013
(iv) The following were the balances on 1st July, 2013:

	Orange Ltd.	Banana Ltd.
Reserves	**50,000**	**30,000**
Profit & Loss A/c	**40,000**	**50,000**

(v) Orange Ltd. invoiced goods to Apple Ltd. for ₹ 8,000 at a cost plus 25% in December, 2013. The closing stock of Apple Ltd. includes such goods valued at ₹ 10,000. (vi) Apple Ltd. proposed dividend at 15%.

Prepare the consolidated Balance Sheet as per Schedule III of the group as on 31st March, 2014. Working notes should form part of the answer.

Answer:

15.

Consolidated Balance Sheet of Apple Ltd. and its Subsidiaries Orange Ltd. and Banana Ltd. as on 31st March 2014

Particulars	Note No	₹
I. EQUITY AND LIABILITIES		
(1) Shareholder's Funds		
(a) Share Capital		3,00,000
(b) Reserves and Surplus	1	3,44,200
(2) Share application money pending allotment		
(3)Minority Interest	2	1,08,800
(4) Non-current liabilities		
(5)Current Liabilities		
(a)Trade Payables	3	1,80,000
(b)Other current liabilities	4	45,000
Total		**9,78,000**
II. ASSETS		
(1) Non-current assets		
(a) Fixed assets	5	5,86,000
(2) Current assets		
(a) Inventories	6	1,78,000
(b) Trade receivables	7	1,54,000
(c) Cash and cash equivalents	8	60,000
Total		**9,78,000**

[Relevant Notes]

1.	Reserve and Surplus	₹	₹
	Capital Reserve	52,000	
	Other Reserves	1,47,400	
2.	Profit and Loss A/c	1,44,800	3,44,200
	Minority interest		
	Orange Ltd.	82,800	
3.	Banana Ltd.	26,000	1,08,800
	Trade Payables		
4.	Apple Ltd.	60,000	
	Orange Ltd.	70,000	
5.	Banana Ltd.	50,000	1,80,000
	Other current Liabilities		
6.	Proposed Dividend		45,000
	Fixed Assets		
	Apple Ltd.	1,40,000	
	Orange Ltd.	2,40,000	
	Banana Ltd.	2,06,000	5,86,000

7.	Inventories			
	Apple Ltd	80,000	78,000	
	Less: Unrealised profit	2,000		
	Orange Ltd		60,000	
	Banana Ltd		40,000	1,78,000
8.	Trade Receivables			
	Apple Ltd.		40,000	
	Orange Ltd.		50,000	
	Banana Ltd.		60,000	
	Cash in Transit		4,000	1,54,000
	Cash and cash equivalents			
	Cash in hand			
	Apple Ltd.	20,000		
	Orange Ltd.	20,000		
	Banana Ltd.	20,000		60,000

Working Notes:

Shareholding Pattern:

	Number of shares	% of holding
In Orange Ltd.		
Apple Ltd.	16,000	80%
Minority Interest	4,000	20%
In Banana Ltd.		
Apple Ltd.	3,600	30%
Orange Ltd.	7,200	60%
Minority Interest	1,200	10%

1. Analysis of profit of Banana Ltd.

	Pre-acquisition	Post acquisition	
	Capital Reserve	Revenue Reserve	Revenue Profit
Reserve as on 1.7.2013 Profit and Loss A/c on 01.07.2013	30,000 50,000	--	--
Increase in Reserves	-	30,000	-
Increase in Profit	-	-	30,000
	80,000	30,000	30,000
Less: Minority Interest (10%)	8,000	3,000	3,000
	72,000	27,000	27,000
Share of Apple Ltd	24,000	9,000	9,000
Share of Orange Ltd	48,000	18,000	18,000

2. Analysis of profit of Orange Ltd.

	Pre-acquisition	Post acquisition	
	Capital Reserve	Revenue Reserve	Revenue Profit
Reserve as on 1.7.2013 Profit and Loss A/c on 1.7.2013	50,000 40,000	--	--
Increase in Reserves	-	30,000	-
Increase in Profit	-	-	60,000
	90,000	30,000	60,000
Share in profit of Banana Ltd. (post acquisition)	-	18,000	18,000

	90,000	48,000	78,000
Less: Minority Interest (20%)	18,000	9,600	15,600
Share of Apple Ltd.	72,000	38,400	62,400

3. Cost of control

		₹	₹
Investment in Orange Ltd			1,80,000
Investment in Banana Ltd By Orange Ltd By Apple Ltd	1,00,000 80,000		1,80,000
			3,60,000
Less: Paid value of shares			
In Orange Ltd.	1,60,000		
In Banana Ltd.	1,08,000	2,68,000	
Capital Profit of Apple Ltd			
In Orange Ltd	72,000		
In Banana Ltd.	24,000	96,000	
Capital Profit of Orange Ltd in Banana		48,000	4,12,000
Capital Reserve			52,000

4. Minority Interest

	Orange Ltd (₹)	Banana Ltd (₹)
Share Capital	40,000	12,000
Capital Profit	18,000	8,000
Revenue Reserve	9,600	3,000
Revenue Profit	15,600	3,000
	83,200	26,000
Less: Unrealised profit on stock 20% of (₹ 10,000 x 25/125)	400	-
	82,800	26,000

5. Profit and Loss A/c - Apple Ltd.

	₹
Balance as per separate Balance Sheet	1,20,000
Less: Proposed dividend	45,000
	75,000
Add: Share of Orange Ltd	62,400
Share of Banana Ltd	9,000
	1,46,400
Less: Unrealised profit on Stock (10,000 x 25/125 x 80%)	1,600
	1,44,800

6. Other Reserve-Apple Ltd.

	₹
Balance as per separate Balance Sheet	1,00,000
Share of Orange Ltd.	38,400
Share of Banana Ltd.	9,000
	1,47,400

7. Cash in transit

	₹
Due to Apple Ltd .from Orange Ltd.	24,000
Less: Due by Orange Ltd.	20,000
	4,000

16. R Ltd owns 80% of voting power of S Ltd, its only investment, acquired on 01.04.2013 for ₹87,500. The net assets of S Ltd on 01.04.2013 was ₹1,25,000. On 01.10.2014, the investment in S Ltd was sold for ₹ 2,25,000. The Net Assets of S Ltd on 31.03.2014 and 30.09.2014 were ₹1,87,500 and ₹2,25,000, respectively the difference representing the profit for the period. Compute the gain/ Loss on disposal of the subsidiary. Determine the gain or loss if the sale consideration was ₹1,37,500 and the shares were sold on 31.03.2014.

Answer:

16.

A. Cost of Control

Particulars	₹
Share in Net Assets as on date of acquisition (₹1,25,000 x 80%) Less: Cost of Investment	1,00,000 (87,500)
Capital Reserve	**12,500**

B. Gain / Loss on disposal of investment in Subsidiary

Date of Sale	**01.10.2014**	**31.03.2014**
Sale Consideration Less: Share in Net Assets as on date of sale (2,25,000 x 80%) / (1,87,500 x 80%)	2,25,000 (1,80,000)	1,37,500 (1,50,000)
Transfer to Profit and Loss Account	45,000	12,500
	Gain	Loss

17. The Balance Sheets of S Ltd. and B Ltd. as at 31st December are given below –

Liabilities	**S**	**B**	**Assets**	**S**	**B**
Equity Capital (₹ 10)	**60,00,000**	**30,00,000**	**Fixed Assets (Tangible)**	**60,00,000**	**35,00,000**
General Reserve	**15,00,000**	**10,00,000**	**Investment**		
Profit and Loss Account	**10,00,000**	**5,00,000**	**- in 24,000 Shares of B**	**26,00,000**	**–**
8% Debentures (₹ 100)	**20,00,000**	**10,00,000**	**- in 500 Debentures of B**	**6,00,000**	**–**
Bills Payable	**6,00,000**	**7,00,000**	**- in 1000 Debentures of S**	**–**	**9,50,000**
Creditors	**10,00,000**	**7,00,000**	**Current/asset** **Stock in Trade**	 **10,00,000**	 **12,00,000**
			Debtors	**16,00,000**	**9,00,000**

			Cash & Bank	**3,00,000**	**3,50,000**
Total	**1,21,00,000**	**69,00,000**	**Total**	**121,00,000**	**69,00,000**

The investments in B Ltd. were made on the same day when B's General Reserve was ₹ 5,00,000 and Profit and Loss Account balance showed ₹ 2,00,000.

Prepare Consolidated Balance Sheet.

Answer:

17.

Basic Information

Company Status	**Dates**	**Holding Status**
Holding Co. = S Subsidiary = B	**Acquisition:** Not Given **Consolidation:** 31st December	Holding Company (240,000 ÷ 300,000) = 80% Minority Interest = 20%

Analysis of Reserves and Surplus of B Ltd.

(a) General Reserve

Balance as per Balance Sheet ₹ 10,00,000

Balance on date of acquisition
₹ 5,00,000
Capital Profit

Acquisition to Consolidation
(balancing figure) ₹ **5,00,000**
Revenue Reserve

(b) Profit and Loss A/c

Balance as per Balance Sheet ₹ 5,00,000

Balance on date of acquisition
₹ 2,00,000
Capital Profit

Acquisition to Consolidation
(balancing figure) ₹ 3,00,000
Revenue Reserve

Analysis of Net Worth of B Ltd.

Particulars		**Total**	**S 80%**	**Minority 20%**
(a) Share Capital	Equity Share Capital	**30,00,000**	24,00,000	6,00,000
(b) Capital Profits	General Reserve Profit and Loss Account	5,00,000 2,00,000		
Total		**7,00,000**	5,60,000	1,40,000
(c) Revenue Reserve	General Reserve	**5,00,000**	4,00,000	1,00,000
(d) Revenue Profits	Profit and Loss Account	**3,00,000**	2,40,000	60,000
Minority Interest				**9,00,000**

Cost of Control

	Particulars	**₹**
	Cost of Investment	26,00,000
Less:	Nominal Value of Equity Capital	(24,00,000)
Less:	Share of Capital Profits	(5,60,000)
	Capital Reserve on Consolidation	**3,60,000**

Gain or Loss on elimination of Intra-Group Debentures

	Particulars		**₹**
	Cost of Investment	S in B	6,00,000
		B in S	9,50,000
Less:	**Total Cost of Investment**		**15,50,000**
	Nominal Value of Debentures	(5,00,000 + 10,00,000)	(15,00,000)
	Loss on Elimination	(Adjusted against Group Reserves)	**50,000**

Consolidation of Reserves and Surplus

	Particulars	**Gen. Res.**	**P&L A/c**
	Balance as per Balance Sheet	15,00,000	10,00,000
Add:	Share of Revenue	4,00,000	2,40,000
Less:	Loss on Elimination of Debentures	–	(50,000)
	Consolidated Balance	**19,00,000**	**11,90,000**

Name of the Company: B Ltd. And its subsidiary S. Ltd.
Consolidated Balance Sheet of the Current year

Particulars	**Note No.**	**Current Year**	**Previous Year**
		₹	₹
A EQUITY AND LIABILITIES			
1 Shareholders' funds			
Share capital @ ₹ 10 each		60,00,000	-
Reserves and surplus	1	34,50,000	-
2 Minority Interest		9,00,000	-
3 Non-current liabilities			
Long-term borrowings (8% Debenture)	2	15,00,000	-
4 Current liabilities			
Trade payables	3	17,00,000	-
Other current liabilities	4	13,00,000	-

Particulars	Note No.	Current Year	Previous Year
		₹	₹
TOTAL		1,48,50,000	-
B ASSETS			
1 Non-current assets			
Fixed Assets — Tangible assets	5	95,00,000	-
2 Current assets			
Inventories	6	22,00,000	-
Trade receivables	7	25,00,000	-
Cash and cash equivalents	8	6,50,000	-
TOTAL		1,48,50,000	-

[Relevant Notes]

Note 1. Reserve and Surplus		
	Current Year	**Previous Year**
General Reserve	19,00,000	-
Profit and loss	11,90,000	-
Capital reserve on consolidation	3,60,000	-
	34,50,000	-

Note 2. Long Term Borrowings		
	Current Year	**Previous Year**
8% Debentures		
20000, 8% Debenture in S	20,00,000	-
10000,8% Debenture in B	10,00,000	-
	30,00,000	-
Less: Mutual Owing	15,00,000	-
	15,00,000	-

Note 3. Trade Payables		
	Current Year	**Previous Year**
Sundry Creditors		
- S Ltd	9,00,000.00	-
- B Ltd	8,00,000.00	-
	1,700,000.00	-

Note 4. Current Liabilities		
	Current Year	Previous Year
Bills Payable:-		
- S Ltd	6,00,000	-
- B Ltd	7,00,000	-
	13,00,000	-

Note 5. Tangible Assets		
	Current Year	Previous Year
Fixed Assets		
- S Ltd	60,00,000	-
- B Ltd	35,00,000	-
	95,00,000	-

Note 6. Inventories		
	Current Year	Previous Year
Stock		
- S Ltd	10,00,000	-
- B Ltd	12,00,000	-
	22,00,000	-

Note 7. Trade Receivable		
	Current Year	Previous Year
Debtors		
- S Ltd	15,00,000	-
- B Ltd	10,00,000	-
	25,00,000	-

Note 8. Cash and Cash Equivalents		
	Current Year	Previous Year
Cash & Bank		
- S Ltd	3,00,000	-
- B Ltd	3,50,000	-
	6,50,000	

18. (a) 'Communities and stakeholders generally are likely to be more supportive of companies that communicate openly and honestly about their management and performance in relation to environmental, social and economic factors.'- Justify.

(b) Describe the qualities and characteristics of information in TBL reports.

Answer:

18. (a)

Communities and stakeholders generally, are likely to be more supportive of companies that communicate openly and honestly about their management and performance in relation to environmental, social and economic factors.

Attraction and retention of high calibre employees - Existing and prospective employees have expectations about corporate environmental, social and economic behaviour, and include such factors in their decisions. The publication of TBL-related information can play a role in positioning an employer as an 'employer of choice' which can enhance employee loyalty, reduce staff turnover and increase a company's ability to attract high quality employees.

Improved access to the investor market - A growing number of investors are including environmental and social factors within their decision making processes. The growth in socially responsible investment and shareholder activism is evidence of this. Responding to investor requirements through the publication of TBL-related information is a way of ensuring that the company is aligning its communication with this stakeholder group, and therefore enhancing its attractiveness to this segment of the investment market.

Establish position as a preferred supplier - Obtaining a differentiated position in the market place is one way to establish the status of preferred supplier. Effectively communicating with stakeholder groups on environmental, social and economic issues is central to obtaining a differentiated position in the market place.

Reduced risk profile - There is an expanding body of evidence to suggest that performance in respect of economic, social and environmental factors has the capacity to affect the views of market participants about a company's exposure to, and management of, risk. TBL reporting enables a company to demonstrate its commitment to effectively managing such factors and to communicate its performance in these areas. A communication policy that addresses these issues can play an important role in the company's overall risk management strategy.

Cost savings - TBL reporting often involves the collection, collation and analysis of data on resource and materials usage, and the assessment of business processes. For example, this can enable a company to better identify opportunities for cost savings through more efficient use of resources and materials.

Innovation - The development of innovative products and services can be facilitated through the alignment of R&D activity with the expectations of stakeholders. The process of publishing TBL reporting provides a medium by which companies can engage with stakeholders and understand their priorities and concerns.

Aligning stakeholder needs with management focus - External reporting of information focuses management attention on not only the integrity of the data but also the continuous improvement of the indicator being reported.

Creating a sound basis for stakeholder dialogue - Publication of TBL reporting provides a powerful platform for engaging in dialogue with stakeholders. Understanding stakeholder requirements and alignment of business performance with such requirements is fundamental to business success. TBL reporting demonstrates to stakeholders the company's commitment to managing all of its impacts, and, in doing so, establishes a sound basis for stakeholder dialogue to take place.

In addition to the benefits obtained through superior relationships with key stakeholder groups, the decision to be publicly accountable for environmental and social performance is often recognised as a powerful driver of internal behavioural change. The availability of relevant information on economic, environmental and social performance that previously may not have been collected and evaluated in a readily understood manner may enable executives to identify and focus attention on specific aspects of corporate performance where improvement is required.

18. (b) Qualities and characteristics of information in TBL reports

TBL reports usually contain both qualitative and quantitative information. In order for all reported information to be credible, regardless of whether the information is qualitative or quantitative, it is suggested that it should possess the following characteristics. These include:

Reliability - information should be accurate, and provide a true reflection of the activities and performance of the company.

Usefulness - the information must be relevant to both internal and external stakeholders, and be relevant to their decision-making processes.

Consistency of presentation - throughout the report there should be consistency of presentation of data and information. This includes consistency in aspects such as format, timeframes, graphics, and metrics.

Full disclosure - reported information should provide an open explanation of specific actions undertaken and performance outcomes.

Reproducible - information is likely to be published on an ongoing basis, and companies must ensure that they have the capacity to reproduce data and information in future reporting periods.

Auditability - alignment with the trend towards external verification requires that all statements and data within the report be able to be readily substantiated.

Where the reported information possesses these characteristics, the reporting company is able to present objective, balanced and credible information that delivers benefits to both the reporting company and its stakeholders, while also minimising any potential reputation risk associated with the publication of TBL reporting.

19. List the benefits of an effective sustainability reporting cycle.

Answer:
An effective sustainability reporting cycle should benefit all reporting organizations. **Internal benefits** for companies and organizations can include:

- Increased understanding of risks and opportunities
- Emphasizing the link between financial and non-financial performance
- Influencing long term management strategy and policy, and business plans
- Streamlining processes, reducing costs and improving efficiency
- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives
- Avoiding being implicated in publicized environmental, social and governance failures
- Comparing performance internally, and between organizations and sectors

External benefits of sustainability reporting can include:

- Mitigating - or reversing - negative environmental, social and governance impacts
- Improving reputation and brand loyalty
- Enabling external stakeholders to understand company's true value, and tangible and intangible assets
- Demonstrating how the organization influences, and is influenced by, expectations about sustainable development

20. (a) Describe Post-Balance Sheet Events.
(b)Discuss Sensitivity Analysis as per AS-32.
(c) Define financial assets and state its classification.

Answer:
20. (a)

Post-balance sheet events are those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the financial statements are approved by the board of directors.

Adjusting events are post-balance sheet events which provide additional evidence of conditions existing at the balance sheet date. They include events which because of statutory or conventional requirements are reflected in financial statements.

Non-adjusting events are post-balance sheet events which concern conditions which did not exist at the balance sheet date.

The date on which the financial statements are approved by the board of directors is the date the board of directors formally approves a set of documents as the financial statements.

20. (b)

Sensitivity analysis

An analysis showing how profit or loss and equity would have been affected by changes in relevant risk variable (interest rate, foreign currency exchange rates and other prices) that were reasonably possible at reporting date.

Financial instruments should be grouped according to its class, for which an entity should consider at a minimum, whether instruments are measured at amortised cost or fair value and whether these are within or outside the scope of this standard. Such classification should render better understanding of the significance, impact, nature and extent of risks associated with the financial instruments to the users of financial statements easier.

20. (c)

A financial asset is an asset that is:

- Cash
- Equity Instruments of other enterprise, e.g. Investment in ordinary shares.
- A contractual right to receive cash, or to exchange financial assets or liabilities with other enterprise under conditions that are potentially favourable to the enterprise.

A financial asset has four classification

- Held for trading: Financial assets at fair value through Profit & Loss.
- They are held for trading or they are designated as such. It includes derivatives also.
- Held to maturity: Assets with fixed maturity and the entity has a positive intention and ability to hold till maturity.
- Loans & receivables: Assets with fixed payments (determinable and which are not quoted in the market).

- Available for sale: These & those assets which are not classified under the above 3 categories. (residual)

21. (a) Mr. A buys the following equity stock options and the seller/writer of the options is Mr B.

Date of purchase	Type of options	Expiry Date	Market lot	Premium per unit	Strike price (₹)
29.06.2014	A Co. Ltd.-Call option	30.08.2014	100	15	230
30.06.2014	C Ltd.- Put Option	30.08.2014	200	20	275

Prepare Journal Entries. Assume price of A Co. Ltd. on 30.08.2014 is ₹240 and C Ltd. is ₹290.

(b) 'A financial derivative is a financial investment with all the three characteristics.'-List them.

(c) DCL has been consistently preparing Value Added Statement(VAS) as part of Financial Reporting. The Human Resource Department of the company has come up with a new scheme to link Employee Incentive with 'Value Added' as per VAS. As per the scheme an Annual Index of Employee Cost to Value Added rounded off to nearest whole

number shall be prepared for the last 5 years and the best index out of results of the last 5 years shall be selected as the 'Target Index'. The Target Index percentage shall be applied to the figure of value added for a given year and the Target Employee Cost ascertained. Any saving in the Actual Employee Cost for the given year compared to the Target Employee Cost will be rewarded as variable incentive to the extent of 70% of the savings. From the given data, you are requested to ascertain the eligibility of Variable Incentive for the year 2014-2015 of the employees of DCL.

Value Added Statement of DCL for the last 5 years (₹lakhs)

Year	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Sales	3,200	3,250	2,900	3,800	4,900
Less: Bought out goods and Services	2,100	2,080	1,940	2,510	3,200
Value Added	1,100	1,170	960	1,290	1,700

Application of Value Added

Year	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
To Pay Employees	520	480	450	600	750
To Providers of Capital	160	170	120	190	210
To Government Tax	210	190	220	300	250
For maintenance and expansion	210	330	170	200	490

Summarized Profit and Loss Account of DCL for 2013-2014 (₹ in lakhs)

Sales		5,970
Less: Material Consumed	1,950	
Wages	400	
Production Salaries	130	
Production Expenses	500	
Production Depreciation	150	
Administrative Salaries	150	
Administrative Expenses	200	
Administrative Depreciation	100	
Interest	150	
Selling and Distribution Salaries	120	
Selling Expenses	350	
Selling Depreciation	120	4,320
Profit		1,650

Answer:
21. (a)

In the books of the buyer/holder, i.e. Mr. A

Date	Particulars		Debit (₹)	Credit (₹)
29.06.2014	Option Premium A/c	Dr.	5,500	
	To Bank A/c			5,500
	[Being option premium paid]			
30.08.2014	Bank A/c	Dr.	1,000	
	To profit on derivatives			1,000
	[Being profit recognized on call (240-230)×100,and put not exercised]			
30.08.2014	P/L A/c	Dr.	5,500	
	To Option Premium A/c			5,500

	[Being option premium written off]		

In the books of the writer, i.e. Mr. B

Date	**Particulars**	**Debit (₹)**	**Credit (₹)**
29.06.2014	Bank A/c Dr.	5,500	
	To Option Premium A/c		5,500
	[Being option premium received]		
30.08.2014	Loss on derivatives A/c Dr.	1,000	
	To Bank A/c		1,000
	[Being loss recognized on call (240-230)×100,and put not exercised]		
30.08.2014	Option Premium A/c Dr.	5,500	
	To P/L A/c		5,500
	[Being option premium transferred to income]		

21.(b) A financial derivative is a financial investment with all the three characteristics

(a) Its value changes in response to change in the underlying

(b) It requires no initial investment or very small initial investment

(c) It is settled on a future date,

21. (c)

1. Computation of Target Index: Target Index = Ratio of Employee Compensation on Value Added

Year	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Employees Expense (given)	520	480	450	600	750
Value Added	1100	1170	960	1290	1700
Index (1/2)	47%	41%	47%	47%	44%

Target Index= Best Index =47%

2. Computation of Value Added for current Financial Year (2014-2015)

Sales		5,970
Less: Material Consumed	1,950	
Production Expenses	500	
Administration Expenses	200	
Selling Expenses	350	3,000
Gross Value Added		2,970

22. The following particulars in respect of Stock Options granted by a company are available:

Grant date	**April 1,2011**
Number of employees covered	**50**
Number of options granted per employee	**1,000**
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 estimate 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 2013-2014 was ₹68.

Compute expenses to recognize in each year and show Stock Options Outstanding Account in books of the company.

Answer:
22.

Notes:

A. The vesting of Options is subject to satisfaction of two conditions viz, service condition of continuous employment for 3 years and market condition that the share price at the end of 2013-14 is not less than ₹70.
B. Since the share price on 31.03.2014 was ₹68, the actual vesting is nil. Despite this, the company should recognize the value of option over 3-year vesting period from 2011-12 to 2013-14.
C. At the end of the three year period, the balance in Options Outstanding will stand transferred to General Reserve, since the options couldn't vest.

1. Amount of Employee Compensation Expense to be recognized

(a) Year 2011-12

Fair Value of Option per share	9
Number of shares expected to vest = 48 employees ×1000 shares	48,000
Total Fair Value for the options to vest = 48,000 ×₹9 per shares	4,32,000
Expected vesting period	3 years
Value of option recognized as expense in 2011-12=4,32,000/3	₹1,44,000

(b) Year 2012-13

Fair Value of Option per share	9
Number of shares expected to vest = 47 employees ×1000 shares	47,000
Total Fair Value for the options to vest = 47,000 ×₹9 per shares	4,23,000
Expected vesting period	3 years
Cumulative value of option to be recognized as expense for two years = (4,23,000/3 years) ×2 years	2,82,000
Less: Value of option recognized as expense in 2011-12	1,44,000
Value of Option recognized as expense in 2012-13	₹1,38,000

(c) Year 2013-14

Fair Value of Option per share	9
Number of shares expected to vest = 45 employees ×1000 shares	45,000
Total Fair Value for the options to vest = 45,000 ×₹9 per shares	4,05,000
Expected vesting period	3 years
Cumulative value of option to be recognized as expense for two years = (4,05,000/3 years) ×3 years	4,05,000
Less: Value of option recognized as expense in 2011-12 and 2012-13	2,82,000
Value of Option recognized as expense in 2013-14	₹1,23,000

2. Ledger Account – Stock Options Outstanding A/c

Year	Particulars	₹	Particulars	₹
2011-12	To Balance c/d	1,44,000	By Employees Compensation A/c	1,44,000
		1,44,000		**1,44,000**
2012-13	To Balance c/d	2,82,000	By Balance b/d	1,44,000
			By Employees Compensation A/c	1,38,000
		2,82,000		**2,82,000**
2013-14	To General Reserve (Year	4,05,000	By Balance b/d	2,82,000

	End)			
			By Employees Compensation A/c	1,23,000
		4,05,000		**4,05,000**

23. (a) From the following data, prepare a Value Added Statement of B Ltd. for the year-ended 31.03.2015.

Particulars	**₹**	**Particulars**	**₹**
Decrease in Stock	**24,000**	**Sales**	**40,19,000**
Purchases	**20,20,000**	**Other Income**	**55,000**
Wages & Salaries	**10,00,000**		
Manufacturing & Other Expenses	**2,30,000**		
Finance Charges	**4,69,000**		
Depreciation	**2,44,000**		
Profit before taxation	**87,000**		
Total	**40,74,000**	**Total**	**40,74,000**

Particulars	**₹**
Profit before taxation	**87,000**
Less: Tax Provisions	**(40,000)**
Income Tax Payments (for earlier years)	**(3,000)**
Add: Earlier Year Profit brought forward	**38,000**
Profit After Taxation	**82,000**
Appropriations of PAT	
Debenture Redemption Reserve	**10,000**
General Reserve	**10,000**
Proposed Dividend	**35,000**
Balance carried to Balance Sheet	**27,000**
Total	**82,000**

(b) Care Industries Ltd (CIL) furnishes the following information from which you are required to calculate the Prevailing Economic Value Added of the company and also explain the reason for difference, if any, between the EVA as calculated by you and the MVA.(Market Value Added) of CIL amounting to ₹14,005 crore.

Common Shares of ₹1,000 face value	**1,58,200**
12% Debentures ₹10 face value	**50,00,000**
Current Tax rate	**30%**
Financial Leverage	**1.1 times**
Securities Premium Account (Lakh Rupees)	**155**
Free Reserves (Lakh Rupees)	**154**
Capital Reserve (Lakh Rupees)	**109**

It is a prevailing practice for companies in the industry to which CIL belongs to pay at least a dividend of 15% p.a. to its common shareholders.

(c) A company has a capital base of ₹30 crore and has earned profits of ₹330 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 ₹75 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.

Particulars	₹
Capital Base	**30,00,00,000**
Actual Profit	**3,30,00,000**
Target Profit	**3,75,00,000**

Answer:
23. (a)

Value Added Statement of B Ltd. for the year ended 31.03.2015

Particulars	₹	₹
Sales/Turnover		40,19,000
Less: Bought in materials		
• Decrease in Stock	24,000	
• Purchases	20,20,000	20,44,000
Value added by trading activities		19,75,000
Add: Other Income		55,000
Gross Value Added		**20,30,000**
Applied as follows -		
1. To Employees, Salaries, Wages etc.	10,00,000	
2. To other service providers as manufacturing &other expenses	2,30,000	
3. To government as taxes, Duties etc. (40,000 +3,000)	43,000	
4. To financiers as interest on borrowings	4,69,000	
5. To shareholders as dividends	35,000	
6. To retained earnings as -		
• Depreciation	2,44,000	
• Debenture Redemption Reserve	10,000	
• General Reserve	10,000	
Total Application		20,41,000
Value Deficit (Reduction in P&L A/c balances=(38,000 – 27,000)		(11,000)

Note: Alternatively, the reduction in Retained Profits (38,000 – 27,000) may be considered as an adjustment/reduction against the entry 'To retained Earnings' and the value deficit need not be shown.

23. (b)

1. Computation of Operating Profit Before Taxes

   Assuming EBIT = x, Financial Leverage = 1.1 = $\frac{\text{EBIT}}{\text{EBT}} = \frac{\text{EBIT}}{\text{EBIT Less Interest}} = \frac{x}{x \text{ Less ₹60 lakhs}}$

   Therefore, EBIT = x = 1.1x less 66 lakhs
   0.1x = ₹66 lakhs, this implies x = ₹660 lakhs = Operating Profit (EBIT)
   Therefore, Operating Profit after taxes = ₹660 lakhs × (1- tax rate of 30%) = ₹462 lakhs.

2. Computation of Capital Employed and weighted average Cost of Capital

Sources of Finance	Capital Amount (₹ lakhs)	Cost	Product
Equity Capital	1,582	15%	237.30
Reserves	154	15%	42.00
Securities Premium	155	15%	23.25
Capital Reserve	109	15%	16.35
12% Debentures	500	8.4%(12%-30%)	42.00
Total	2,500		342.00

Weighted Average Cost of Capital =342/2,500 = 13.68%

23. (c)

1. Maximum Salary Payable

Particulars	₹ lakhs
Capital Base	3000.00
Target Profits (=capital base × 12.5%)	375.00
Add: Extra Profits due to induction of the Executive	75.00
Total Profits of the company (anticipated after induction of the Executive)	450.00
Less: Current Profits	330.00
Incremental Profit	120.00

Maximum salary = Incremental Profit due to introduction = ₹120.00 lakhs per annum.

2. Maximum Bid Price:
   = Value of salary payable in perpetuity
   = Maximum salary payable / Desired rate of return on Investment
   = ₹120 lakhs /12.5% = ₹960 lakhs

24. (a)Discuss the relationship between EVA and MVA.
(b) Describe Jaggi & Lau Model –valuation on group basis of Human resources.
(c) State the aspects covered in Corporate Environmental Accounting System.
(d) List the requirements to be fulfilled by a merchant banker for registration with SEBI.

Answer:
24. (a)

The relationship between EVA and Market Value Added is more complicated than the one between EVA and Firm Value

- The market value of a firm reflects not only the Expected EVA of Assets in place but also the Expected EVA from future projects
- To the extent that the actual economic value added is smaller than the expected EVA the market value can decrease even though the EVA is higher.

This does not imply that increasing EVA is bad from a corporate finance stand point. In fact, given a choice between delivering a "below-expectation" EVA and no EVA at all, the firm should deliver the "below- expectation" EVA. It does suggest that the correlation between increasing year-to-year EVA and market value will be weaker for firms with high anticipated growth (and excess returns) than for firms with low or no anticipated growth. It does suggest also that "investment strategies" based upon EVA have to be carefully constructed, especially for firms where there is an expectation built into prices of "high" surplus returns.

MVA is presented below:

Total market capitalization:	₹500 million
(minus) Investor's capital + retained earnings:	₹400 million

Sample firm's MVA:	₹100 million

At a particular point in time, a firm's MVA is equal to the discounted present value of the annual EVA it is expected to generate. Thus, a firm's MVA communicates the market's evaluation on the net present value of that firm's current and expected capital investment projects.

24. (b)

"Jaggi & Lau Model" on valuation on group basis of Human Resources:

(i) Recognition of Group Aspect**:** This model is based on the group aspect i.e. the fact that humans work as group in an organisation. Here, a Group refers to a set of homogenous employees working in the same department or in different departments.

(ii) Procedure: This model calculated the Present Values of all existing employees in each rank as under –

Step	Procedure
1	Ascertain the number of employees in each rank / hierarchy.
2	Estimate the probability that an employee will be in his rank within the organisation or terminated/ promoted in the next period. Estimate this probability for a specified time period.
3	Ascertain the Economic Value of an employee in a specified rank during each time period.
4	Multiply the above three factors and apply an appropriate discount rate to arrive at the Present Value of existing employees.

(iii) Advantages: The appreciation for this model stems from the following –

(a) It recognises the Group concept since an organisation consists of people working together.

(b) It is easier to estimate the percentage of people in a group likely to continue or leave the organisation, rather than on an individual basis.

(c) Having the group of employees as a valuation base simplifies the process of valuing human resources.

(iv) Disadvantages: The disadvantage of the Group Valuation Model that it ignores the special skills and qualities of employees in specific ranks. The exit of a single important person in a certain group may affect the valuation of that entire group.

24. (c)

Aspects covered in Corporate Environmental Accounting system.
Environmental Accounting System should include aspects such as –

(i) Concept of National Income arising out of the use of Natural Resources;

(ii) Concept of Costs incurred to make use of such Resources;

(iii) Depreciation of Natural Resources;

(iv) Valuation of Natural Resources;

(v) Disclosing the value of Natural Resources in the Balance Sheet;

(vi) Contribution of Natural Resources to Industrial Development;

(vii) Contribution of Industries to the Environment; and

(viii) Extent to which changes in the environment due to business activities has affected social well-being.

24. (d)

Requirements to be fulfilled by a Merchant Banker for registration with SEBI:

The applicant should comply with the following requirements for applying certificate of Registration for to act as a Merchant Banker –

i. Body Corporate: The applicant should be a Body corporate other than a NBFC under the RBI Act, 1934.

ii. Infrastructure: Applicant should have necessary infrastructure like adequate office Space, Equipments, and Manpower to effectively discharge its activities.

iii. Expertise: Atleast 2 persons who have experience in to conduct the business of Merchant banker should be in employment with the Merchant banker.

iv. Bar on Registration: Person directly or indirectly connected with the applicant should not have been granted registration by SEBI. Such person include Associate, subsidiary, Group Company of the Applicant Body Corporate.

v. Capital Adequacy requirements: Applicant should fulfill the Capital adequacy requirements.

vi. Litigations: Applicant, its partner, Director or principal officer should not be involved in any litigation connected with the securities market which has an adverse effect on the applicant's business;

vii. Economic offence: Applicant, its Director, partner or principal officer should not have been convicted for any offence involving moral turpitude or found guilty of any economic offence;

viii. Professional Qualification: Applicant should have a professional qualification from an Institution recognised by the Government in Finance, Law or Business Management;

ix. Fit and Proper: The Applicant should be a fit and proper person.

x. Investor's interest: Grant of Certificate to the applicant is in the best interest of the investors.

25. Discuss the working principle of XBRL.

Answer:

25.

XBRL is a member of the family of languages based on XML, or Extensible Markup Language, which is a standard for the electronic exchange of data between businesses and on the internet. Under XML, identifying tags are applied to items of data so that they can be processed efficiently by computer software.

XBRL, a more powerful and flexible version of XML, has been defined specifically to meet the requirements of business and financial information. It enables unique identifying tags to be applied to items of financial data, such as say 'net profit' or say "Asset". For example let us take the item "Asset". It is defined in XBRL as follows:

<Asset>1000</Asset>

The word Asset together with brackets "<" and ">" is called a tag. Opening tags are denoted by <…> while closing tags are denoted by </…>.

However besides the numerical value of the asset, the computer needs to be told about accounting perspective of the term "Asset", its normal balance nature of "Debit" as well its relationship with other financial terms like Equity or Liabilities etc.

This is done by the powerful XBRL tags. Besides being identifiers, these tags provide a range of information about the item, such as whether it is a monetary item, percentage or fraction. XBRL allows labels in any language to be applied to items, as well as accounting references or other subsidiary information.

XBRL can show how items are related to one another and can thus represent how they are calculated. It can also identify whether they fall into particular groupings for organisation or presentation purposes. Most importantly, XBRL is easily extensible, so companies and other organisations can adapt it to meet a variety of special requirements.

The rich and powerful structure of XBRL allows very efficient handling of business data by computer software. It supports all the standard tasks involved in compiling, storing and using business data. Such information can be converted into XBRL by suitable mapping processes or generated in XBRL by software. It can then be searched, selected, exchanged or analysed by computer, or published for ordinary viewing.

Working of XBRL is governed mainly by two main features namely Specifications and Taxonomies.

26. (a) Distinguish between Government Accounting and Commercial Accounting.
(b) Describe the constitution of the Public Accounts Committee.
(c) Discuss the role of Public Accounts Committee.

Answer:
26. (a)

The principles of Commercial and Government Accounting differ in certain essential points. The difference is due to the fact that, while the main function of a commercial concern is to take part in the production, manufacture or inter-change of goods or commodities between different groups or individuals and thereby to make profit, Government is to govern a country and, in connection therewith, to administer the several departments of its activities in the best way possible.

Government Accounts are designed to enable Government to determine how little money it need take out of the pockets of the tax-payers in order to maintain its necessary activities at the proper standard of efficiency. Non-Government Commercial accounts, on the other hand, are meant to show how much money the concern can put into the pockets of the proprietors consistently with the maintenance of a profit-earning standard in the concern.

26.(b)

The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajya Sabha elected by that House in like manner are associated with the Committee. The Chairman is appointed by the Speaker from amongst its members of Lok Sabha. The Speaker, for the first time, appointed a member of the Opposition as the Chairman of the Committee for 1967-68. This practice has been continued since then. A Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment. The Public Accounts Committee consists of fifteen Members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote. Seven members of Rajya Sabha elected by that House in like manner are associated with the Committee. This system of election ensures that each Party/Group is represented on the Committee in proportion to its respective strength in the two Houses.

26.(c)

The role of the Public Accounts Committee is to assess the integrity, economy, efficiency and effectiveness of government financial management. It achieves this by:

- examining Government financial documents; and
- considering the reports of the Auditor - General.

A significant amount of the committee's work involves following up matters raised in the reports to Parliament by the Auditor - General. This ensures that public sector financial issues are scrutinised for the benefit of the Parliament and the public.

While scrutinising the Appropriation Accounts of the Government of India and the Reports of the Comptroller and Auditor General thereon, it is the duty of the Committee to satisfy itself—

– that the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged;

– that the expenditure conforms to the authority which governs it; and

– that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

An important function of the Committee is to ascertain that money granted by Parliament has been spent by Government "within the scope of the demand". The functions of the Committee extend "beyond the formality of expenditure to its wisdom, faithfulness and economy". The Committee thus examines cases involving losses, nugatory expenditure and financial irregularities.

It is also the duty of the PAC to examine the statement of accounts of autonomous and semi-autonomous bodies, the audit of which is conducted by the Comptroller & Auditor General either under the directions of the President or by a Statute of Parliament.

27. (a)Discuss the structure of the Government Accounting Standards Advisory Board (GASAB).
(b) Describe the procedures adopted by the GASAB for formulating standards.
(c) State the IGAS notified by Government of India and IGAS under consideration.

Answer:

27.(a)

GASAB is a representative body and is represented by main stakeholders connected with accounting reforms of Union Government of India and States. The board consists of the following members:

1. Deputy Comptroller and Auditor General (Accounts) as Chairperson
2. Controller General of Accounts
3. Financial Commissioner, Railways
4. Controller General of Defence Accounts
5. Member (Finance) Telecom Commission, Department of Telecom
6. Additional / Joint Secretary (Budget), Ministry of finance, Govt. of India
7. Secretary, Department of Post
8. Deputy Governor, Reserve Bank of India or his nominee
9. Director General, National Council of Applied Economic Research (NCAER), N. Delhi
10. President, Institute of Chartered Accountants of India (ICAI) or his nominee
11. President, Institute of Cost and Works Accountants of India or his nominee

12-15. Principal Secretary (Finance) of four States by rotation

16. Principal Director in GASAB as Member secretary.

27.(b)

The following procedures are adopted by the GASAB for formulating Standards:

- The GASAB Secretariat identifies areas for Standard formulation and places them before the GASAB for selection and approval. While doing so, the Secretariat places before the GASAB all important suggestions, references, proposals received from various sections of the Union and State Governments, members of GASAB, members of Civil Society, Professional Bodies and other stakeholders. The priorities, as approved by the GASAB, guide further functioning of the GASAB Secretariat.
- The GASAB Secretariat thereafter prepares the discussion paper on the selected issues for consideration of the GASAB.
- While doing so, the Secretariat studies the existing rules, codes and principles as internal sources, and documents/pronouncements/Standards issued by other national and international Standard setting and regulatory bodies. The Secretariat may also hold consultation with such other persons as are considered necessary for this purpose.

- On consideration of the Discussion paper and the comments received thereon, the GASAB finalizes the Exposure Draft.

- The GASAB may constitute Standing Committee and/or Task based Groups from amongst the Members or their representatives to consider specific areas before finalization.
- The Exposure Draft, as approved for issue by the GASAB, are widely circulated in the public domain and forwarded to all stakeholders. The Exposure Draft is required to be hosted at the website of GASAB.
- Based on the comments received on the Exposure Draft, the Standards are finalized by the GASAB. The Standards, as finalized, are forwarded to the Government for notification in accordance with the provisions of the Constitution of India.

The meetings are normally chaired by the Chairperson. In unforeseen circumstances when Chairperson is unable to attend, the senior-most member from the Central Government will chair the meeting. The Comptroller & Auditor General of India will be kept informed of the important developments in the meetings of GASAB.

The GASAB may meet as often as is deemed necessary but generally not less than four times in a financial year. The decisions of the GASAB may preferably be by general consensus. In case differences persist, the decision shall be on the basis of voting favoring the recommendation. The dissenting views should also be forwarded to the Government along with the recommendations.

GASAB allows an exposure period of 90 days for inviting comments on Exposure Draft.

27. (c)

IGAS Notified by Government of India

- Guarantees given by Governments: Disclosure Requirements (IGAS1)

  [Notified by the Govt. of India]
- Accounting and Classification of Grants-in-aid (IGAS2)

  [Notified by the Govt. of India]
- Loans and Advances made by Governments (IGAS 3)

  [Notified by the Govt. of India]

IGAS Under Consideration

- Foreign Currency transactions and loss or gain by Exchange Rate variations (IGAS 7)

  [Under consideration of the Govt. of India for notification]
- Public Debt and Other Liabilities of Governments: Disclosure Requirements (IGAS 10)

  [Under consideration of the Govt. of India for notification]

28.(a)Describe Indian Government Accounting Standard 5(Loans and Advances made by Government).

(b)Describe the objectives and scope of Indian Government Accounting Standard 4(General Purpose Financial Statements of Government).

Answer:

28.(a)

Loans and Advances made by Governments

Introduction

1. The Government of India has been empowered under proviso (2) of Article 293 of the Constitution of India to make loans to the States, subject to such conditions as may be laid down by or under any law made by Parliament, any sums required for the purpose of making such loans being chargeable to the Consolidated Fund of India.

2. The Union Government has been providing financial assistance to the State Governments, a substantial portion of which is in the form of loans. These loans are advanced to the States both in the form of plan and non-plan assistance intended for both developmental and non-developmental purposes. Loans are also provided by the Union Government to Foreign Governments, Government companies and Corporations, Non-Government institutions and Local bodies. The Union Government also disburses recoverable advances to Government servants.

3. The State Governments disburse loans to Government Companies, Corporations, Local Bodies, Autonomous Bodies, Cooperative Institutions, Statutory Corporations, quasi-public bodies and other non-Government/private institutions for developmental and socio-economic purposes. The State Governments also disburse recoverable advances to Government servants

Objectives

4. The objective of the Standard is to lay down the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Union and the State Governments in their respective Financial Statements to ensure complete, accurate, realistic and uniform accounting practices, and to ensure adequate disclosure on Loans and Advances made by the Governments consistent with best international practices.

Scope

5. This Standard applies to Loans and Advances given by the Government for incorporation and presentation in the Financial Statements of the Government. Financial Statements will not be considered as giving fair and complete picture of Loans and Advances unless they comply with these standards. This standard will apply only to government accounts being maintained on a cash basis.

28. (b) General Purpose Financial Statements of Government

Objectives

- The purpose of this Standard is to lay down the principles to be followed in presentation of general purpose financial reports of Governments and to prescribe the minimum requirements relating to structure and contents of financial statements of government prepared under cash basis of accounting.
- The statement of receipts and disbursements during the year and information about cash flows of an Entity enable stakeholders to evaluate the likely sources and uses of cash and the ability of an Entity to generate adequate cash in the future. This information also indicates the expenditure priorities of the Entity in the delivery of goods and services as well as the impact of the taxation policies of the Entity. Stakeholders can then assess the sustainability of the Entity's activities (whether future budgetary resources will be sufficient to sustain public services and to meet obligations as they become due) and appraise financial accountability.
- All Financial Statements need to be standardized to obtain optimal information, to ensure comparability with the Entity's own financial Statements of previous periods and with those of other entities. The basis and policies of accounting need to be uniform to permit meaningful consolidation to develop Whole of Government Accounts. Desirable attributes need to defined to obtain a basic standard for financial reporting.
- To achieve these objectives, this Standard sets out the financial elements for the presentation of financial reports prepared under the cash basis of accounting. It also requires that the selection of accounting policy should ensure certain qualitative

characteristics in the information being presented. Desirable attributes of financial reporting are required to heighten their value to the users.

- General Purpose Financial Statements (GPFS) essentially consists of Finance Accounts and Appropriation Accounts. The Financial Statements referred to in this standard are the General Purpose Financial Reports (GPFR).

Scope

- An Entity, which prepares and presents Financial Statements under the cash basis of accounting as defined in this Standard, should apply the requirements o this Standard in presentation of its financial statements.
- The standard applies to financial reports of a government – Union or State. The standard does not apply to accounts of (i) local bodies and (ii) Government Business Enterprises or Departmental Commercial Undertakings.
- An Entity whose Financial Statements comply with the requirements of this Standard should disclose that fact. Financial Statements should not be described as complying with this Standard unless they comply with all the requirements of this Standard.
- The standard lays down the minimum requirements that governments should follow in presentation of financial reports. The requirements in terms of contents of the financial report are the mandatory minimum requirements that financial reports should present.

29.(a)Write a note on voted & charged expenditure.
(b)Describe the classification of Government Accounts.

Answer:

29.(a)

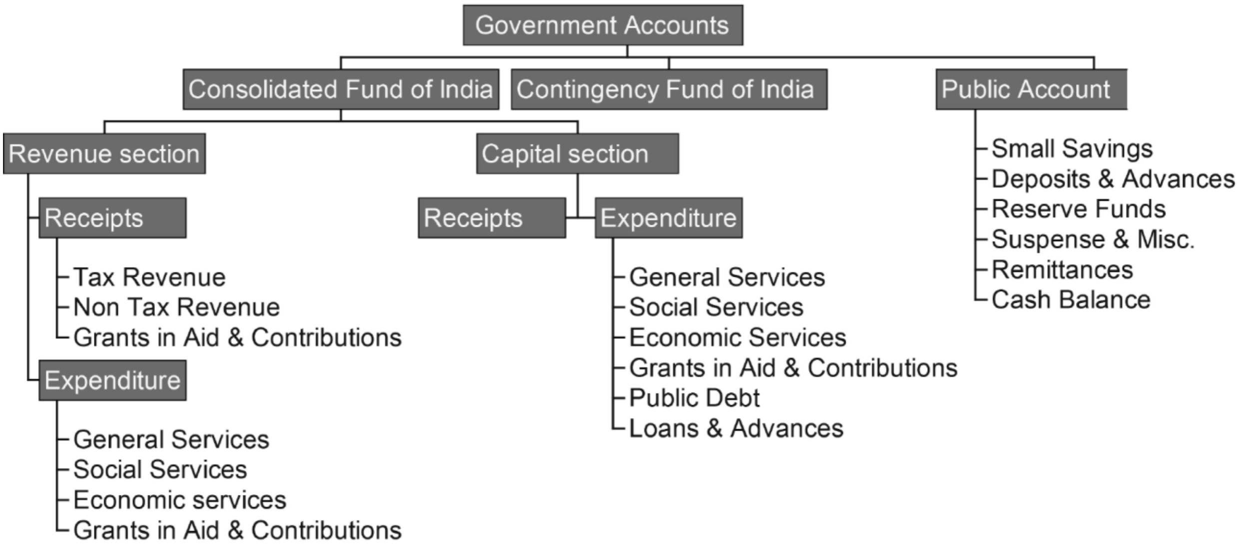
Voted & Charged Expenditure

- The estimates of expenditure embodied in the annual financial statement shall show separately
  - the sums required to meet expenditure described by this constitution as expenditure charged upon the Consolidated Fund of India and
  - the sums required to meet other expenditure proposed to be made from the Consolidated Fund of India

  Estimates relating to charged expenditure not to be submitted to the vote of Parliament.
- Each house competent to discuss such estimates.
- Estimates relating to other expenditure to be submitted in the form of demands for grants to the house of the People
- House of People shall have power to
  - assent
  - refuse to assent to any demand
  - assent to any demand subject to reduction.
- Expenditure on and related to
  - The President & his office
  - Chairman, Deputy Chairman of the Council of States
  - Speaker, Deputy Speaker of House of People
  - Judges of Supreme Court & High Court
  - Comptroller & Auditor General of India

- Debt liability of GOI and related charges
- Sums required to satisfy a Judgment, decree, award
- Any other expenditure declared by Parliament

29. (b)



30. (a) List the Organisations subject to the audit of the Comptroller and Auditor General of India.
(b)Write a note on Committee on Public Undertaking.

Answer:

30.(a)

The organisations subject to the audit of the Comptroller and Auditor General of India are:

- All the Union and State Government departments and offices including the Indian Railways and Posts and Telecommunications.
- About 1200 public commercial enterprises controlled by the Union and State governments, i.e. government companies and corporations.
- Around 400 non-commercial autonomous bodies and authorities owned or controlled by the Union or the States.

Over 4400 authorities and bodies substantially financed from Union or State revenues

30. (b)

The Committee on Public Undertakings exercises the same financial control on the public sector undertakings as the Public Accounts Committee exercises over the functioning of the Government Departments. The functions of the Committee are:-

a. to examine the reports and accounts of public undertakings.

b. to examine the reports of the Comptroller & Auditor General on public undertakings.

c. to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.

The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination,including evaluation of the policies, programmes and financial working of the undertaking.

The objective of the Financial Committees, in doing so, is not to focus only on the individual irregularity, but on the defects in the system which led to such irregularity, and the need for correction of such systems and procedures.