PAPER-18 : CORPORATE FINANCIAL REPORTING

Study Note — 1
Evaluation and Convergence of International Accounting Standards

Question No.1

(a) Rose Ltd. entered into agreement with Tulip Ltd. for sale of goods of ₹8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2014. On the same day Tulip Ltd. entered into another agreement with Rose Ltd. to resell the same goods at ₹10.80 lakhs on 1st August, 2014. State the treatment of this transaction in the financial statements of Rose Ltd. as on 31.03.14. The pre-determined re-selling price covers the holding cost of Tulip Ltd. Give the Journal Entries as on 31.03.14 in the books of Rose Ltd.

Solution:

In the given case , Rose Ltd. concurrently agreed to repurchase the same goods from Tulip Ltd. on 1st Feb., 2014. Also the re-selling price is pre-determined and covers purchasing and holding costs of Tulip Ltd. Hence , the transaction between Rose Ltd. and Tulip Ltd. on 1st Feb.,2014should be accounted for as financing rather than sale. The resulting cash flow of ₹9.60 lakhs received by Rose Ltd., cannot be considered as revenue as per AS 9 " Revenue Recognition".

Journal Entries in the books of Rose Ltd.

Date	Particulars	Debit (₹)	Credit (₹)
01.02.14	Bank A/c Dr. To, Advance from Tulip Ltd. (Being advance received from Tulip Ltd. amounting [₹8 lakhs + 20% of ₹8 lakhs = 9.60 lakhs] under sale and re-purchase agreement)	9.60	 9.60
31.03.14	Financing Charges A/c Dr. To, Tulip Ltd. (Financing charges for 2 months at ₹1.20 lakhs i.e. ₹[10.80-9.60] $\times \frac{2}{6}$)i.e.(₹1.2 lakhs $\times \frac{2}{6}$)	0.40	 0.40
31.03.14	Profit and Loss A/c Dr. To, Financing Charges A/c (Being amount of finance charges transferred to P& L A/c)	0.40	 0.40

(b) What is 'discontinuing operations' as per AS-24?

Solution:

As per Para 3 of the standard, a discontinuing operation is a component of an enterprise:

(i) that the enterprise, pursuant to a single plan is:

- disposing of substantially in its entirety such as selling the component in a single transaction or by demerger or spin off of ownership of the component to the enterprise's shareholders ; or

- disposing of piecemeal, such as by selling off the components assets and setting its liabilities individually; or
- terminating through abandonment and

(ii) that represents separate major line of business or geographical area of operation, and
(iii) that can be distinguished operationally and for financial reporting purposes.

It may be construed that discontinuing operation is relatively large component of an enterprise which is major line of business or geographical segment, this is distinguishable operationally or for financial reporting such component of business is being disposed on the basis of an overall plan in its entirety or in piecemeal. Discontinuance will be carried either through demerger or spin-off, piecemeal disposal of assets and settling of liabilities or by abandonment.

(c) ABC Ltd. shows a net profit of ₹10,80,000 for 3rd quarter after incorporating the following:
(i) Bad debt of ₹60,000 incurred during the year, 65% of the bad debts have been deferred to the next quarter;
(ii) Extraordinary loss of ₹56,000 incurred during the quarter has been fully recognized in this quarter;
(iii) Additional depreciation of ₹18,000 resulting from the change of method of depreciation.
Do you agree with the treatment adopted by the company? If not, find out correct quarterly income as per AS-25.

Solution:

In the above 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:

Net Profit as per P&L A/c	10,80,000
Adjustments for:	
Bad debt of ₹60,000 has been incurred during the current quarter. Out of this, the company has deferred 65% i.e. ₹39,000 to the next quarter. This is not correct. So, ₹39,000, should therefore be deducted from ₹10,80,000, as it is wrongly overstated	(39,000)
Treatment of Extra-ordinary loss of ₹56,000 is correct, hence no adjustment is required to be made against profits for this quarter	----
Treatment of recognizing the additional depreciation of ₹18,000 is in line with the provisions of AS-25, hence, no adjustment is required	----
Net Profit(adjusted)	10,51,000

(d) What is a "Grant Date" as per IFRS-2. Mention the vesting conditions.

Solution:

"Grant Date" is the date at which the entity and the employee (or other party providing similar services) agree to share based payment arrangement signifying by shared understanding of the terms and conditions of stock option. The term 'agree' is used in usual sense - there must be 'offer' and ' acceptance'. Therefore, the date on which the entity makes the offer becomes the grant date as 'acceptance' is either by explicit arrangement to which the employees have already agreed to implicit evidenced by commencement of their work.

Vesting Conditions:

These are conditions which are to be satisfied by the counterparty to be entitled to receive cash, other assets or equity instruments of the entity under share based payment arrangement. Examples of vesting conditions:
(i) service condition- an employee should complete a minimum period of service from the grant date;
(ii) performance condition - an employee should achieve a specified sales target or profit target.
However, no vesting condition other than market condition should be taken into account for the purpose of determining fair value of stock option.

Question No.2

(a)

Cost of asset	**₹56 akhs**
Useful life period	**10 years**
Salvage value	**Nil**
Current carrying value	**₹27.30 lakhs**
Useful life remaining	**3 years**
Recoverable amount	**₹12 lakhs**
Upward revaluation done in last year	**₹14 lakhs**

From the information

(i) Find out impairment loss

(ii) Treatment of impairment loss

(iii) Current year depreciation

Solution:

According AS 28 "Impairment of Assets", an impairment loss on a revalued asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

Impairment Loss and its treatment	₹
Current carrying amount (including revaluation amount of ₹14 lakhs)	27,30,000
Less: Current recoverable amount	12,00,000
Impairment Loss	15,30,000
Impairment loss charged to revaluation reserve	14,00,000
Impairment loss charged to profit and loss account	1,30,000

As per AS 28, “after the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.”

In the given case, the carrying amount of the asset will be reduced to ₹12,00,000 after impairment. This amount is required to be depreciated over remaining useful life of 3 years (including current year). Therefore, the depreciation for the current year will be ₹4,00,000.

(b) As on 1st April, 2013 the Fair Value of Plan Assets was ₹ 1,00,000 in respect of a pension plan of X Ltd. On 30th September, 2013 the plan paid out benefits of ₹ 20,000 and received inward contributions of ₹ 50,000. On 31st March, 2014 the fair value of plan assets was ₹ 1,50,000 and present value of the defined benefit obligation was ₹ 1,48,000. Actuarial losses on the obligations for the year 2013-14 were ₹ 1,000. On 1st April, 2013 the company made the following estimates, based on its market studies, understanding and prevailing prices :

Interest & Dividend Income, after tax payable by the fund	**9.50%**
Realized and unrealized gains on Plan Assets (after tax)	**2.00%**
Fund Administrative Costs	**(1.25%)**
Expected Rate of Return	**10.25%**

Required: Find the Expected & Actual Returns on Plan Assets for the year 2013-14.

Solution:

A. Closing Balance of Fair Value of Plan Assets	₹ 1,50,000
B. Add : Benefit Paid	₹ 20,000
C. Less : Contributions Received	(₹ 50,000)
D. Less : Opening Balance of Fair Value of Plan Assets	(₹1,00,000)
E : Actual Return on Plan Assets	**₹ 20,000**
A. Return on Opening Balance of Fair Value of Plan Assets [₹ 1,00,000 × 10.25% × 12/12]	₹ 10,250
B. Return on Net Contributions Received [Contributions - Benefits Paid] [(₹ 50,000 - ₹ 20,000) × 5%]	₹ 1,500
C : Expected Return on Plan Assets	**₹ 11,750**
Note : Equivalent Half Yearly Compounding Interest Rate = $\sqrt{1+\text{ Expected Rate of Return}}-1=\sqrt{(1+0.1025)}-1=0.05 \text{ or } 5\%$	

Question No.3

(a) S Ltd. acquired a patent at a cost of ₹60 lacs for a period of 5 years and the product-life cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹10 lacs per annum. After two years it was found that the product life-cycle may continue for another 4 years from then. the net cash flows from the product during these 4 years were expected to be ₹49,50,000; ₹54,00,000; ₹58,50,000 and ₹63,00,000. Find out the amortization cost of the patent for each of the year.

Solution:

As per AS-26, "Intangible Assets", the amortization method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise, if that pattern cannot be determined reliably, the straight line method should be used.

In the instant case, the pattern of economic benefit in the form of net cash flows is determined reliably after two years. In the initial two years, the pattern of economic benefits could not have been reliably estimated therefore amortization was done at straight-line method, i.e. ₹10 lacs per annum. However, after two years pattern of economic benefits for the next five years in the form of net cash flows is reliably estimated as under and therefore amortization will also be done as per the pattern of cash inflows:

Cash inflows (₹)	Amount of amortization in the next 4 years (₹)
49,50,000	[40,00,000 x 49,50,000/2,25,00,000] = 8,80,000
54,00,000	[40,00,000 x 54,00,000/2,25,00,000] = 9,60,000
58,50,000	[40,00,000 x 58,50,000/2,25,00,000] = 10,40,000
63,00,000	[40,00,000 x 63,00,000/2,25,00,000] = 11,20,000
2,25,00,000	**Balance of WDV = 40,00,000**

(b) Write a note on IFRS.

Solution:

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.

(c) Explain the impact of the followings in line with AS-29.

(i) A company follows a policy of refunding money to the dissatisfied customers if they claim within thirty days from the date of purchase and return the goods. It appears from the past experience that in a month only 0.30% of the customers claim refunds. The company sold goods amounting to ₹25 lacs during the last month of the financial year. Is there any contingency?

Solution:

There is a probable present obligation as a result of past obligating event. The obligating event is the sale of product. Provision should be recognized as per AS-29. The best estimate for provision is ₹ 7,500 (25,00,000 x 0.30%).

(ii) A company needs to retrain staff because of introduction of ERP packages. Is that a contingent liability? Is there any need for provisioning? At the balance sheet date, no retraining of staff has taken place.

Solution:

It is a restructuring cost. There is no obligation because no obligating event (retraining) has taken place. No provision is recognized.

(iii) An airline is required by law to overhaul its aircraft once every three years. The expenses to be incurred as classified as 'refurbishment costs'. Is there any provision to be recognized?

Soltion:

The airline company has to overhaul its aircraft/s once every three years. There is no present obligation. Hence, no provision is recognized. The costs of overhauling aircraft are not recognized as a provision because at the balance sheet date no obligation of overhauling aircraft exists independently of the company's future actions. Even a legal requirement to overhaul does not make the cost of overhaul/refurbishment cost a liability, because no obligation exists to overhaul the aircraft independently of the enterprise's future actions - the enterprise could avoid the future expenditure by its future actions, for example by selling the aircrafts.

(d) A firm of contractors obtained a contract for construction of bridges across a river. The following details are available in the records kept for the year ended 31st March, 2015.

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

- **Contract work-in-progress**
- **Amount due from /to customer.**

Solution:

Contract Work-in-Progress:

= Work certified+ Work not certified
= ₹ (1,000+210) lakhs = ₹ 1,210 lakhs

Amount due from/ to customer:

= Contract costs incurred + Recognised profits - Recognised losses – (Progress payments received + Progress payments to be received)

= ₹1,210 lakhs + NIL - ₹200 lakhs – ₹(800 + 280)lakhs = (₹70)lakhs
i.e amount due to the customer is ₹70 lakhs

Working Note:

Amount of Foreseeable loss:

Particulars	**Amount (₹ in lakhs)**
Total Cost of Construction (1,000+210+990)	2,200
Less: Total Contract Price	2,000
Total foreseeable loss to be recognised as expenses	200

Study Note — 2 Accounting for Business Combinations

Question No. 4

The following are the Balance Sheets of A Ltd. and B Ltd. as on 31st December 2015.

Liabiltiies	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Share capital			Fixed Assets	14,00,000	5,00,000
Equity shares of ₹ 10 each	12,00,000	6,00,000	Investment:		
10% Preference shares of			6,000 shares of B Ltd.	1,60,000	-
₹10 each	4,00,000	2,00,000	5,000 shares of A Ltd.	-	1,60,000
Reserves and surplus	6,00,000	4,00,000	Current Assets:		
Secured loans:			Stock	4,80,000	6,40,000
12% Debentures	4,00,000	3,00,000	Debtors	7,20,000	3,80,000
Current liabilities:			Bills receivable	1,20,000	40,000
Sundry creditors	4,40,000	2,50,000	Cash at bank	2,20,000	80,000
Bills payable	60,000	50,000			
	31,00,000	18,00,000		31,00,000	18,00,000

Fixed assets of both the companies are to be revalued at 20% above book value. Stock in - trade and Debtors are taken over at 10% lesser than their book value. Both the companies are to pay 10% Equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, A Ltd. will absorb B Ltd. on the following terms.

i. **8 Equity shares of ₹ 10 each will be issued by A Ltd. at par against 6 shares of B Ltd.**

ii. **10% Preference Shareholders of B Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in A Ltd.**

iii. **12% Debentureholders of B Ltd. are to be paid at 8% premium by 12% Debentues in A Ltd. issued at a discount of 10%.**

iv. **₹ 60,000 is to be paid by A Ltd. to B Ltd. for Liquidation expenses. Sundry creditors of B Ltd. include ₹ 20,000 due to A Ltd.**

Prepare:

(a) Absorption entries in the books of A Ltd.

(b) Statement of consideration payable by A Ltd.

Solution:

Part - I Purchase consideration payable by A Ltd.

A. Equity share holders:-

No of equity shares of B Ltd.	60,000
Less:- Held by A Ltd.	12,000
No. of equity shares held by outsiders	48,000
Exchange ratio	8:6
No. of equity shares to be issued by A Ltd. (48,000 × 8/6)	64,000
Less: Already held by B Ltd. in A Ltd.	(10,000)
No. of equity shares to be issued now	54,000
Value of shares to be issued 54,000 × 10 =	₹ 5,40,000

B.	Preference share holders:-	
	Preference Share capital of B Ltd.	2,00,000
	Payable at discount of 10% [2,00,000 - (10% of 2,00,000)]	1,80,000
	10% Preference shares to be issued at par by A Ltd. to B Ltd.	₹ 1,80,000
C.	Purchase consideration (A+B)	₹ 7,20,000

Part II - Absorption entries in the books of A Ltd.

A. Pre - Amalagamation Events :-

	Particulars		Debit	Credit
1.	Revaluation of Fixed assets			
	Fixed Assets A/c	Dr.	2,80,000	
	To Revaluation Reserve A/c			2,80,000
2.	Dividend received from B Ltd. on 12,000 shares			
	Bank A/c	Dr.	12,000	
	To Reserves and Surplus			12,000
3.	Dividend on equity Share capital @ 10%			
	i. Due entry			
	Reserves and Surplus	Dr.	1,20,000	
	To Proposed Dividend A/c			1,20,000
	ii. Payment entry			
	Proposed Dividend A/c	Dr.	1,20,000	
	To Bank A/c			1,20,000

B. Amalgamation Events

Nature of Amalgamation - Purchase

Method of Accounting - Purchase

	Particulars		Debit	Credit
1.	For Purchase Consideration Due:			
	Business purchase A/c	Dr.	7,20,000	
	To Liquidator of B Ltd.			7,20,000
2.	For assets and liabilities taken over			
	Fixed Assets (120% of 5,00,000)	Dr.	6,00,000	
	Stock A/c (90% of 6,40,000)	Dr.	5,76,000	
	Debtors A/c (90% of 3,80,000)	Dr.	3,42,000	
	Bills Receivable A/c	Dr.	40,000	
	Bank A/c *	Dr.	30,000	
	To 12% Debentures of B Ltd A/c			3,24,000
	To Sundry creditors A/c			2,50,000
	To Bills payable A/c			50,000
	To Business Purchase A/c			7,20,000
	To Investment in B Ltd. A/c			1,60,000
	To Capital Reserve A/c (Balancing Figure)			84,000

3.	For Discharge of Purchase consideration			
	Liquidator of B Ltd A/c	Dr.	7,20,000	
	To Equity Share Capital A/c			5,40,000
	To 10% Preference Share Capital A/c			1,80,000
4.	Liquidation expenses incurred by B Ltd, later reimbursed by A Ltd.			
	Capital Reserve A/c	Dr.	60,000	
	To Bank A/c			60,000
5.	Discharge to debenture holders of B Ltd.			
	12% Debenture Holders A/c	Dr.	3,24,000	
	Discount on Issue of debentures A/c	Dr.	36,000	
	To 12% Debentures A/c.			3,60,000
6.	Cancellation of inter company owings			
	Sundry Creditors A/c	Dr.	20,000	
	To Sundry Debtors A/c			20,000

* Bank Balance of B Ltd.

Balance as per Balance Sheet	80,000
Add : Dividend Received from A Ltd (10% on 1,00,000)	10,000
Less : Dividend paid on Share capital (10% on 6,00,000)	(60,000)
	30,000

\# 12% Debentures of B Ltd. = 3,00,000

Payable at 8% premium 3,00,000 × 108% = 3,24,000

Question No.5 (a)

The following are the summarized Balance Sheet of AQ Ltd. and BQ Ltd.

Liabilities	AQ Ltd.	BQ Ltd.	Assets	AQ Ltd.	B QLtd.
Equity Share Capital A/c	64,000	56,000	Sundry assets	84,000	66,000
Profit and Loss A/c	10,000	—	Shares in BQ Ltd.	40,000	—
Creditors	30,000	12,000	Profit and Loss A/c	—	2,000
Loan - CQ Ltd.	20,000	—			
	1,24,000	68,000		1,24,000	68,000

Note : Loan from CQ Ltd. assumed to be of less than 12 months, hence treated as short terms borrowings (ignoring interest)

The whole of the shares of AQ Ltd. are held by CQ Ltd. and the entire Share capital of BQ Ltd. is held by AQ Ltd.

A new company PQ Ltd. is formed to acquire the sundry assets and liabilities of AQ Ltd. and BQ Ltd. For the purpose, the sundry assets of AQ Ltd. are revalued at ₹ 60,000 and those of BQ Ltd. at ₹ 40,000.

Show the journal entries and prepare necessary ledgers A/c to close the books of AQ Ltd. and BQ Ltd.

Solution:

In the Books of AQ Ltd.

(₹)

	Particulars		Debit	Credit
1.	Realisation A/c	Dr.	1,24,000	
	To Sundry Assets A/c			84,000
	To Investment in BQ Ltd. A/c			40,000
	[Being sundry assets and shares in BQ Ltd. transferred to Realisation A/c on sale of business of AQ Ltd.]			
2.	Creditors A/c	Dr.	30,000	
	Loan (CQ Ltd.) A/c	Dr.	20,000	
	To Realisation A/c			50,000
	[Sundry creditors and loans transferred to Realisation A/c on sale of business to PQ Ltd.]			
3.	PQ Ltd. A/c	Dr.	10,000	
	To Realisation A/c			10,000
	[Amount of purchase consideration receivable from PQ Ltd.]			
4.	Shares in PQ Ltd. A/c	Dr.	10,000	
	To PQ Ltd. A/c			10,000
	[Amount of purchase consideration received as shares of BQ Ltd.]			
5.	Shares in PQ Ltd. A/c	Dr.	28,000	
	To Realisation A/c			28,000
	[Amount of shares in PQ Ltd. received against investment in PQ Ltd.]			
6.	Shareholders (AQ Ltd.) A/c	Dr.	36,000	
	To Realisation A/c			36,000
	[Loss on realisation transferred to Shareholders A/c]			
7.	Equity Share Capital A/c	Dr.	64,000	
	Profit and Loss A/c	Dr.	10,000	
	To Shareholders A/c			74,000
	[Balance of Share capital and Profit and Loss A/c transfer to Share holder A/c]			
8.	Shareholders (AQ Ltd.) A/c	Dr.	38,000	
	To Shares in PQ Ltd. A/c			38,000
	[Amount payable to shareholders discharged by issue of shares in PQ Ltd. (28,000 + 10,000)]			

In the Books of BQ Ltd.

Particulars			**Debit**	**Credit**
1.	Realisation A/c	Dr.	66,000	
	To Sundry Assets A/c			66,000
	[Being Sundry Assets and Shares in BQ Ltd. transferred to Realisation account on sale of business to PQ Ltd.]			
2.	Creditors A/c	Dr.	12,000	
	To Realisation A/c			12,000
	[Sundry Creditor is transferred to Realisation A/c on sale of Business to PQ Ltd.]			
3.	PQ Ltd. A/c	Dr.	28,000	
	To Realisation A/c			28,000
	[Amount of purchase consideration receivable from PQ Ltd. on transfer sundry assets, creditor and Loan vide agreement dated.....]			
4.	Equity Share Capital A/c	Dr.	56,000	
	To Shareholders (AQ Ltd.) A/c			56,000
	[Being amount of Share capital transferred to Shareholder A/c]			
5.	Shareholders A/c	Dr.	28,000	
	To Realisation A/c			26,000
	To Profit and Loss A/c			2,000
	[Loss on realisation and Profit and Loss A/c debit balance transferred to Share holders A/c]			
6.	Shares in PQ Ltd. A/c	Dr.	28,000	
	To PQ Ltd. A/c			28,000
	[Amount of purchase consideration received in shares of PQ Ltd.]			
7.	Shareholders (AQ Ltd.) A/c	Dr.	28,000	
	To Shares in PQ Ltd.			28,000
	[Amount payable to shareholders discharged by issue of shares in PQ Ltd.]			

WN # 1 : Calculation of Purchase Consideration (Net Assets Method)

Particulars	**AQ Ltd.**	**BQ Ltd.**
Value of net assets	60,000	40,000
Creditors	(30,000)	(12,000)
Loans from CQ Ltd.	(20,000)	—
Purchase Consideration	**10,000**	**28,000**

In the Books of BQ Ltd. :

Realisation Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Sundry Assets	66,000	By Creditors A/c	12,000
		By PQ Ltd. (Purchase Consideration)	28,000
		By Shareholders (AQ Ltd.) A/c	26,000
		(Loss on Realisation)	
	66,000		**66,000**

Shareholders (AQ Ltd.) Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Realisation A/c	26,000	By Share Capital A/c	56,000
To Profit and Loss A/c	2,000		
To Shares in PQ Ltd. A/c	28,000		
	56,000		**56,000**

In the Books of AQ Ltd. :

Realisation Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Sundry Assets	84,000	By Creditors A/c	30,000
To Investments in BQ Ltd.	40,000	By Loan (CQ Ltd.)	20,000
		By PQ Ltd. (Purchase	10,000
		consideration)	
		By Shares in PQ Ltd.	28,000
		By Shareholders A/c	36,000
		(Loss on Realisation)	
	1,24,000		**1,24,000**

Sundry Shareholders (AQ Ltd.) Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Realisation A/c	36,000	By Share capital A/c	64,000
To Shares in PQ Ltd. (28,000 from BQ Ltd. 10,000 from PQ Ltd.)	38,000	By Profit and Loss A/c	10,000
	74,000		**74,000**

Question No. 5 (b)

The following Balance sheets of A Ltd. and B Ltd. as at 31st March, 2015 are given to you:

	A Ltd. ₹	B Ltd. ₹
Liabilities:		
Equity Share capital of ₹10 each	**15,00,000**	**5,00,000**
General Reserve	**2,00,000**	**1,00,000**
Profit and Loss Account	**1,60,000**	**10,000**
10% Debentures	**—**	**3,00,000**
Current liabilities	**2,00,000**	**90,000**
	20,60,000	**10,00,000**
Assets:		
Fixed Assets	**10,00,000**	**50,000**
Sundry Debtors	**2,90,000**	**1,50,000**
Stock	**4,80,000**	**2,10,000**
10,000 shares in B Ltd.	**1,50,000**	**—**
30,000 shares in A Ltd.	**—**	**5,00,000**
Cash at bank	**1,40,000**	**90,000**
	20,60,000	**10,00,000**

B Ltd. traded raw material which were required by A Ltd. for manufacture of its products. Stock of A Ltd. includes ₹ 1,00,000 for purchases made from B Ltd. on which the company (B Ltd.) made a profit of 12% on selling price. A Ltd. owed ₹ 25,000 to B Ltd. in this respect. It was decided that A Ltd. should absorb B Ltd. on the basis of the intrinsic value of the shares of the two companies. Before absorption, A Ltd. declared a dividend of 10%. A Ltd. also decided to revalue the shares in B Ltd. before recording entries relating to the absorption.

Show the journal entries, which A Ltd. must pass to record the acquisition and prepare its balance sheet immediately thereafter. All workings should from part of your answer.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

Solution :

Part I - Purchase consideration - Net Asset Method.
WN #1: Net assets excluding inter company investment at the time of Amalgamation

₹

Particulars	A	B
Fixed Assets	10,00,000	50,000
Sundry Debtors	2,90,000	1,50,000
Stock	4,80,000	2,10,000
Cash	1,40,000	90,000
Dividend Receivable		30,000
Less:		

10% Debentures	—	(3,00,000)
Current liabilities	(2,00,000)	(90,000)
Proposed Dividend	(1,50,000)	
	15,60,000	**1,40,000**

WN # 2 : Intrinsic value of investment

A = 15,60,000 + 0.2 B
B = 1,40,000 + 0.2 A
A = 15,60,000 + 0.2 (1,40,000 + 0.2A)
A = 15,60,000 + 28,000 + 0.04A
0.96A = 15,88,000
A = 16,54,166.67
B = 1,40,000 + 0.2 (16,54,166.67)
= 4,70,833.32

Summary :-

Particulars		**A Ltd.**	**B Ltd.**
a)	Net Assets (₹)	16,54,167	4,70,833
b)	No. of shares outstanding	1,50,000	50,000
c)	Intrinsic value per share	₹ 11	₹ 9.4

WN # 3: Purchase consideration

Total no. of B Ltd.'s shares outstanding		50,000
Less: No. of shares held by A Ltd		10,000
Shares held by outsiders		40,000
Value of the above shares (40,000 × ₹ 9.40)		₹ 3,76,000
Number of shares issuable at intrinsic value (3,76,000÷11)		34,182
Less: Number of shares already held by B Ltd.		30,000
Number of shares to be issued		4,182
Purchase consideration (4182 x 11)		₹ 46,002
	In Shares	In Cash
	₹ 46,000	₹ 2

Part II - In the books of Selling Company - B Ltd.

Section A: Pre-Amalgamation Event

Particulars		**Debit**	**Credit**
i.	Dividend Receivable		
	Dividend Receivable A/c	Dr. 30,000	
	To Profit and Loss A/c		30,000

Note : Revised Profit and Loss A/c balance = ₹ 10,000 + 30,000
= ₹ 40,000

Section B : Entries relating to Amalgamation

Realisation Account

Dr. Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Fixed Assets	50,000	By Debentures	3,00,000
To Debtors	1,50,000	By Creditors	90,000
To Stock	2,10,000	By A Ltd.'s A/c (Purchasing Co.)	46,002
To Cash	90,000	By Share capital (Head as Investment)	
	1,00,000		
To Dividend Receivable	30,000		

To Profit transferred to share holders	6,002		
	5,36,002		**5,36,002**

	Particulars		Debit ₹	Credit ₹
1.	Transfer to Realisation Account			
	a. Transfer of Assets			
	Realisation A/c	Dr.	5,30,000	
	To Fixed Assets A/c			50,000
	To Debtors A/c			1,50,000
	To Stock A/c			2,10,000
	To Cash A/c			90,000
	To Dividend Receivable A/c			30,000
	(Being assets taken over by transferred to Realisation A/c)			
	b. Transfer of Liabilities			
	10% Debentures A/c	Dr.	3,00,000	
	Creditors A/c	Dr.	90,000	
	To Realisation A/c			3,90,000
	(Being liabilities taken over by A Ltd. transferred to Realisation A/c)			
	2a. **Purchase consideration due:**			
	A Ltd A/c	Dr.	46,002	
	To Realisation A/c			46,002
	b. Receipt of Purchase Consideration :			
	Cash A/c	Dr.	2	
	Equity shares of A Ltd A/c	Dr.	46,000	
	To A Ltd A/c			46,002
3.	Cancellation of paid up capital to the extent of A Ltd's Interest (Purchasing Co.) :			
	Share Capital A/c	Dr.	1,00,000	
	To Realisation A/c			1,00,000
4.	a. Amount due to outside shareholders :			
	Transfer of remaining Share capital and all reserves			
	Share Capital A/c	Dr.	4,00,000	
	General Reserve A/c	Dr.	1,00,000	
	Profit & Loss A/c	Dr.	40,000	
	To Shareholders A/c			5,40,000
	b. Transfer of profit on realisation to shareholders :			
	Realisation A/c	Dr.	6,002	
	To Shareholders A/c			6,002
5.	Settlement of amount to outsiders (5,40,000 + 6,002) :			
	Shareholders A/c	Dr.	5,46,002	
	To Equity shares of A Ltd. (5,00,000 + 46,000)			5,46,000
	To Cash A/c			2

PART III - In the books of A Ltd (Purchasing co.)
Section A - Pre Amalgamation Events.

	Particulars	Debit	Credit
1.	Proposed dividend :		

	Profit & Loss A/c	Dr.	1,50,000	
	To Proposed Dividend A/c			1,50,000
2.	Revaluation of Investments			
	Profit and Loss A/c	Dr.	56,000	
	To Investments A/c [1,50,000 - (10,000 × 9.4)]			56,000

Section B - Amalgamation events

- Nature of Amalgamation : Merger
- Method of Accounting : Pooling of Interest

(₹)

	Particulars				Debit	Credit
3.	For Purchase Consideration Due :-					
	Business Purchase A/c			Dr.	46,002	
	To Liquidator of B Ltd.'s A/c					46,002
4.	For assets and liabilities taken over :					
	a. Aggregate investment - Consideration Paid					
	i. Investment of A Ltd. in B		94,000			
	ii. Paid to outsiders.					
	I. Now issued	46,002				
	II. Already held by A Ltd. in B Ltd.	5,00,000	5,46,002			
			6,40,002			
	III. Less: Paid up capital		(5,00,000)			
	IV. Excess		1,40,002			
	b. Above excess to be adjusted against					
	i. General reserve of B Ltd.			1,00,000		
	ii. P & L A/c of B Ltd.			40,000		
	c. Balance of B Ltd reserve to be incorporated			1,40,000		
	i. General reserve (1,00,000 – 1,00,000)			Nil		
	ii. Profit and Loss A/c (40,000 – 40,000)			Nil		
	Fixed Assets A/c			Dr.	50,000	
	Sundry Debtors A/c			Dr.	1,50,000	
	Stock A/c			Dr.	2,10,000	
	Cash at Bank A/c (90,000 + 2)			Dr.	90,002	
	Dividend Receivable A/c			Dr.	30,000	
	To Debentures A/c					3,00,000
	To Creditors A/c					90,000
	To Business Purchase A/c					46,002
	To Investments in B Ltd A/c					94,000
5.	Discharge of Purchase Consideration:					
	Liquidator of B Ltd A/c			Dr.	46,002	
	To Equity Share Capital A/c					41,818
	To Securities Premium A/c					4,182
	To cash A/c					2
6.	Others					
	a. Cancellation of inter-company dividends					
	Proposed Dividend A/c			Dr.	30,000	
	To Dividend Receivable A/c					30,000
	b. Cancellation of inter-company owings					
	Creditors A/c			Dr.	25,000	

To Debtors A/c 25,000

c. Creation of Stock Reserve

Profit & Loss A/c Dr. 12,000

To Stock Reserve A/c 12,000

Name of the Company: A Ltd.					
Balance Sheet as at 31.03.2015					
Ref No.	**Particulars**		**Note No.**	**As at 31st March, 2015**	**As at 31st March, 2014**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	15,41,820	
		(b) Reserves and surplus	2	1,46,182	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		(a) Long-term borrowings	3	3,00,000	
		(b)Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c)Other current liabilities	4	2,65,000	
		(d) Short-term provisions	5	1,20,000	
		Total		23,73,002	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	6	10,50,000	
		(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	7	6,78,000	
		(c) Trade receivables	8	4,15,000	
		(d) Cash and cash equivalents	9	2,30,002	
		(e) Short-term loans and advances			
		(f) Other current assets			
		Total		23,73,002	

	(₹)	
Note 1. Share Capital	**As at 31st March, 2015**	**As at 31st March, 2014**
Authorised, Issued,and paid up Capital of ₹ 100 each (out of which 4182 shares were issued for consideration other than cash)	15,41,820	
Total	15,41,820	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2015**		**As at 31st March, 2014**	
	Nos.	**Amount (₹)**	**Nos.**	**Amount (₹)**
Opening Balance as on 01.04.14	1,50,000	15,00,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	4,182	41,820	NIL	NIL
	1,54,182	15,41,820	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	1,54,182	15,41,820	NIL	NIL

Note 2. Reserves and Surplus	**As at 31st March, 2015**	**As at 31st March, 2014**
Securities Premium	4,182	
General Reserve	2,00,000	

Profit and Loss A/c	(58,000)	
Total	1,46,182	
Note 3. Long Term borrowing	**As at 31st March, 2015**	**As at 31st March, 2014**
100% Debentures	3,00,000	
Total	3,00,000	
Note 4. Other Current Liabilities	**As at 31st March, 2015**	**As at 31st March, 2014**
Current Liabilities	2,65,000	
Total	2,65,000	

Note 5. Short-term provision	**As at 31st March, 2015**	**As at 31st March, 2014**
Proposed Dividend	1,20,000	
Total	1,20,000	

Note 6. Tangible	**As at 31st March, 2015**	**As at 31st March, 2014**
Fixed Assets (1000000 + 50,000)	10,50,000	
Total	10,50,000	

Note 7. Inventories	**As at 31st March, 2015**	**As at 31st March, 2014**
Stock (480 + 210) 6,90,000	6,78,000	
Less : Reserves 12,000		
Total	6,78,000	

Note 8. Trade	**As at 31st March, 2015**	**As at 31st March, 2014**
Particulars	Amount (₹)	Amount (₹)
Debtors (290+150)	4,15,000	
Total	4,15,000	

Note 9. Cash and Cash Equivalent	**As at 31st March, 2015**	**As at 31st March, 2014**
Particulars	Amount (₹)	Amount (₹)
Cash at Bank	2,30,002	

Total	2,30,002	

Question No.6

The Balance Sheet of X Ltd. before reconstruction is:

Liabilities	₹	Assets	₹
		Building at cost	
12,000 7% Preference		Less: Depreciation	4,00,000
shares of ₹ 50 each	6,00,000	Plant at cost	
7,500 Equity shares of ₹ 100		Less: Depreciation	2,68,000
each	7,50,000	Trade Marks and Goodwill	
		at Cost	3,18,000
(Note : Preference dividend is		Stock	4,00,000
in arrear for five years)		Debtors	3,28,000
Loan	5,73,000	Preliminary expenses	11,000
Sundry creditors	2,07,000	Profit and Loss A/c	4,40,000
Other liabilities	35,000		
Total	**21,65,000**	**Total**	**21,65,000**

Note: Loan is assumed to be of less than 12 months, hence treated as short term borrowings (ignoring interest)

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both classes of shareholders. A summary of the scheme is as follows:

a. **The Equity Shareholders have agreed that their ₹ 100 shares should be reduced to ₹5 by cancellation of ₹ 95 per share. They have also agreed to subscribe in each for the six new Equity Shares of ₹ 5 each for two Equity Share held.**

b. **The Preference Shareholders have agreed to cancel the arrears of dividends and to accept for each ₹50 share, 4 new 5 per cent Preference Shares of ₹10 each, plus 3 new Equity Shares of ₹ 5 each, all credited as fully paid.**

c. **Lenders to the Company of ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹10 each and 6,000 new equity share of ₹ 5 each.**

d. **The Directors have agreed to subscribe in cash for 20,000, new Equity Shares of ₹ 5 each in addition to any shares to be subscribed by them under (a) above.**

e. **Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the Company.**

f. **The equity Share capital cancelled is to be applied:**
   i. **to write off the preliminary expenses;**
   ii. **to write off the debit balance in the Profit and Loss A/c ; and**
   iii. **to write off ₹ 35,000 from the value of Plant.**

Any balance remaining is to be used to write down the value of Trade Marks and Goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of company after reconstruction. The nominal capital as reduced is to be

increased to the old figures of ₹ 6,50,000 for Preference capital and ₹ 7,50,000 for Equity capital.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

Solution :

Particulars		Debit	Credit
1.	Reduction of Equity capital		
	Equity Share capital A/c (Face Value ₹ 100)	Dr.7,50,000	
	To Equity Share capital (Face value ₹ 5) A/c		37,500
	To Reconstruction A/c		7,12,500
2.	Right issue : (7,500 × 3 = 22,500 Shares)		
	(a) Bank A/c	Dr.1,12,500	
	To Equity Share Application A/c		1,12,500
	(b) Equity Share Application A/c	Dr.1,12,500	
	To Equity Share Capital A/c		1,12,500
3.	Cancellation of arrears of preference dividend		
	NO ENTRY (as it was not provided in the Books of Accounts)		
	Note :		
	(a) On cancellation, it ceases to be a contingent liability and hence no further disclosure		
	(b) Preference shareholders have to forego voting rights presently enjoyed at par with equity share holders		
4.	Conversion of preference shares		
	7% Preference Share Capital A/c	Dr.6,00,000	
	Reconstruction A/c (balancing figure)	Dr.60,000	
	To 5% Preference Share Capital (12,000×4×10)		4,80,000
	To Equity Share Capital (12,000 × 3 × 5)		1,80,000
5.	Conversion of Loan		
	Loan A/c	Dr.1,50,000	
	To 5% Preference Share Capital A/c		1,20,000
	To Equity Share Capital A/c		30,000
6.	Subscription by directors:		
	(a) Bank A/c	Dr.1,00,000	
	To Equity Share Application A/c		1,00,000
	(b) Equity Share Application A/c	Dr.1,00,000	
	To Equity Share Capital A/c		1,00,000

Particulars		Debit	Credit
7.	Repayment of loan		
	Loan A/c	Dr.2,00,000	
	To Bank		2,00,000
8.	Utilisation of reconstruction surplus		
	Reconstruction A/c	Dr.6,52,500	
	To Preliminary Expenses A/c		11,000
	To Profit and Loss A/c		4,40,000
	To Plant A/c		35,000
	To Trademark and Goodwill A/c		1,66,500

Reconstruction Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Preference shareholders	60,000	By Equity Share capital (FV ₹ 50)	7,12,500
To Preliminary expenses	11,000		
To Profit and Loss A/c	4,40,000		
To Plant A/c	35,000		
To Trademark and Goodwill	1,66,500		
	7,12,500		7,12,500

Bank Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Equity share application A/c	1,12,500	By Loan A/c	2,00,000
To Equity share application A/c	1,00,000	By Balance c/d	12, 500
	2,12,500		2,12,500

Name of the Company: X Ltd.					
Balance Sheet as at 31st March, (after reconstruction)					
Ref No.	**Particulars**		**Note No.**	**Current Year**	**Previous Year**
				(₹)	(₹)
	I.	**Equity and Liabilities**			
	1	**Shareholders' funds**			
		(a) Share capital	1	10,60,000	
		(b) Reserves and surplus	2	-	
		(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	2,23,000	
		(b) Trade payables	4	2,07,000	
		(c) Other current liabilities	5	35,000	

		(d) Short-term provisions			
		Total		15,25,000	
	II.	**Assets**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	6	6,33,000	
		(ii) Intangible assets	7	1,51,500	
		(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	8	4,00,000	
		(c) trade receivables	9	3,28,000	
		(d) Cash and cash equivalents	10	12,500	
		(e) Short-term loans and advances			
		(f) Other current assets			
		Total		15,25,000	

		(₹)
Note 1. Share Capital	**Current Year**	**Previous Year**
Authorised Share Capital		
60,000 5% Preference Shares of ₹ 10 each	6,00,000	
1,50,000 Equity shares of ₹ 5 each	7,50,000	
	13,50,000	
Issued, subscribed and paid-up		
92,000 Equity shares of ₹ 5 each 60,000 5% Preference Shares of ₹ 10 each	4,60,000 6,00,000	
Total	10,60,000	

FOR EQUITY SHARE :-	Current Year		Previous Year	
	Nos.	Amount (₹)	Nos.	Amount (₹)
Opening Balance	7500	37,500.00	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	84,500.00	422,500.00	NIL	NIL
	92000	460,000.00	NIL	NIL
Less: Buy Back of shares	-		-	-
	92000	460,000.00	NIL	NIL
FOR 5% PREFERENCE SHARE :-	**Current Year**		**Previous Year**	
	Nos.	**Amount (₹)**	**Nos.**	**Amount (₹)**
Opening Balance	60000	600,000.00	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	-	-	NIL	NIL
	60000	600,000.00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	60000	600,000.00	NIL	NIL

Note 2. Reserves and Surplus	Current Year	Previous Year
Profit and Loss A/c	(4,40,000)	
Less: Written off	4,40,000	
Total	0.00	

Note 3. Short term borrowings	Current Year	Previous Year
Loan	5,73,000	
Less: Reduced	3,50,000	
Total	2,23,000	

Note 4. Trade Payables	Current Year	Previous Year
Sundry Creditors	2,07,000	
Total	2,07,000	

Note 5. Other Current Liabilities	Current Year	Previous Year
Other Liabilities	35,000	
Total	35,000	

Note 6. Tangible Assets	**Current Year**	**Previous Year**
Building at cost Less Depreciation	4,00,000	
Plant at Cost Less Depreciation		
(2,68,000-35,000)	2,33,000	
Net Block	6,33,000	
Note 7. Intangible assets	**Current Year**	**Previous Year**
Trade Mark at Goodwill at cost	3,18,000	
Less: Reduction	1,66,500	
Total	1,51,500	
8. Inventories	**Current Year**	**Previous Year**
Inventories	4,00,000	
Total	4,00,000	
9. Trade receivables	**Current Year**	**Previous Year**
Debtors	3,28,000	
Total	3,28,000	
10. Cash & Cash Equivalents	**Current Year**	**Previous Year**
Bank	12,500	
Total	12500	
Note: Loan is assumed to be of less than 12 months. Hence, treated as short term borrowings (ignoring		
	Current Year	**Previous Year**
Preliminary Expenses	11,000	

Less: Reduced	11,000	
Total	NIL	

Question No. 7

The business of P Ltd. was being carried on continuously at losses. The following are the extracts from the Balance Sheet of the Company as on 31st March, 2015.

Balance Sheet as on 31st March, 2015

Liabilities	Amount ₹	Assets	Amount ₹
Authorised, Issued and		Goodwill	50,000
Subscribed Capital :		Plant	3,00,000
30,000 Equity Shares of ₹ 10		Loose Tools	10,000
each fully paid	3,00,000	Debtors	2,50,000
2,000 8% Cumulative Pref.		Stock	1,50,000
Shares of ₹ 100 each fully paid	2,00,000	Cash	10,000
Securities Premium	90,000	Bank	35,000
Unsecured Loan(From Director)	50,000	Preliminary Expenses	5,000
Sundry creditors	3,00,000	Profit & Loss Account	2,00,000
Outstanding Expenses (including Directors' remuneration ₹ 20,000)	70,000		
	10,10,000		10,10,000

Note : 1) Dividends on Cumulative Preference Shares are in arrears for 3 years.

2) Unsecured loans (from director) is assumed to be of less than 12 months hence, treated as short term borrowings. (ignoring interest)

The following scheme of reconstruction has been agreed upon and duly approved by the Court.

1. **Equity shares to be converted into 1,50,000 shares of ₹ 2 each.**
2. **Equity shareholders to surrender to the Company 90 per cent of their holding.**
3. **Preference shareholders agree to forego their right to arrears to dividends in consideration of which 8 percent Preference Shares are to be converted into 9 per cent Preference Shares.**
4. **Sundry creditors agree to reduce their claim by one fifth in consideration of their getting shares of ₹ 35,000 out of the surrendered equity shares.**
5. **Directors agree to forego the amounts due on account of unsecured loan and Director's remuneration.**
6. **Surrendered shares not otherwise utilised to be cancelled.**
7. **Assets to be reduced as under :**
   Goodwill by ₹ 50,000
   Plant by ₹ 40,000

Tools by ₹ 8,000
Sundry Debtors by ₹ 15,000
Stock by ₹ 20,000

8. **Any surplus after meeting the losses should be utilised in writing down the value of the plant further.**
9. **Expenses of reconstruction amounted to ₹ 10,000.**
10. **Further 50,000 Equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid-up.**

A member holding 100 equity shares opposed the scheme and his shares were taken over by the Director on payment of ₹ 1,000 as fixed by the Court.

You are required to pass the journal entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the Company.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

Solution:

Particulars			**Debit** ₹	**Credit** ₹
a.	Sub Division of Shares			
	Equity Share Capital (₹ 10 each) A/c	Dr.	3,00,000	
	To Equity Share Capital (₹ 2 each) A/c			3,00,000
b.	Surrender of Shares			
	Equity Share Capital (₹ 2) A/c	Dr.	2,70,000	
	To Shares Surrendered A/c			2,70,000
c.	Conversion of Preference Share Capital			
	8% Cumulative Preference Share Capital A/c	Dr.	2,00,000	
	To 9% Cumulative Preference Share Capital A/c			2,00,000
d.	Surrendered shares issued to creditors under reconstruction scheme			
	Shares Surrendered A/c	Dr.	35,000	
	To Equity Share Capital A/c			35,000
e.	Expenses Paid			
	Expenses A/c	Dr.	10,000	
	To Bank A/c			10,000
f.	Cancellation of unissued surrendered shares			
	Shares Surrendered A/c	Dr.	2,35,000	
	To Capital Reduction A/c			2,35,000
g.	Amount sacrificed by Directors			
	Unsecured Loan A/c	Dr.	50,000	
	Sundry Creditors A/c	Dr.	60,000	
	Outstanding Expenses A/c	Dr.	20,000	
	To Capital Reduction A/c			1,30,000

h.	Assets Written off			
	Capital Reduction A/c	Dr.	3,65,000	
	To Goodwill A/c			50,000
	To Loose tools A/c			8,000
	To Sundry debtors A/c			15,000
	To Stock - in - trade A/c			20,000
	To Profit and Loss A/c			2,00,000
	To Preliminary expenses A/c			5,000
	To Expenses A/c			10,000
	To Plant A/c			57,000
i.	Issue of Shares			
	Applications received			
	Bank A/c	Dr.	1,00,000	
	To Share Application A/c			1,00,000
	Allotment of Shares			
	Share Application A/c	Dr.	1,00,000	
	To Share Capital A/c			1,00,000
	(Being 50000 equity shares of ₹ 2 each issued as fully paid as per Board's Resolution dated...)			

Note 1 : a. Cancellation of Preference dividend need not be journalised; on cancellation it cease to be contingent liability and hence no further disclosure.

b. Preference shareholders have to forego policy rights presently enjoyed at par with Equity Shareholders.

Note 2 : The transfer of 100 shares by the dissentient shareholders to the director concerned need not be journalised.

Note 3 : It has been assumed that the share premium account is to be kept infact since the scheme is silent about it.

Name of the Company: P Ltd.					
Balance Sheet as at 31.03.2015					
Ref No.	**Particulars**		**Note No.**	**As at 31st March, 2015**	**As at 31st March, 2014**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	3,65,000	
		(b) Reserves and surplus	2	90,000	
		(c) Money received against share warrants			
Ref	Particulars		Note	**As at 31st**	**As at 31st**

No.			No.	March, 2015	March, 2014
				₹	₹
	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			
		(b) Trade payables	3	2,40,000	
		(c)Other current liabilities	4	50,000	
		(d) Short-term provisions			
		Total		7,45,000	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	2,43,000	
		(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	6	1,32,000	
		(c) Trade receivables	7	2,35,000	
		(d) Cash and cash equivalents	8	1,35,000	
		(e) Short-term loans and advances			
		(f) Other current assets			
		Total		7,45,000	

RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2015**		**As at 31st March, 2014**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.14	82,500	165,000,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares, Right shares, split shares, shares issued other than cash)			NIL	NIL
	82,500	165,000,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	82,500	165,000,000	NIL	NIL

Note 2. Reserves and Surplus	As at 31st March, 2015	As at 31st March, 2014
Securities Premium	90,000	
Total	90,000	
Note 3. Trade Payables	As at 31st March, 2015	As at 31st March, 2014
Sundry creditors	2,40,000	
Total	2,40,000	
Note 4.Other Current Liabilities	As at 31st March, 2015	As at 31st March, 2014
Outstanding Expenses	50,000	
Total	50,000	

Note 5. Tangible assets		As at 31st March, 2015	As at 31st March, 2014
Plant less: Amount written off under the scheme of reconstruction	₹ 3,00,000 ₹ 57,000	2,43,000	
Total		2,43,000	

Note 6. Inventories	As at 31st March, 2015	As at 31st March, 2014
Stock-in trade	1,30,000	
Loose tools	2,000	
Total	1,32,000	
Note 7. Trade receivables	As at 31st March, 2015	As at 31st March, 2014
Debtors	2,35,000	
Total	2,35,000	

8. Cash and Cash Equivalents	As at 31st March, 2015	As at 31st March, 2014
Cash at Bank	1,25,000	
Cash in Hand	10,000	
Total	1,35,000	

Question No. 8 (a)

XYZ Ltd. has the following capital structure on of 31st March 2015.

	Particulars	₹ in Crores
a.	**Equity Share capital (Shares of ₹ 10 each)**	**300**
b.	**Reserves:**	
	General Reserve	**270**
	Security Premium	**100**
	Profit and Loss A/c	**50**
	Export Reserve (Statutory reserve)	**80**
c.	**Loan Funds**	**800**

The shareholders have on recommendation of Board of Directors approved vide special resolution at their meeting on 10th April 2015 a proposal to buy back maximum permissible equity shares considering the huge cash surplus following A/c of one of its divisions.
The market price was hovering in the range of ₹ 25/- and in order to induce existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% above market.

Advice the company on maximum number of shares that can be bought back and record journal entries for the same assuming the buyback has been completed in full within the next 3 months.

If borrowed funds were ₹1200 Lakhs, and 1500 Lakhs respectively would your answer change?

Solution:

Maximum shares that can be bought back

		Situation I	Situation II	Situation III
a.	Shares outstanding test (WN # 1)	7.5	7.5	7.5
b.	Resources test (WN # 2)	6	6	6
c.	Debt Equity ratio test (WN # 3)	10.67	4	—
d.	Maximum number of shares for buy back - LEAST of the above	6	4	—

Particulars			Situation I		Situation II	
			Debit	Credit	Debit	Credit
a.	Shares bought back A/c	Dr.	180		120	
	To Bank A/c			180		120
	[Being purchase of shares from public]					
b.	Share capital A/c	Dr.	60		40	
	Securities premium A/c	Dr.	100		80	
	General reserve A/c (balancing figure)	Dr.	20		—	
	To Shares bought back A/c			180		120
	[Being cancellation of shares bought on buy back]					
c.	General Reserves A/c		60		40	
	To Capital Redemption Reserve A/c			60		40
	[Being transfer of reserves to capital redemption reserve to the extent capital is redeemed]					

Note: Under situation III, the company does not qualify the debt equity ratio test. Therefore the company cannot perform the buyback of shares (Under section 68 of the Companies Act, 2013)

WORKING NOTES:

WN # 1 : Shares outstanding test

	Particulars	Amount
a.	No. of shares outstanding	30 crores
b.	25% of shares outstanding	7.5 crores

WN # 2 : Resources test (₹ in Crores)

	Particulars	Amount
a.	Paid up capital	300
b.	Free reserves	420
c.	Shareholders fund (a+b)	720
d.	25% of shareholders fund	180
e.	Buyback price per share	₹ 30
f.	Number of shares that can be bought back	6 Crores

WN # 3 : Debt Equity ratio test: (₹ in Crores)

	Particulars	Situation I	Situation II	Situation III
a.	Borrowed Funds	800	1,200	1,500
b.	Minimum equity to be maintained after buy back in the ratio 2:1	400	600	750
c.	Present equity	720	720	720
d.	Maximum possible dilution in equity	320	120	—
e.	Maximum shares that can be bought back @ ₹ 30/- per share	10.67	4	—

Question No. 8 (b)

K Ltd. furnishes you with the following Balance Sheet as at 31st March, 2015:

		(₹ in Crores)
Sources of Funds		
Share capital :		
Authorised		**200**
Issued:		
12% redeemable preference shares of ₹ 100 each fully paid	**150**	
Equity shares of ₹ 10 each fully paid	**50**	**200**
Reserves and surplus		
Capital Reserve	**30**	
Securities Premium	**50**	
Revenue Reserves	**520**	**600**
		800
Funds employed in:		
Fixed assets (Tangible) : cost	**200**	
Less: Provision for depreciation	**200**	**nil**
Investments at cost (Market value ₹ 800 Cr.)		**200**
Current assets	**680**	
Less: Current liabilities	**80**	**600**
		800

The company redeemed preference shares on 1st April 2015. It also bought back 100 lakh equity shares of ₹ 10 each at ₹ 50 share. The payments for the above were made out of the huge bank balances, which appeared as a part of Current assets.

You are asked to :

i. Pass journal entries to record the above.

ii. Value equity share on net asset basis.

Solution:

Part I - Journal entries in the books of K Ltd.

(₹ **in Crore**)

Particulars				**Debit**	**Credit**
a.	Redemption of Preference Shares on 1st April 2012				
	i.	Due Entry			
		12% Preference Share Capital A/c	Dr.	150	
		To Preference Share Holders A/c			150
	ii.	Payment Entry			
		Preference Shareholders A/c	Dr.	150	
		To Bank A/c			150
b.	Shares bought back				
	i.	On buy back			
		Shares bought back A/c	Dr.	50	
		To Bank A/c			50
		(100 lakhs shares × ₹ 50 per share)			
	ii.	On Cancellation			
		Equity Share capital A/c (100 Lakhs × ₹ 10)	Dr.	10	
		Securities premium A/c (100 Lakhs × ₹ 40)	Dr.	40	
		To Shares bought back A/c			50
	iii.	Transfer to Capital Redemption Reserve			
		Revenue reserve A/c	Dr.	160	
		To Capital Redemption Reserve A/c			160
		(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			

Part - III - Net Asset Value of Equity Shares

Particulars			**Amount**	**Amount**
a.	i.	Fixed assets	Nil	
	ii.	Investments (at market value)	800	
	iii.	Current assets	480	1,280
b.	Less : Current liabilities			(80)
	Net assets available for equity share holders			1,200
c.	No. of equity shares outstanding (in lakhs)			4
d.	Value per equity share of ₹ 10 each = (1,200÷4)			₹ 300

Question No. 9 (a)

Techno Ltd. has 2 divisions Laptops and Mobiles.
Division Laptops has been making constant profits while division Mobiles has been invariably suffering losses.
On 31st March 2015 the division-wise draft Balance Sheet was: (₹ in crores)

		Laptops	Mobiles	Total
Fixed assets cost		250	500	750
Depreciation		(225)	(400)	(625)
Net Assets	(A)	25	100	125
Current assets:		200	500	700
Less: Current liabilities		(25)	(400)	(425)
	(B)	175	100	275
Total (A+B)		200	200	400
Financed by:				
Loan funds		-	300	300
Capital: Equity ₹10 each		25	-	25
Surplus		175	(100)	75
		200	200	400

Division Mobiles along with its assets and liabilities was sold for ₹50 crores to Turnaround Ltd. a new company, who allotted 1 crore equity shares of ₹10 each at a premium of ₹40 per share to the members of Techno Ltd. in full settlement of the consideration, in proportion to their shareholding in the company.
Assuming that there are no other transactions, you are asked to:

(i) Pass journal entries in the books of Techno Ltd.
(ii) Prepare the Balance Sheet of Techno Ltd. after the entries in (i).
(iii) Prepare the Balance Sheet of Turnaround Ltd.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

Solution.

Journal of Techno Ltd. (₹ in crores)

		Dr. ₹	Cr. ₹
(1)	Turnaround Ltd. Dr.	50	
	Loan Funds Dr.	300	
	Current Liabilities Dr.	400	
	Provision for Depreciation Dr.	400	
	To Fixed Assets		500
	To Current Assets		500
	To Capital Reserve		150
	(Being division Mobiles along with its assets and liabilities sold to Turnaround Ltd. for ₹ 40 crores)		
	Capital Reserve Dr.	50	
(2)	To Turnaround Ltd.		50
	(Being allotment of 1 crore equity shares of ₹10 each at a premium of ₹40 per share to the members of Techno Ltd. in full settlement of the consideration)		

Notes:

Techno Ltd,
Balance Sheet after reconstruction

		Note No.		(₹ in crores)
I.	**Equity and liabilities**			
	(1) **Shareholders' funds**			
	(a) Share Capital		25	
	(b) Reserves and surplus	1	175	200
	(2) **Current Liabilities**			25
	Total			225
II.	**Assets**			
	(1) **Non-current assets**			
	(a) Fixed assets			25
	(2) **Current assets**			200
	Total			225

Notes to Accounts

1.		(₹ in crores)
	Reserves and Surplus	75
	Add: Capital Reserve on reconstruction	100
		175

Note to Accounts: Consequent on transfer of Division Mobiles to newly incorporated company Turnaround Ltd., the members of the company have been allotted 1 crore equity shares of ₹10 each at a premium of ₹15 per share of Turnaround Ltd., in full settlement of the consideration in proportion to their shareholding in the company.

Balance Sheet of Turnaround Ltd.

		Note No.		(₹ in crores)
1.	**Equity and liabilities**			
	(1) **Shareholders' funds**			
	(a) Share Capital	1	10	
	(b) Reserves and surplus:			
	Securities Premium		40	50
	(2) **Non-current liabilities**			
	Long term borrowings			300
	(3) **Current liabilities**			400
	Total			750
	Assets			
II.	**(1) Non-current assets**			
	Fixed assets			
	(i) Tangible assets			
	(ii) Intangible assets	2	100	
			150	250
	(2) Current assets			500
	Total			750

Notes to Accounts

		(₹ in crores)
1.	**Share Capital:** Issued and Paid-up capital 1 crore Equity shares of ₹ 10 each fully paid up (All the above shares have been issued for consideration other than cash, to the members of Techno Ltd. on take over of Division Mobiles from Techno Ltd.)	10
2.	**Intangibles Assets:** Goodwill (WN 1)	150

Working Note

1. **Calculation of Goodwill/Capital Reserve for Turnaround Ltd.**

   Assets taken over

Non Current Assets	100
Current Assets	500
Total Assets(A)	600
Loan Funds	300
Current Liabilities	400
Total Liabilities (B)	700
Net Assets C= (A-B)	(100)
Purchase Consideration (given) D	50
Goodwill (D-C)	150

Question No. 9 (b)

Given below summarized balance sheets of X Limited and Y Limited as at 31.3.2015.

		X Ltd. ₹ in Lakhs		Y Ltd. ₹ in Lakhs
Sources of Funds				
Shareholders' funds		**600**		
	400			
Equity Shares of ₹ 100 each				
Reserves and surplus				
General Reserve		**300**		**200**
Profit and Loss A/c		**100**		**100**
Loan Funds				
Secured Loans		**300**		**300**
Unsecured Loans		**200**		**200**
		1,500		**1,200**
Applications of Funds:				
Fixed Assets				
Gross block		**1,000**		**900**
Less: Depreciation		**(200)**		**(250)**
Net block		**800**		**650**
Investments - in 2.4 lakhs shares of Y Ltd.		**300**		**–**
Others		**–**		**200**
Current assets, Loans and Advances				
Less: Current liabilities	**600**		**500**	
Net Current assets	**(200)**		**(150)**	
		400		**350**
		1,500		**1,200**

Note: Secured and unsecured loans are assumed to be of more than 12 months hence treated as long term borrowing . (ignoring interest)
X Ltd. agreed to take over all the assets and liabilities of Y Ltd. at book value and discharge the claims of minority shareholders by issuing its one share for every two shares held. Minorities claims are to be discharged on the basis of intrinsic value per share. For computing intrinsic value per share net Fixed assets of Y Ltd are to be valued at ₹ 850 Lakhs. Prepare post merger Balance Sheet of X Ltd. Show all your workings.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

Solution:

Part I : Calculation of Purchase Consideration
WN # 1 : Computation of Intrinsic Value

(₹ in Lakhs)

	X Ltd	Y Ltd
Fixed assets	800	850
Investments: In Y Ltd. (2.4 x 225)	540	–
Other investments	–	200
Current assets, Loans and Advances	600	500
Less: Current liabilities	(200)	(150)
Less: Unsecured Loans	(200)	(200)
Less: Secured Loans	(300)	(300)
Net Assets	1240	900
Intrinsic Value (Net Assets ÷ No. of shares outstanding)	1240/6	900/4
	= 206.67	= 225

WN # 2 : Purchase Consideration

Particulars	
Total number of shares outstanding (lakhs)	4,00,000
Less: Shares held by X Ltd. (lakhs)	2,40,000
Shares held by Outsiders (lakhs)	1,60,000
Exchange Ratio (lakhs)	1:2
No. of shares to be issued (lakhs)	80,000
Intrinsic Value Per share	206.67
Purchase Consideration (80,000 × ₹ 206.67)	₹ 1,65,33,600

Part II - In the Books of Purchasing Co. X Ltd

- Nature of Amalgamation: Merger
- Method of Accounting : Pooling of interest

(₹ in amount)

	Particulars		Debit	Credit
1.	For Purchase Consideration Due:			
	Business Purchase A/c	Dr.	1,65,33,600	

To Liquidator of Y Ltd A/c			1,65,33,600
2. For Assets and Liabilities Takeover:			
a. Aggregate Consideration			
i. Already Paid		3,00,00,000	
ii. Balance Payable		1,65,33,600	
		4,65,33,600	
b. Less: Paid-up Capital of Vendor Co.		(4,00,00,000)	
c. Excess			
(The above excess to be adjusted against:			
*General Reserves of Y Ltd.	65,33,600		
d. Balance of General Reserves of Y Ltd. to be incorporated (2,00,00,000 – 65,33,600)	1,34,66,400		

Fixed Assets A/c	Dr.	9,00,00,000	
Investments A/c	Dr.	2,00,00,000	
Current Assets A/c	Dr.	5,00,00,000	
To Provision for depreciation A/c			2,50,00,000
To Current liabilities and Provisions A/c			1,50,00,000
To Secured Loans A/c			3,00,00,000
To Unsecured Loans A/c			2,00,00,000
To Business Purchase A/c			1,65,33,600
To Investments in Y Ltd A/c			3,00,00,000
To General Reserve A/c			1,34,66,400
To Profit and Loss A/c			1,00,00,000
3. For Discharge of Purchase Consideration			
Liquidator of Y Ltd A/c	Dr.	1,65,33,600	
To Equity Share Capital A/c			80,00,000
To Securities Premium A/c			85,33,600

Notes on accounts

		(₹in Lakhs)
Note 1. Share Capital	**As at 31st March, 2015**	**As at 31st March, 2014**
A. Authorised Capital	-	
B. Issued, Subscribed and paid up Capital of ₹100 each[out of which 30,000 shares were issued for consideration other than for cash)	6,80,00,000	
Total	6,80,00,000	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2015**		**As at 31st March, 2014**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.14	6	6,00,00,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	0.80	80,00,000	NIL	NIL
	6.80	6,80,00,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	6.80	6,80,00,000	NIL	NIL

Note 2. Reserves and Surplus	**As at 31st March, 2015**	**As at 31st March, 2014**
General Reserve (3,00,00,000 + 1,34,66,400)	4,34,66,400	
Securities Premium	85,33,600	
Profit and Loss A/c (1,00,00,000 + 1,00,00,000)	2,00,00,000	
Total	7,20,00,000	

Note 3. Long Term Borrowings	**As at 31st March, 2015**	**As at 31st March, 2014**
Secured (3,00,00,000 + 3,00,00,000)	6,00,00,000	
Unsecured (2,00,00,000 + 2,00,00,000)	4,00,00,000	
Total	10,00,00,000	

Note 4. Other Current Liabilities	**As at 31st March, 2015**	**As at 31st March, 2014**
Current Liabilities (2,00,00,000 + 1,50,00,000)	3,50,00,000	
Total	3,50,00,000	

Note 5. Tangible assets	**As at 31st March, 2015**	**As at 31st March, 2014**
Fixed Assets	19,00,00,000	
Less Accumaleted Depreciation	4,50,00,000	
Total	14,50,00,000	

Note 6. Non Current Investment	**As at 31st March, 2015**	**As at 31st March, 2014**
Investment	2,00,00,000	
Total	2,00,00,000	

Note 7. Other Current assets	As at 31st March, 2015	As at 31st March, 2014
Current assets	11,00,00,000	
Total	11,00,00,000	

Question No. 10 (a)

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".**

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

Solution:

Journal of Globetrotters Ltd.

(₹ in Crores)

Particulars		Dr. (₹)	Cr.(₹)
Current liabilities A/c	Dr.	100	
Loan fund (Secured) A/c	Dr.	50	
Provision for depreciation A/c	Dr.	100	
Loss on reconstruction A/c (Balancing figure)	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.(₹)
Fixed assets A/c (300 – 100)	Dr.	200	
Current assets A/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	**Before**

	Reconstruction		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)

	After Reconstruction	Before Reconstruction
Particulars	₹	₹
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			
		(a) Share capital	1	25	
		(b) Reserves and surplus	2	175	
		(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	
		(d) Short-term provisions			
		Total		350	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets	5	200	
		(i) Tangible assets			
		(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	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 1.01.2014	-	-	-	-
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. Beautiful World Ltd.	Pre – Demerger ₹350 Crores 2.5 Crore Share = ₹140	Post – Demerger ₹150 Crores 2.5 Crore Shares = ₹60 $\frac{₹200 \text{ Crores}}{2.5 \text{ Crore Shares}}$ = **₹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.

Question No. 10 (b)

J Ltd. and K Ltd., had the following financial position as at 31st March, 2015.

Liabilities	J Ltd. ₹	K Ltd. ₹	Assets	J Ltd. ₹	K Ltd. ₹
Share capital: Equity shares of ₹100 each fully paid	48,00,000	36,00,000	Goodwill	30,00,000	6,00,000
General Reserve	18,00,000	12,00,000	Fixed Assets	24,00,000	42,00,000
Investment Allowance Reserve	-	18,00,000	Investment at cost	18,00,000	12,00,000
Current Liabilities	24,00,000	9,00,000	Current Assets	18,00,000	15,00,000
	90,00,000	75,00,000		90,00,000	75,00,000

It was decided that J Ltd. will take over the business of K Ltd., on that date, on the basis of the respective share values adjusting, wherever necessary, the book values of assets and liabilities on the strength of information given below:

i. **Investment of K Ltd., included 6,000 shares in J Ltd., acquired at a cost of ₹ 150 per share. The other investments of K Ltd., have a market value of ₹ 1,50,000;**
ii. **Investment Allowance Reserve was in respect of additions made to Fixed assets by K Ltd., in the years 2014-2015 on which Income Tax relief has been obtained. In terms of the Income Tax Act, the company has to carry forward till 2017, reserve of ₹ 9,00,000 for utilisation;**
iii. **Goodwill of J Ltd., and K Ltd., are to be taken at ₹ 24,00,000 and ₹ 12,00,000 respectively;**
iv. **The market value of investments of J Ltd., was ₹ 12,00,000;**
v. **Current assets of J Ltd., included ₹ 4,80,000 of stock in trade obtained from K Ltd. which company sold at a profit of 25% over cost ;**
vi. **Fixed assets of J Ltd., and K Ltd., are valued at ₹ 30,00,000 and ₹ 45,00,000 respectively.**

Suggest the scheme of absorption and show the journal entries necessary in the books of J Ltd. Also prepare the Balance Sheet of that company after takeover of the business of K Ltd.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

Solution:

Part I: Purchase Consideration
WN # 1: Intrinsic Value of Shares

Particulars	J Ltd. (₹)	K Ltd. (₹)
Goodwill	24,00,000	12,00,000
Fixed assets	30,00,000	45,00,000
Investment-Outside	12,00,000	1,50,000
-Inter Co [6,000 Shares @₹125 each]	------	7,50,000
Current assets	18,00,000	15,00,000
Liabilities	(24,00,000)	(9,00,000)
Net assets	60,00,000	72,00,000
No. of shares outstanding	48,000	36,000
Intrinsic Value per share (60,00,000/48,000);	125	200

(72,00,000/36,000)		

WN # 2 : Purchase Consideration

Particulars	K Ltd. (₹)
Total no. of Shares outstanding in K Ltd.	36,000
Value of Shares @₹200 each	72,00,000
No. of shares issuable on the basis of intrinsic value of share (72,00,000÷125)	57,600
Less: Shares already held	(6,000)
No. of Shares to be issued	51,600
Shares price	125
Purchase Consideration (51,600×125)	64,50,000

Part II : In the Books of J Ltd.

- Nature of Amalgamation-Purchase
- Method of Accounting-Purchase

	Particulars		Debit (₹)	Credit (₹)
1.	For Purchase Consideration Due Business Purchase A/C To Liquidator of K Ltd. A/C	 Dr.	 64,50,000	 64,50,000
2.	For Assets and Liabilities taken over: Goodwill A/C Fixed Assets A/C Investment A/C Current Assets A/C To Liabilities A/C To Business Purchase A/C	 Dr. Dr. Dr. Dr.	 12,00,000 45,00,000 1,50,000 15,00,000	 9,00,000 64,50,000
3.	For Discharge of purchase consideration Liquidator of K Ltd. A/C To Equity Share Capital A/C To Securities Premium A/c	 Dr.	 64,50,000	 51,60,000 12,90,000
4.	Contra entry for statutory reserve Amalgamation adjustment A/C To Investment allowance A/c	 Dr.	 9,00,000	 9,00,000
5.	For adjustment of stock reserve Goodwill A/C To Stock reserve A/C	 Dr.	 96,000	 96,000

Name of the Company: J Ltd.					
Balance Sheet as at 31.03.2015					
Ref No.	**Particulars**		**Note No.**	**As at 31st March, 2015**	**As at 31st March, 2014**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		Share capital	1	99,60,000	
		Reserves and surplus	2	39,90,000	
		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			
		Trade payables			
		Other current liabilities	3	33,00,000	
		Short-term provisions			
		Total		1,72,50,000	
	II.	Assets			
	1	Non-current assets			
		Fixed assets			
		(v) Tangible assets	4	69,00,000	
		(vi) Intangible assets	5	42,96,000	
		(vii) Capital work-in-progress			
		(viii) Intangible assets under development			
		Non-current investments	6	19,50,000	
		Deferred tax assets (Net)			
		Long-term loans and advances			
		Other non-current assets	7	9,00,000	
	2	Current assets			
		Current investments			
		Inventories			
		Trade receivables			
		Cash and cash equivalents			
		Short-term loans and advances			

		Other current assets	8	32,04,000	
		Total		1,72,50,000	

		(₹)
Note 1. Share Capital	**As at 31st March, 2015**	**As at 31st March, 2014**
Authorised, Issued, Subscribed and paid up:- 99,600 Eqity Shares of ₹ 100 (of which 51,600 shares of ₹ 1,00 each issued for consideration other than cash)	99,60,000	
Total	99,60,000	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2015**		**As at 31st March, 2014**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.13	48,000	48,00,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares, Right shares, split shares, shares issued other than cash)	51,600	51,60,000	NIL	NIL
	99,600	99,60,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	99,600	99,60,000	NIL	NIL

Note 2. Reserves and Surplus	**As at 31st March, 2015**	**As at 31st March, 2014**
Securities Premium	12,90,000	
Investment allowance Reserve	9,00,000	
General Reserve	18,00,000	
Total	39,90,000	

Note 3. Other Current Liabilities	**As at 31st March, 2015**	**As at 31st March, 2014**
Current Liabilities	33,00,000	
Total	33,00,000	

Note 4. Tangible assets	**As at 31st March, 2015**	**As at 31st March, 2014**
Fixed Assets (24,00,000+45,00,000)	69,00,000	
Total	69,00,000	

Note 5. Intangible assets	As at 31st March, 2015	As at 31st March, 2014
Goodwill	42,96,000	
Total	42,96,000	

Note 6. Non-Current Investments	As at 31st March, 2015	As at 31st March, 2014
Investment at cost	19,50,000	
Total	19,50,000	

Note 7. Other Non Current Assets	As at 31st March, 2015	As at 31st March, 2014
Amalgamation Adjustment Accounts	9,00,000	
Total	9,00,000	

Note 8. Other Current Assets	As at 31st March, 2015	As at 31st March, 2014
Current Assets (33,00,000 – 96,000)	32,04,000	
Total	32,04,000	

Study Note — 3 Group Financial Statement

Question No. 11

The draft consolidated data of A Ltd., and its 100% subsidiary B Ltd. and also information of C Ltd. relating for the year ended 31st March, 2015 is given below:

DRAFT BALANCE SHEET **(₹ in thousand)**

	CBS of A Ltd. and its 100% Subsidiary B Ltd.	C Ltd.
Issued ordinary share capital	2,000	1,000
Reserves	3,450	2,000
Debentures	2,000	1,500
Current liabilities	4,550	2,500
Total	12,000	7,000
Fixed assets (net)	6,500	4,000
Investment in C Ltd. at cost	2,000	-
Current assets	3,500	3,000
Total	12,000	7,000

PROFIT AND LOSS ACCOUNT (DRAFT)

	A Ltd and its 100% Subsidiary B Ltd.	C Ltd.
Sales	2,000	1,200
Expenses	(900)	(500)

Trading profit before tax	**1,100**	**700**
Dividend from Uncertain Ltd.	**100**	**—**
Taxation	**(600)**	**(200)**
Profit after tax	**600**	**500**
Opening Balance	**3,150**	**1,100**
Dividends paid	**(300)**	**(200)**
Retained Profit	**3,450**	**1,400**

A Ltd. acquired 50% of the ordinary share capital of C Ltd. on 1st April, 2014 for ₹2,000 thousands when its reserves were ₹1,700 thousands and sold this holding on 3rd April, 2015 for ₹2,050 thousands.

You are required to prepare the 'Group' Profit and Loss account (draft) and Balance Sheet (draft) on four bases as follows:

- **A. When C Ltd. is treated as a subsidiary**
- **B. When C Ltd. is treated as an associated company**
- **C. When C Ltd. is treated as an investment**
- **D. When C Ltd. is treated as a Joint Venture.**

Solution:

When C Ltd. is treated as a subsidiary or an Investment company

	Particulars	Subsidiary	Investment
a.	Accounting Standard Applicable	21	13
b.	Method	Full Consolidation	Cost method
c.	Date of Acquisition	1st April 2014	1st April 2014
d.	Shareholding	A Ltd -50% Minority Int. - 50%	Not applicable
e.	Analysis of reserves	1) Opening balance 1,700 thousands pre-acquisition 2) Current year retained profit 300 thousands post-acquisition	Not applicable
f.	Apportionment of Profits 1) Pre-acquisition 2) Post-acquisition	1) A Ltd. - 850 thousand 2) Minority – 850 thousands 1)A Ltd.-150 thousands 2) Minority - 150 thousands	Not applicable
g.	Outsider's interest	Minority Interest 1) Share capital - 500 thousands 2) Pre-acquisition - 850 thousands 3) Post acquisition - 150 thousands Total 1,500thousands	
h.	Goodwill/Capital Reserve	1) Cost of Investment - 2,000 thousands 2) Share of Net Assets on the date of Investment - Share Capital 500 thousands - Capital Profits 850 thousands 1350 thousands 3) Goodwill (2,000-1,350) 650 thousands	Not applicable
I.	Inter Company Transactions		Not applicable

	1) Inter Company Owings 2) Unrealised Profits	Eliminate in full Eliminate in full	
J.	Reserves for CBS	*	Not applicable
k.	Carrying amount of Investment in CBS	Nil	2000 thousand

When C Ltd. treated as an associated company or as a Joint Venture

	Particulars	Associate	Joint venture
a.	Accounting Standard Applicable	23	27
b.	Method	Equity method	Proportionate consolidation
c.	Date of Acquisition	1st April 2014	1st April 2014
d.	Shareholding	Extent of investment 50%	Extent of financial interest 50%
e.	Analysis of reserves	1) Opening balance 1,700 thousand pre-acquisition 2) Current year retained profit 300 thousands post acquisition	1) Opening balance 1,700 thousand pre-acquisition 2) Current year retained profit 300 thousands post acquisition
f.	Apportionment of Profits 1) Pre-acquisition 2) Post-acquisition	1) A Ltd. – 850 thousand (investing Co. Interest) 2) A Ltd. – 150 thousands	1) A Ltd. – 850 thousand (investing Co. Interest) 2) A Ltd. – 150 thousands.
g.	Outsider's interest	Not applicable	Not applicable
h.	Goodwill/Capital Reserve	1) Cost investment 2,000thousands 2) Share of net assets on the date of investment -share capital 500 thousands -capital profits 850 thouisands Total 1,350 thousands - Goodwill 650 thousands	1) Cost investment 2000 thousands 2) Share of net assets on the date of investment -share capital 500 thousands -capital profits 850thousands Total 1,350 thousands - Goodwill 650thousands
I.	Inter Company Transactions 1) Inter Company Owings 2) Unrealised Profits	Not applicable Eliminate to the extent of investing co's interest	Eliminate to the extent of venturer's interest
J.	Reserves for CBS	*	*
k.	Carrying amount of Investment in CBS	a) Amount invested i) Share of Net Assets 1,350 thousands ii) Goodwill - 650 thousands 2,000 thousands b) Add: Share of Post Acquisition profits 250 thousands c) Less: Dividend Received 100 thousands Total 2,150 thousands	Nil

* Reserves for CBS

Draft Consolidate Profit and Loss Account
as at 31.03.2015

₹ in thousands

Particulars	Subsidiary	Investment	Associate	Joint Venture
Sales	3,200	2,000	2,000	2,600
Expenses	(1,400)	(900)	(900)	(1,150)
Dividend	-	100	-	-
PBT	1,800	1,200	1,100	1,450
Tax	(800)	(600)	(600)	(700)
PAT	1,000	600	500	750
Share of profits from Associate	-	-	250	-
Opening Balance B/d	3,150	3,150	3,150	3,150
Dividend Paid	(300)	(300)	(300)	(300)
Share of Minority Interest	(250)	-	-	-
Balance carried forward to Balance Sheet	3,600	3,450	3,600	3,600

Draft Consolidated Balance Sheet
As at 31.03.2015

₹ in thousands

	If Subsidiary	If Investment	If Associate	If Joint Venture
Equity and Liabilities				
Share Capital	2,000	2,000	2,000	2,000
Reserves	3,600	3,450	3,600	3,600
Debentures	3,500	2,000	2,000	2,750
Current Liabilities	7,050	4,550	4,550	5,800
Minority Interest	1,500	-	-	-
Total Assets	17,650	12,000	12,150	14,150
Non-current assets				
Fixed Assets				
Tangible Assets	10,500	6,500	6,500	8,500
Intangible Assets	650	-	-	650
Investments	-	2,000	2,150 (Goodwill - ₹ 650 thousands)	-
Current Assets	6,500	3,500	3,500	5,000
Total	17,650	12,000	12,150	14,150

Question No. 12

The summarized balance sheets of Good Ltd. and Luck Ltd. as at 31.12.2014 are as follows -

Liabilities	Good Ltd. ₹	Luck Ltd. ₹	Assets	Good Ltd. ₹	Luck Ltd. ₹
Equity Share Capital (₹10)	**17,50,000**	**5,00,000**	**Fixed assets**	**18,00,000**	**8,00,000**
			Current Assets	**5,20,000**	
Reserves	**2,00,000**	**50,000**	**Investments at cost:**		**80,000**
Profit & Loss Account – as at 01.01.2014	**3,00,000**	**1,00,000**	**30,000 Shares in Luck Ltd**	**3,50,000**	**-**
Add: Profit for the year	**80,000**	**80,000**			
Add: Dividends from Tharini Ltd	**40,000**	**-**			
	-				
Less: Dividends paid		**(50,000)**			

Creditors	**3,00,000**	**2,00,000**			
Total	**26,70,000**	**8,80,000**	**Total**	**26,70,000**	**8,80,000**

Good Ltd. acquired 40,000 shares in Luck Ltd. at ₹20 each on 01.01.2014 and sold 10,000 of them at the same price on 30.09.2014 sale at cum- dividend price. An interim dividend of 10% was paid by Luck Ltd on 01.07.2014.

Prepare the consolidated Balance Sheet as at 31.12.2014.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

Solution:

1. Basic Information

Company Status	**Dates**	**Holding Status**
Holding company = Good Ltd. Subsidiary = Luck Ltd.	Acquisition: 01.01.14 Consolidation: 31.12.14	Holding Co: = 60% Minority Interest: = 40%

2. Analysis of Reserves and surplus of Luck Ltd

(a) **General Reserve**

Balance as on 31.12.2014 ₹50,000

Balance on 01.01.2014 (date of acquisition) ₹ 50,000 **(Capital Profit)**

Transfer during 2014 (upto consolidation) (balancing figure) ₹ **NIL** **(Revenue Reserve)**

(b) **Profit and Loss Account**

Balance as on 31.12.2014 ₹1,30,000

Balance on 01.01.2014 (date of acquisition) ₹1,00,000 **(Capital Profit)**

Profit for 2014 (upto consolidation)	80,000
Less: Interim Dividend	50,000
Revenue Profit	30,000

1. Computation of Cost of Control & Minority Interest

Particulars	Total	Minority Interest	Pre-Acquisition	Post Acquisition	
				Gen. Res.	P&L A/c
Luck Ltd (Holding 60%, minority 40%)					
Equity Capital	5,00,000	2,00,000	3,00,000		
General Reserves	50,000	20,000	30,000		
Profit and Loss A/c	1,30,000	52,000	60,000		18,000
Minority interest		2,72,000			
Total [Cr.]			3,90,000		
Cost of Investment [Dr.] (Note 1)			(3,50,000)	2,00,000	4,20,000
Parent's Balance (Note 1)					
For consolidated balance sheet			(40,000)	2,00,000	4,38,000

			(Capital Reserve)		

Note: adjustment for dividend is required since the shares are sold on cum – dividend basis i.e. including dividend. The dividend when declared will be received by the buyer of the shares.

Name of the Company: Good Ltd. And its subsidiary Luck Ltd.
Balance Sheet as at 31.12.2014

Ref No.		Particulars	Note No.	As at 31.12.14	As at 31.12.13
				(₹)	(₹)
I		**EQUITY AND LIABILITIES**			
	1	**Shareholders' fund**			
		(a) Share capital	1	17,50,000	
		(b) Reserves and surplus	2	6,78,000	
		(c) Money received against share warrants			
	2	**Minority Interest (W.N)**		2,72,000	
	3	**Share application money pending allotment**			
	4	**Non-current liabilities**			
		(a) Long-term borrowings			
		(b)Deferred tax liabilities (Net)			
		(c)Other Long term liabilities			
		(d) Long-term provisions			
	5	**Current Liabilities**			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c)Other current liabilities	3	5,00,000	
		(d) Short-term provisions			
		Total		**32,00,000**	
II		**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			

		(i) Tangible assets	4	28,00,000	
		(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	5	4,00,000	
		Total		**32,00,000**	

Notes on accounts (₹)

1. Share capital	**31.12.14**	**31.12.13**
1,75,000 Equity Share Capital @10 each	17,50,000	
Total	**17,50,000**	
2. Reserve and Surplus	**31.12.14**	**31.12.13**
General Reserve	2,00,000	
Profit & Loss A/c Capital Reserve	4,38,000	
Total	**6,78,000**	

3. Other current liabilities	**31.12.14**	**31.12.13**
Current Liabilities (30,000 + 20,000)	5,00,000	
Total	**5,00,000**	

4. Tangible Assets	**31.12.14**	**31.12.13**

Other Fixed Assets (18,00,000+8,00,000)	26,00,000	
Total	**26,00,000**	

5. Other Current Assets	**31.12.14**	**31.12.13**
Current Assets (5,20,000 + 80,000)	6,00,000	
Total	**6,00,000**	

Question No.13

On 31.03.2013, R Ltd. acquired 1,05,000 Shares of S Ltd. for ₹ 12,00,000. The Balance Sheet of S Ltd. on that date was as under -

(₹ 000's)

Liabilities	**₹**	**Assets**	**₹**
1,50,000 Equity Shares of ₹ 10 each fully paid Pre-Incorporation Profits Profit & Loss Account Creditors	**1,500 30 60 75**	**Fixed Assets (Tangible) Current Assets**	**1,050 615**
Total	**1,665**	**Total**	**1,665**

On 31.03.2014, the Balance Sheets of the two Companies were as follows - (₹ 000's)

Liabilities	**R**	**S**	**Assets**	**R**	**S**
Equity Shares of ₹ 10 each fully paid (before Bonus Issue)	**4,500**	**1,500**	**Fixed Assets (Tangible)**	**7,920**	**2,310**
			1,05,000 Equity Shares in	**1,200**	**–**
Securities Premium	**900**	**–**	**S Ltd. at Cost**		
Pre-Incorporation Profits	**–**	**30**	**Current Assets**	**4,410**	**1,755**
General Reserve	**6,000**	**1,905**			
Profit and Loss Account	**1,575**	**420**			
Creditors	**555**	**210**			
Total	**13,530**	**4,065**	**Total**	**13,530**	**4,065**

Directors of S Ltd. made a bonus issue on 31.03.2014 in the ratio of one Equity Share of ₹ 10 each fully paid for every two Equity Shares held on that date.

Calculate as on 31.3.2014 Minority Interest; (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.

Solution:

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = R Ltd. Subsidiary = S Ltd.	Acquisition: 31.03.2013 Consolidation: 31.03.2014	Holding Company =70% Minority Interest = 30%

2. Analysis of Reserves and Surplus of S Ltd.

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

(b) General Reserve

Before Bonus Issue	After Bonus Issue
Ason 31.3.2014 19,05,000 As on 01.04.13 **NIL** **Capital** Tfr between 01.04.13 & 31.3.2014 **19,05,000** **Revenue**	As on 31.3.2014 19,05,000 Less: Bonus Issue 7,50,000 (15 Lacs x 1/2) Corrected Bal 11,55,000 01.04.2013 **NIL** **Capital** Tfr between 1.4.13 & 3 1.3.14 **11,55,000** **Revenue**

(c) Profit & Loss Account

As on 31.03.2014 ₹ 4,20,000

As on 01.04.2013 60,000 **Capital**

Profits between 01.04.2013 & 31.03.2014 **3,60,000** **Revenue**

3. Analysis of Net Worth of S Ltd.

	Particulars	Before Bonus Issue			After Bonus Issue		
		Total	**R**	**Minority**	**Total**	**R**	**Minority**
		100%	**70%**	**30%**	**100%**	**70%**	**30%**
(a)	Share Capital	15,00,000			15,00,000		
	Add: Bonus Issue	–			7,50,000		
		15,00,000	10,50,000	4,50,000	**22,50,000**	15,75,000	6,75,000
(b)	Capital Profits						
	Pre Incorporation Profits	30,000			30,000		
	General Reserve	NIL			NIL		
	Profit and Loss Account	60,000			60,000		
		90,000			**90,000**		

	19,05,000	63,000	27,000	**11,55,000**	63,000	27,000
(c) **Revenue Reserve:** Gen. Reserve		13,33,500	5,71,500		8,08,500	3,46,500
(d) **Revenue Profits:** P & L A/c	**3,60,000**	2,52,000	1,08,000	**3,60,000**	2,52,000	1,08,000
Minority Interest			**11,56,500**			**11,56,500**

Question No.14

From the following Balance Sheets of a group of companies and the other information provided, draw up the consolidated Balance Sheet as on 31.3.2015. Figures given are in ₹ Lakhs:

Balance Sheets as on 31.3.2015

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

i. **X Ltd. holds 8,80,000 shares and 1,65,000 shares respectively in Y Ltd. and Z Ltd.; Y Ltd. holds 3,30,000 shares in Z Ltd. These investments were made on 1.7.2014 on which date the provision was as follows:**

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

ii. **In December, 2014 Y Ltd. invoiced goods to X Ltd. for ₹ 220 lakhs at cost plus 25%. The closing stock of X Ltd. includes such goods valued at ₹ 27.5 lakhs.**

iii. **Z Ltd. sold to Y Ltd. an equipment costing ₹ 132 lakhs at a profit of 25% on selling price on 1.1.2015. Depreciation at 10% per annum was provided by Y Ltd. on this equipment.**

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

v. **Debtors of X Ltd. Include ₹ 16.5 lakhs being the amount due from Y Ltd.**

X Ltd. proposes dividend at 10%.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

Sulution:

Name of the Company: X Ltd. and its subsidiary Y Ltd. and Z Ltd.
Consolidated Balance Sheet as at 31st March,2015

Ref No.		Particulars	Note No.	As at 31st March, 2015	As at 31st March, 2014
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	1,650.00	-
		(b) Reserves and surplus	2	835.45	-
		(c)Money received against share warrants		-	-
				2,485.45	-
	2	**Minority Interest**		436.15	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	247.50	-
		(c) Other current liabilities	4	71.50	-
		(d) Short-term provisions	5	165.00	-
				456.50	-
		TOTAL (1+2+3+4)		3,405.60	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	6	2,047.10	-
		(ii) Intangible assets		-	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-

Ref No.		Particulars	Note No.	As at 31st March, 2015	As at 31st March, 2014
				₹	₹
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments		-	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				2,047.10	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories	7	489.50	-
		(c) Trade receivables	8	522.50	-
		(d) Cash and cash equivalents	9	192.50	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	10	154.00	-
				1,496	-
		TOTAL (1+2)		3,405.60	-

Annexure

Note 1. Share Capital	As at 31st March, 2015	As at 31st March, 2014
Share Capital in Equity Shares	1,650.00	
Total	1,650.00	

Note 2. Reserves and Surplus	As at 31st March, 2015	As at 31st March, 2014
Capital reserves	73.70	
Other Reserves	448.80	
Profit & Loss A/c	312.95	
Total	835.45	

Note 3. Other Current Liabilities	As at 31st March, 2015	As at 31st March, 2014
X Ltd.	165.00	
Y Ltd.	55.00	
Z Ltd.	55.00	
	275.00	
Less: Mutual Indebtedness	27.50	
Total	247.50	

Note 4. Other Current Liabilities	As at 31st March, 2015	As at 31st March, 2014
X Ltd.	55.00	
Y Ltd.	27.50	

	82.50	
Less: Mutual Indebtedness	11.00	
	71.50	

Note 5. Short Term Provisions	**As at 31st March, 2015**	**As at 31st March, 2014**
Proposed Dividend	165.00	
Total	165.00	

Note 6. Tangible assets	**As at 31st March, 2015**	**As at 31st March, 2014**
X Ltd.	715.00	
Y Ltd.	825.00	
Z Ltd.	550.00	
	2,090.00	
Less: Unrealised Profit	42.90	
Total	2,047.10	

Note 7. Inventories	**As at 31st March, 2015**	**As at 31st March, 2014**
X Ltd.	275.00	
Y Ltd.	110.00	
Z Ltd.	110.00	
	495.00	
Less: Unrealised Profit	5.50	
Total	489.50	

Note 8. Trade Receivables	**As at 31st March, 2015**	**As at 31st March, 2014**
X Ltd.	385.00	
Y Ltd.	55.00	
Z Ltd.	110.00	
	550.00	
Less: Mutual Indebtedness	27.50	
Total	522.50	

Note 9. Cash and cash equivalents	**As at 31st March, 2015**	**As at 31st March, 2014**
Cash and Bank Balances	330.00	
Current Account Balances [(275.00+82.50)-(55+165)]	137.50	
Total	192.50	

Note 10. Other current assets	**As at 31st March, 2015**	**As at 31st March, 2014**
Y Ltd.	55.00	
Z Ltd.	110.00	
	165.00	
Less: Mutual Indebtedness	11.00	

Total	154.00	

Working Notes:

(₹ in lakhs)

Analysis of Profits of Z Ltd.	**Capital Profit**	**Revenue Reserve**	**Revenue profit**
Reserves on 1.7.2014	55.00		
Profit and Loss A/c on 1.7.2014	88.00		
Increase in Reserves		110.00	
Increase in Profit			132.00
	143.00	110.00	132.00
Less: Minority Interest (10%)	14.30	11.00	13.20
	128.70	99.00	118.80
Share of X Ltd.	42.90	33.00	39.60
Share of Y Ltd.	85.80	66.00	79.20
Analysis of Profits of Y Ltd.			
Reserves on 1.7.2014	110.00		
Profit and Loss A/c on 1.7.2014	165.00		
Increase in Reserves		110.00	
Increase in Profit			110.00
	275.00	110.00	110.00
Share in Z Ltd.		66.00	79.20
	275.00	176.00	189.20
Less: Minority Interest (20%)	55.00	35.20	37.84
Share of X Ltd.	220.00	140.80	151.36
Cost of Control			
Investments in Y Ltd.			990.00
Investments in Z Ltd.			660.00
			1,650.00
Less: Paid up value of investments			
in Y Ltd.	880.00		
in Z Ltd.	495.00	1,375.00	
Capital Profit			
in Y Ltd.	220.00		
in Z Ltd.	128.70	348.70	1,723.70
Capital Reserve			73.70
Minority Interest	**Y Ltd.**	**Z Ltd.**	
Share Capital	220.00	55.00	
Capital Profit	55.00	14.30	
Revenue Reserves	35.20	11.00	
Revenue Profits	37.84	13.20	
	348.04	93.50	
Less: Unrealised profit on stock (20% of 5.5)	1.1		
Unrealised profit on equipment (10% of 42.90)		4.29	
	346.94	89.21	
Total	**436.15**		
Unrealised Profit on equipment sale			
Cost	132.00		
Profit	44.00		
Selling Price	176.00		

Unrealised profit = $44 - 44 \times \frac{10}{100} \times \frac{3}{12}$ = 44.00 – 1.1 = 42.90			
Profit and Loss Account – X Ltd.			
Balance	330.00		
Less: Proposed Dividend	165.00		
	165.00		
Share in Y Ltd.	151.36		
Share in Z Ltd.	39.60		
	355.96		
Less: Unrealised profit on equipment (90% of 42.90)	38.61		
	317.35		
Less: Unrealised profit on stock $\left(27.50\times\frac{25}{125}\times 80\%\right)$	4.4		
	312.95		
Reserves – X Ltd.			
X Ltd.	275.00		
Share in Y Ltd.	140.80		
Share in Z Ltd.	33.00		
	448.80		

Question No. 15

R Ltd. owns 80% of S and 40% of T and 40% of Q. T is jointly controlled entity and Q is an associate. Balance Sheet of four companies as on 31.03.2015 are:

Assets	R Ltd. ₹	S Ltd. ₹	T Ltd. ₹	Q Ltd. ₹
Investment in S	**1,200**	**-**	**-**	**-**
Investment in T	**1,800**	**-**	**-**	**-**
Investment in Q	**1,800**	**-**	**-**	**-**
Fixed Assets	**1,500**	**1,200**	**2,100**	**1,500**
Current Assets	**3,300**	**4,950**	**4,875**	**5,475**
Total	**7,800**	**6,150**	**6,975**	**6,975**
Liabilities				
Share capital ₹1 Equity Share	**1,500**	**600**	**1,200**	**1,200**
Retained Earnings	**6,000**	**5,100**	**5,400**	**5,400**
Creditors	**300**	**450**	**375**	**375**
Total	**7,800**	**6,150**	**6,975**	**6,975**

R Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were ₹780 lakhs. R Ltd. acquired its shares in 'T' at the beginning of the year when 'T" retained earnings were ₹600 lakhs. R Ltd. acquired its shares in 'Q' on 01.04.2014 when 'Q' retained earnings were ₹600 Lakhs.

The balance of goodwill relating to 'S' had been written off three years ago. The value of goodwill in 'T' remains unchanged.

Prepare the Consolidated Balance Sheet of R Ltd. as on 31.03.2015 as per AS 21, 23 and 27.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

Solution:

Name of the Company: R Ltd.
Consolidated Balance Sheet as at 31st March, 2015

Ref No.		Particulars	Note No.	As at 31st March, 2015	As at 31st March, 2014
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	1,500	-
		(b) Reserves and surplus	2	13,200	-
		(c)Money received against share warrants		-	-
				14,700	-
	2	**Minority Interest**		1,140	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	900	-
		(c) Other current liabilities		-	-
		(d) Short-term provisions		-	-
				900	-
		TOTAL (1+2+3+4)		16,740	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	3,540	-
		(ii) Intangible assets	5	180	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments	6	2,820	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-

Ref No.		Particulars	Note No.	As at 31st March, 2015	As at 31st March, 2014
				₹	₹
		(e) Other non-current assets		-	-
				6,540	-
	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	7	10,200	-
				10,200	-
		TOTAL (1+2)		16,740	-

Annexure

Note 1. Share Capital	**As at 31st March, 2015**	**As at 31st March, 2014**
Share Capital in Equity Shares	1,500	
Total	1,500	

Note 2. Reserves and Surplus	**As at 31st March, 2015**	**As at 31st March, 2014**
Retained Earnings (W.N 2)	13,200	
Total	13,200	

Note 3. Trade Payables	**As at 31st March, 2015**	**As at 31st March, 2014**
Creditors [300+450+40% of 375]	900	
Total	900	

Note 4. Tangible assets	**As at 31st March, 2015**	**As at 31st March, 2014**
Fixed Assets [1,500 +1,200 + 840(2,100×40%)]	3,540	
Total	3,540	

Note 5. Intangible assets	**As at 31st March, 2015**	**As at 31st March, 2014**
Goodwill (W.N 1)	180	
Total	180	

Note 6. Noncurrent investments	**As at 31st March, 2015**	**As at 31st March, 2014**
Investment in Associates (W.N 4)	2,820	
Total	2,820	

Note 7. Other current assets	**As at 31st March, 2015**	**As at 31st March, 2014**

Current Assets [3,300+4,950+ 1,950 (4,875 × 40%)]	10,200	
Total	10,200	

Working Notes :

1.Computation of Goodwill

S Ltd.(subsidiary)

		₹ in lakhs
Cost of Investment		1,200
Less :Paid up value of shares acquired	480	
Share in pre-acquisition profits of S Ltd. (780 × 80%)	624	1,104
Goodwill		96

T Ltd.(Jointly Controlled Entity)

		₹ in lakhs
Cost of Investment		900
Less:Paid up value of shares acquired (40% of 1,200)	480	
Share in pre-acquisition profits (40% of 600)	240	720
Goodwill		180

Note: Jointly controlled entity 'T' to be consolidated on proportionate basis i.e. 40% as per AS 27

Associate Q Ltd. (AS 23)

		₹ in lakhs
Cost of investment		900
Less:Paid up value of shares acquired (1,200 × 40%)	480	
Share in pre-acquisition profits (400 × 40%)	240	720
Goodwill		180

Goodwill shown in the Consolidated Balance Sheet

	₹ in lakhs
Goodwill of 'T'	180
Goodwill of 'S'	96
Less: Goodwill written off of 'S'	96
Goodwill	180

2. Consolidated Retained Earnings

	₹ in lakhs
R Ltd.	6,000
Share in post acquisition profits of S - 80% (5,100 – 780)	3,456
Share in post acquisition profits of T - 40% (5,400 – 600)	1,920
Share in post acquisition profits of Q - 40% (5,400 – 600)	1,920
Less: Goodwill written off	(96)
	1,3200

3. Minority Interest 'S'

	₹ in lakhs
Share Capital (20% of 600)	120
Share in Retained Earnings (20% of 5,100)	1,020

	1,140

4. Investment in Associates

	₹ in lakhs
Cost of Investments (including goodwill ₹ 180 lakhs)	900
Share of post acquisition profits	1,920
Carrying amount of Investment (including goodwill ₹ 180 lakhs)	2,820

Question No. 16

A Ltd. is a holding Company and B Ltd. and C Ltd. are subsidiaries of A Ltd. Their Balance Sheets as on 31.12.2014 are given below-

Liabilities	A Ltd.	B Ltd.	C Ltd.	Assets	A Ltd.	B Ltd.	C Ltd.
Share Capital	1,00,000	1,00,000	60,000	Fixed Assets	20,000	60,000	43,000
Reserves	28,000	10,000	9,000	Investments in:			
Profit & Loss A/c	16,000	12,000	9,000	- Shares of B Ltd.	75,000	—	—
C Ltd. Balance	3,000	—	—	- Shares of C Ltd.	13,000	53,000	—
Sundry Creditors	7,000	5,000	—	Stock in Trade	12,000	—	—
A Ltd. Balance	—	7,000	—	B Ltd. Balance	8,000	—	—
				Sundry Debtors	26,000	21,000	32,000
				A Ltd. Balance	—	—	3,000
Total	**1,54,000**	**1,34,000**	**78,000**	**Total**	**1,54,000**	**1,34,000**	**78,000**

The following particulars are given:

A. The Share Capital of all Companies is divided into shares of ₹ 10 each.
B. A Ltd. held 8,000 shares in B Ltd. and 1,000 shares of C Ltd.
C. B Ltd. held 4,000 shares of C Ltd.
D. All these investments were made on 30.6.2013.
E. On 31.12.2013, the position was as shown below: (Amount in ₹)

Particulars	Reserve	P&LA/c	Creditors	Fixed Assets	Stock	Debtors
B Ltd. C Ltd.	8,000 7,500	4,000 3,000	5,000 1,000	60,000 43,000	4,000 35,500	48,000 33,000

F. 10% Dividend is proposed by each Company.
G. The whole of stock in trade of B Ltd. as on 30.06.2014 (₹ 4,000) was later sold to A Ltd. for ₹ 4,400 and remained unsold by A Ltd. as on 31.12.2014.
H. Cash in transit from B Ltd. to A Ltd. was ₹ 1,000 as at the close of business. You are required to prepare the Consolidated Balance Sheet of the group as at 31.12.2014.

Though in the question the balance sheet is not prepared as per Schedule III the answer should be as per Schedule III.

Solution:

1. Basic Information

Company Status	Dates	Holding Status		
Holding Company = A Ltd.	Acquisition: 30.06.2013		**B Ltd.**	**C Ltd.**
Subsidiary = B Ltd.	Consolidation: 31.12.2014	a. Holding Co.	(A) 80%	(A) 16.67%
Sub–Subsidiary = C Ltd.			–	(B) 66.66%
		b. Minority Int.	20%	16.67%

Note: The Shareholding Pattern is as under

Company	Held by A	Held by B	Total Holdings	Minority Interest	Total No. of Shares
B Ltd.	8,000 (80%)	N. A.	8,000 (80%)	2,000 (20%)	10,000 (100%)
C Ltd.	1,000 (16.67%)	4,000 (66.67%)	5,000 (83.33%)	1,000 (16.67%)	6,000 (100%)

2. Analysis of Reserves and Surplus of Subsidiary Companies

(a) General Reserve

B Ltd.				**C Ltd.**		
Balance on 31.12.2014 ₹ 10,000				31.12.2014 ₹ 9,000		
1.1.14 Prev. B/s **8,000**	Tfr in 2014	₹ 2,000		1.1.14 Prev. B/s **7,500**	Tfr in 2014	₹ 1,500
Capital	1.1.14 to DOA ₹ **1,000** **Capital**	DOA to DOC ₹ **1,000** **Revenue**		**Capital**	1.1.14 to DOA ₹ **750** **Capital**	DOA to DOC ₹ **750** **Revenue**
Capital Profit - ₹ **9,000**; Revenue Profit - ₹ **1,000**				**Capital Profit - ₹ 8,250; Revenue Profit - ₹ 750**		

(b) Profit & Loss Account

B Ltd.			**C Ltd.**	
Balance on 31.12.2014 12,000 **Less:** Proposed Dividend (10% x 100000) (10,000) **Add:** Dividend from C Ltd. 2,000 (6/12 x 6,000 x 66.67%) **Adjusted Balance** **4,000**			Balance on 31.12.2014 9,000 **Less:** Proposed Dividend (10%x60,000) 6,000 **Adjusted Balance** **3,000**	
1.1.14 Prev. B/s **4,000 Capital**	Profit in 2014 NIL		1.1.14 Prev. B/s **3,000 Capital**	Profit in 2014 **NIL Revenue**

3. Analysis of Net Worth of Subsidiary Companies (Indirect Method)

Particulars	**A Ltd.**		**Minority Interest**	
	80%	**16.67%**	**B Ltd.**	**C Ltd.**
	B holds 66,67% of C		**20%**	**16.67%**

(a)	**Share Capital**	**1,00,000**	**60,000**		
Less:	Minority Interest	(20,000)	(10.000)	20,000	10,000
	Holding Co's Share	**80,000**	**50,000**		
(b)	**Capital Profits**				
	General Reserve	9,000	8,250		
	Profit & Loss Account	4,000	3,000		
		13,000	**11,250**		
Trfr.	B's share in C (66.67% x ₹l 1,250)	7.500	(7,500)	4,100	1,875
		20,500	3,750		
Less:	Minority Interest				
	Holding Co's Share	(4,100)	(1,875)		
		16,400	**1,875**		
(c)	**Revenue Reserve:**	1,000	750	300	125
Trfr.	B's share in C (66.67% x ₹ 750)	500	(500)	–	–
		1,500	250		
Less:	Minority Interest	(300)	(125)	2,000	1,000
Holding Co.'s Share		**1,200**	**125**		
(d)	**Revenue Profits**	**NIL**	**NIL**		
(e)	**Proposed Dividend**	10,000	6,000		
Less:	Minority Interest	(2,000)	(1,000)		
	Holding Co's Share	**8,000**	**5,000**		
	Minority Interest Before Stock Reserve Adjustment			**26,400**	**13,000**
Less:	Share of Minority Interest of B in Unrealized Profits (4,400 - 4,000) x 20%			(80)	–
	Minority Interest			**26,320**	**13,000**

4. Cost of Control

	Particulars				₹
	Cost of Investment:	A Ltd. in B Ltd.		75,000	
		A Ltd. in C Ltd.		13,000	
		B Ltd. in C Ltd.		53,000	**1,41,000**
Less:	Dividend out of Pre-acqn. Pfts		(For 01.01.2014 to 30.06.2014)		
	From B Ltd.	(8000 Shares x ₹ 10 x 10% x 6/12]		4,000	
	From C Ltd.	(5000 Shares x ₹ 10 x 10% x 6/12)		2,500	**6,500**
	Adjusted Cost of Investment				**1,34,500**
Less:	(a) Nominal Value in Share Capital of:	B Ltd.		80,000	
		C Ltd.		50,000	(1,30,000)
	(b) Share in Capital Profits	B Ltd.		16,400	
		C Ltd.		1,875	**(18,275)**
	Capital Reserve on Consolidation				**13,775**

5. Consolidation of Reserves and Surplus

Particulars	**Gen. Res.**	**P & L A/c**

	Balance as per Balance Sheet of A Ltd.		28,000	16,000
Less:	Proposed Dividend	(₹ 1,00,000 x 10%)	–	(10,000)
Add:	Share of Proposed Dividend	(01.07.2014 to 31.12.2014) from		
		B (8000 Shares x ₹ 10 x 10% x 6/12)	–	4,000
		C (1000 Shares x ₹ 10 x 10% x 6/12)	–	500
	Adjusted Balance		**28,000**	**10,500**
Add:	Share of Revenue from	B Ltd.	1,200	NIL
		C Ltd.	125	NIL
	Consolidated Balance		29,325	10,500
Less:	Stock Reserve [₹ 4,400 - ₹ 4,000] x 80%		–	(320)
	Corrected Consolidated Balance		**29,325**	**10,180**

Name of the Company: A Ltd. And its subsidiary B & C Ltd.

Consolidated Balance Sheet as at 31st, December 2014

Ref No.	Particulars		Note No.	As at 31st December, 2014	As at 31st December, 2013
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	100,000	-
		(b) Reserves and surplus	2	53,280	-
		(c) Money received against share warrants		-	-
				153,280	-
	2	**Minority Interest**		39,320	-
	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	12,000	-
		(c) Other current liabilities		-	-
		(d) Short-term provisions	4	10,000	-
				22,000	-
		TOTAL (1+2+3+4)		2,14,600	-

Ref No.	Particulars		Note No.	As at 31st December, 2014	As at 31st December, 2013
				₹	₹
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	5	123,000	-
		(ii) Intangible assets (goodwill)		-	-
		(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		-	-
				12,300	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories	6	11,600	-
		(c) Trade receivables	7	79,000	-
		(d) Cash and cash equivalents	8	1,000	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets		-	-
				91,600	-
		TOTAL (1+2)		214,600	-

Note 1. Share Capital			**Note 2. Reserve and Surplus**		
	As at 31st December, 2014	**As at 31st December, 2013**		**As at 31st December, 2014**	**As at 31st December, 2013**
Authorised Capital	-	-	General Reserve	29,325	-
Issued and Paid Up	-	-	Profit & Loss A/c	10,180	-
Equity Share capital	1,00,000	-	Capital Reserve	13,775	-
	-	-	on Consolidation	53,280	-

	1,00,000	-			
Note 3. Trade Payable			**Note 4. Short Term Provisions**		
	As at 31st December, 2014	**As at 31st December, 2013**		**As at 31st December, 2014**	**As at 31st December, 2013**
Sundary Creditors			Proposed Dividend	10,000	-
A	7,000	-		-	-
B	5,000	-		-	-
	12,000	-			
				10,000	-
Note 5. Tangible Assets					
	As at 31st December, 2014	**As at 31st December, 2013**			
Fixed Assets					
A	20,000	-			
B	60,000	-			
C	43,000	-			
	123,000	-			

Question No. 17 (a)

Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS 3:

Particulars		**(₹ in Lakhs)**	**(₹ in Lakhs)**
Net Profit			**1,00,000**
Add:	**Sale of Investments**		**70,000**
	Depreciation on Assets		**11,000**
	Issue of Preference Shares		**9,000**
	Loan raised		**4,500**
	Decrease in Stock		**12,000**
			2,06,500

Less:	Purchase of Fixed Assets	65,000	
	Decrease in Creditors	6,000	
	Increase in Debtors	8,000	
	Exchange gain	8,000	
	Profit on sale of investments	12,000	
	Redemption of Debenture	5,700	
	Dividend paid	1,400	
	Interest paid	945	1,07,045
			99,455
Add:	Opening cash and cash equivalent		12,341
Closing cash and cash equivalent			1,11,796

[10]

Solution:

Cash Flow Statement

Particulars	(₹ in Lakhs)	(₹ in Lakhs)
Cash flows from operating activities		
Net profit		1,00,000
Less: Exchange gain		(8,000)
Less: Profit on sale of investments		(12,000)
		80,000
Add: Depreciation on assets		11,000
Operating Profit before working Capital changes		91,000
(-) Increase in debtors	(8,000)	
(+) Decrease in stock	12,000	
(-) Decrease in creditors	(6,000)	(2,000)
Net cash from operating activities		89,000
Cash Flows from Investing Activities		
Sale of investments	70,000	
Purchase of fixed assets	(65,000)	
Net cash from Investing activities		5,000

Cash Flows from Financing Activities		
Issue of preference shares	9,000	
Loan raised	4,500	
Redemption of Debentures	(5,700)	
Interest paid	(945)	
idend paid	(1,400)	
Net cash from financing activities		5,455
Net increase in cash & cash equivalents		99,455
Add: Opening cash and cash equivalents		12,341
Closing cash and cash equivalents		**1, 11,796**

Question No. 17 (b)

A Ltd. acquired 5,000 Shares of S Ltd. at ₹ 48 per Share Cum-Dividend constituting 62.50% holding in the latter. Immediately after purchase, S Ltd. declared and distributed a dividend at ₹ 4 per Share, which S Ltd. credited to its Profit and Loss Account.

One year later, S Ltd. declared a Bonus of 1 fully paid Equity Share of ₹ 10 each for every 5 Shares held. Later on, S Ltd. proposed to raise funds and made a Rights Issue of 1 Share for 5 held at ₹ 36 per Share. A Ltd. exercised its right.

After some time, at its AGM, S Ltd. had decided to split its Equity Share of ₹ 10 into Two Equity Shares of ₹ 5 each. The necessary resolutions were passed and share certificates issued to all its existing shareholders.

To increase its stake in S Ltd. to 80%, A Ltd. acquired sufficient number of shares at ₹ 30 each.

Ascertain the Cost of Control as on 31st December if S's share in Capital Profits (duly adjusted for purchase in lots) as on that date was ₹ 3,15,000.

Solution:

Cost of Investment

	Particulars		Shares	₹
	Cost of First Acquisition	(5,000 x ₹ 48)	5,000	2,40,000
Less:	Pre-Acquisition Dividend	(5,000 × ₹ 4 per Share)	N.A.	(20,000)
	Corrected Cost of Investment		5,000	2,20,000
Add:	Bonus Shares	(1/5 × 5,000 Shares)	1,000	–
	Cost after Bonus Shares		6,000	2,20,000
Add:	Rights Shares	(1/5 x 6,000 Shares x ₹ 36)	1,200	43,200
	Cost after Rights Issue before Share Split		**7,200**	**2,63,200**
	Cost after share split (WN 1)	(2 Sh. for 1 for 7,200 Sh = 7,200 x 2)	14,400	2,63,200
Add:	Acquisition to increase holding to 80% (WN 2)	(4,032 x ₹ 30)	4,032	1,20,960
	Balance on date of Consolidation		**18,432**	**3,84,160**

Notes:

- **Share Split:** In case of Share Split, the Cost of Acquisition will not undergo any change. Only the number of Equity Shares and the face value will change. This is similar to adjustment for Bonus Issue. However, for Bonus Issue, the face value and paid up value of the share will be the same as the original share. In share split, the face value and paid up value will be lesser than that of the original shares.

- **Calculation of Number of Shares to be acquired to increase stake to 80%**

	Particulars			Shares
a.	Shares held before acquisition			14,400
b.	% of holding			62.5%
c.	Hence, Total Number of Shares of S Ltd.	(a ÷ b)	= (14,400 ÷ 62.50%)	23,040
d.	80% of above (c x 80%)		= (23,040 x 80%)	18,432
e.	Number of Shares to be acquired	(d - a)	= (18,432 - 14,400)	4,032

Cost of Control

Particulars		₹
Cost of Investment	**(A)** (from 1 above)	**3,84,160**
Nominal Value of Equity Capital	(18,432 x ₹ 5 per Share)	92,160
Share in Capital Profit		3,15,000
Total of Above	**(B)**	**4,07,160**
Capital Reserve (if B < A)	**(B-A)**	23,000

Study Note — 4

Question No. 18

Discuss the concept of Triple Bottom Line Reporting.

Solution:

The concept of TBL reporting refers to the publication of economic, environmental and social information in an integrated manner that reflects activities and outcomes across these three dimensions of a company's performance.

Economic information goes beyond the traditional measures contained within statutory financial reporting that is directed primarily towards shareholders and management. In a TBL context, economic information is provided to illustrate the economic relationships and impacts, both direct and indirect, that the company has with its stakeholders and the communities in which it operates.

The concept of TBL does not mean that companies are required to maximise returns across three dimensions of performance - in terms of corporate performance, it is recognized that financial performance is the primary consideration in assessing its business success.

- An expanded spectrum of values and criteria for measuring organizational and societal success - economic, environmental, social.
- In the private sector, a commitment to CSR implies a commitment to some form of TBL reporting.

The Triple Bottom Line is made up of "Social, Economic and Environmental"

"People, Planet, Profit "

The trend towards greater transparency and accountability in public reporting and communication is reflected in a progression towards more comprehensive disclosure of corporate performance to include the environmental, social and economic dimensions of an entity's activities.

Reporting information on any one or more of these three elements is referred to as TBL (Triple Bottom Line) Reporting. This trend is being largely driven by stakeholders, who are increasingly demanding information on the approach and performance of companies in managing the environmental and social/community impact of their activities and obtaining a broader perspective of their economic impact.

Question No. 19

Explain Sustainability Reporting.

Solution:

A sustainability report is an organizational report that gives information about economic, environmental, social and governance performance.

For companies and organizations, sustainability – the capacity to endure, or be maintained – is based on performance in these four key areas.

An increasing number of companies and organizations want to make their operations sustainable. Establishing a sustainability reporting process helps them to set goals, measure performance, and manage change. A sustainability report is the key platform for communicating positive and negative sustainability impacts.

To produce a regular sustainability report, organizations set up a reporting cycle – a program of data collection, communication, and responses. This means that their sustainability performance is monitored on an ongoing basis. Data can be provided regularly to senior decision makers to shape company strategy and policy, and improve performance.

Sustainability reporting is therefore a vital step for managing change towards a sustainable global economy – one that combines long term profitability with social justice and environmental care Sustainability reporting can be considered as synonymous with other terms for non-financial reporting; triple bottom line reporting, corporate social responsibility (CSR) reporting, and more. It is also an intrinsic element of integrated reporting ; a recent development that combines the analysis of financial and non-financial performance.

A sustainability report enables companies and organizations to report sustainability information in a way that is similar to financial reporting. Systematic sustainability reporting gives comparable data, with agreed disclosures and metrics.

Major providers of sustainability reporting guidance include:

- ❖ The Global Reporting Initiative (The GRI Sustainability Reporting Framework and Guidelines)
- ❖ Organization for Economic Cooperation and Development (OECD Guidelines for Multinational Enterprises)
- ❖ The United Nations Global Compact (the Communication on Progress) International Organization for Standardization (ISO 26000, International Standard for social responsibility)
- ❖ Uptake of sustainability reporting is increasing among organizations of all sizes: here are some statistics .

Benefits:

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.

Study Note — 5

Question No. 20 (a)

Define a Financial Instrument. Give examples.

Solution:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Examples of financial instruments:

- ❖ financial investments - like, listed and unlisted debt securities; listed equity securities; private equity and other unlisted equity investments
- ❖ originated and purchased loans

- repurchase agreements and securities lending/borrowing transactions
- derivative instruments (whether held for trading or hedging purposes)
- trade and other receivables
- cash and cash equivalents
- trading liabilities (short provisions and derivatives with negative fair values)
- trade and other payables and accruals
- current and long-term bank borrowings
- Bonds, debentures and notes issued.

Question No.20 (b)

Describe derivatives instrument.

Solution:

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in responses to a change in specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (known as the underlying items)
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors
- it is settled at a future date.

Example:

X Ltd. enters into a contract to purchase 20tons of aluminum with pre-agreed price of ₹1,50,000 at a future date which is after 4 months.

It is a derivative as it is forward contract to purchase 20 tons of aluminum with pre-agreed price of ₹1,50,000 at a future date which is after 4 months.

Question No.20 (c)

(i) Define Embedded derivative.

Solution:

An embedded derivative is a financial instrument (derivative instrument) which is combined with a non-derivative host contract.
Example: Y Ltd. holds convertible debentures of Z Ltd., which is convertible in equity shares.
Host Contract - Debenture. Embedded derivative - conversion option.

(ii) State the objective of AS-31.

Solution:

The objective of AS-31 is to establish principles for presenting Financial Instruments as Liabilities or Equity, and for off-setting Financial Assets and Financial Liabilities.

(iii) List the different types of Financial Instruments.

Solution:

A financial instrument is any contract that gives rise to -

- a financial asset of one equity; and
- a financial liability or equity instrument of another equity

Financial instruments may be of two types:

- Primary instruments - receivables, payables and equity instruments
- Derivative financial instruments - financial options, futures and forwards, interest rate swaps and currency swaps.

A contractual right or contractual obligation to receive, deliver or exchange Financial instruments is itself a financial instrument. A chain of contractual rights or contractual obligations meets the definition of a financial instrument if it will ultimately lead to the receipt or payment of cash or to the acquisition or issue of an equity instrument.

(iv) Define a financial liability.

Solution:

A financial liability is any liability that is:
either a contractual obligation or a contract that will or may be settled in the entity's own equity instruments .

Question No.21 (a)

Stock & Commodity market intermediaries (theory)
(i) Explain derivatives and state its characteristics.
(ii) Explain currency options related to foreign exchange.
(iii) Write short note on Interest Rate Swaps.

Solution:

(i) Derivative is a product whose value is derived from the value of one or more basic variables, called bases (underlying asset, index or reference rate), in a contracted manner. The underlying asset can be equity, forex, commodity or any other asset. For example, farmers may wish to sell their harvest of wheat at a future date to eliminate the risk of a change in prices by that date. Such a transaction is an example of a derivative. The price of the derivative is driven by the spot price of wheat which is the "underlying asset".

Derivative financial instruments can either be on the balance-sheet or off the balance sheet and include options contract, interest rate swaps, interest rate flows, interest rate collars, forward contracts, futures etc. A derivative instrument is therefore a financial instrument or other contract with the following three characteristics:

- It has one or more underlying and one or more notional amounts or payments provisions or both. These terms determine the amount of settlement or settlements and in some cases, whether or not settlement is required;
- It requires no initial net investment or an initial net investment that is smaller than what is required for similar responses to changes in market factors.

- Its terms require or permit net settlement; it can readily be settled net by means outside the contract or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

Accounting for foreign exchange derivatives is guided by AS 11 (Revised 2003). The ICAI has also issued a Guidance Note dealing with the accounting procedures to be adopted while accounting for Equity Index Options and Equity Stock Options.

(ii) Currency Options give the client the right, but not the obligation, to buy/sell a specific amount of currency at a specific price on a specific date. Currency options provide a tool for hedging foreign exchange risk arising out of the firm's operations. Currency options enable the business house to remove downside risk without limiting the upride potential. Options can be put option or call option. A put option is a contract that specifies the currency that the holder has the right to sell. A call option is a contract that specifies the currency that the holder has the right to buy.

(iii) Interest rate swap can be defined as a financial contract between two parties (called counter parties) to exchange on a particular date in the future, one series of cash flows (fixed interest) for another series of cash flows (variable or floating interest) in the same currency on the same principal (an agreed amount called notional principal) for an agreed period of time. The contract will specify the interest rates, the benchmark rate to be followed, the notional principal amount for the transaction, etc. Interest rates are of two types, fixed interest rates and floating rates which vary according to changes in a standard benchmark interest rate. An investor holding a security which pays a floating interest rate is exposed to interest rate risk. The investor can manage this risk by entering into an interest rate swap.

Question No.21 (b)

(i) State the objective of AS-32?

Solution:

The objective of "AS-32 - Financial Instruments - Disclosures "is to require entities to provide disclosures in their financial statements, that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

(ii) Explain the nature of risks as classified under AS-32.

Solution:

Under AS -32, the risks are classified as - credit risk, liquidity risk and market risk

- Credit risk - the risk that one party to a financial instrument will cause a financial loss for the other party, by failing to discharge an obligation
- Liquidity risk - the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities
- Market risk - the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. This risk can again be sub-classified as currency risk (changes in foreign exchange rates) , interest rate risk (changes in market

interest rates) and other price risk (changes in market prices other than those arising from interest rate risk or currency risk).

Question No. 21 (c)

Mr. Investor buys a stock option of ABC Co. Ltd. in July, 2013 with a strike price on 30.07.2013 of ₹ 250 to be expired on 30.08.2014. The premium is ₹ 20 per unit and the market lot is 100. The margin to be paid is ₹ 120 per unit.

Show the accounting treatment in the books of Buyer when:

(i) the option is settled by delivery of the asset, and

(ii) the option is settled in cash and the index price is ₹ 260 per unit.

Solution:

Accounting entries in the books of buyer

2013		At the time of inception	₹	₹
July		Stock option premium account	2,000	
		To Bank account		2,000
		(Being premium paid to buy a stock option)		
		Deposit for margin money account	12,000	
		To Bank account		12,000
		(Being margin money paid on stock option)		
		At the time of settlement		
2014	(i)	Option is settled by delivery of the asset		
August		Shares of ABC Ltd. account	25,000	
		To Deposit for margin money account		12,000
		To Bank account		13,000
		(Being option exercised and shares acquired, ₹ 12,000 margin money adjusted and the balance amount was paid)		
		Profit and loss account	2,000	
		To Stock option premium account		2,000
		(Being the premium transferred to profit and loss account on exercise of option)		
	(ii)	Option is settled in cash		
		Profit and loss account	2,000	
		To Stock option premium account		2,000
		(Being the premium transferred to profit and loss account)		
		Bank account (₹ 100 × 10)	1,000	
		To Profit and loss account		1,000
		(Being profit on exercise of option)		
		Bank account	12,000	
		To Deposit for margin money account		12,000
		(Being margin on equity stock option received back on exercise of option)		

Study Note — 6 Share Based Payments in Ind AS

Question No.22

E Inc. has granted 240 stock options to each of its 500 employees subject to the condition that they should work for three years from the grant date. Grant date is 1.4.2013. The entity closes its account every March. Fair value of each option is ₹24. Based on past experience, the entity expects that 70% of the employees will complete the vesting condition. On 1.4. 2014, E Inc. revises this estimate to 80%. Finally 78% of the employees was found eligible. Show journal entries. Face value of each equity share of the entity is ₹10.

Solution:

Date	Particulars	Dr. (₹)	Cr.(₹)
1.4.2013	Employee Benefits Dr. To Share Suspense Account To Securities Premium Account [No. of shares = 500 x 240 x 70% = 84,000] Face value of ₹8,40,000 [84,000 x 10] charged over 3 years Total charge: 84,000 x 24/3 Expected number of shares to be vested 84,000; so charge to equity is ₹8,40,000 [84,000 x ₹10] over 3 years Charge to Securities Premium ₹11,76,000 [84,000 x ₹14] over 3 years	6,72,000	 2,80,000 3,92,000
1.4.2014	Employee Benefits Dr. To Share Suspense Account To Securities Premium Account Revised value of the option = ₹19,20,000 [240 x 500 x 80% x 24] No. of shares 96,000 - face value 9,60,000 Amount charged in 2013-14 2,80,000 6,80,000 Charged to equity = 6,80,000/2 = 3,40,000 Charged to securities premium 13,44,000 Amount charged in 2013-14 3,92,000 9,52,000 Charged to securities premium ₹9,52,000/2 = 4,76,000	8,16,000	 3,40,000 4,76,000
1.4.2015	Employee Benefits Dr. To Share Suspense Account To Securities Premium Account Revised value of the option = ₹22,46,000 [240 x 500 x 78% x 24] No. of shares 93,600 - face value 9,36,000 Amount charged in 2013-14 2,80,000 Amount charged in 2014-15 3,40,000 3,16,000 Charged to securities premium 13,10,400 Amount charged in 2013-14 3,92,000 Amount charged in 2014-15 4,76,000 4,42,400	7,58,400	 3,16,000 4,42,400

Study Note — 7 Voluntary Disclosure

Question No.23 (a)

Equity Share Capital	**₹ 10,00,000**
Reserves & Surplus	**₹ 3,00,000**
12% Preference Share Capital	**₹ 2,00,000**
10% Debenture	**₹ 4,00,000**
Immovable property (held as investment)	**₹ 1,00,000**
Profit after tax	**₹ 2,00,000**
Rate of tax	**40%**

Companies with Beta factor of 1 in similar business have market rate of return 15% . Beta factor of Ashu Ltd. is 1.1 calculate EVA assuming Risk Free Return-7%.

Solution:

EVA = (Return on operating capital – weighted average cost of capital) X Operating Capital =(12.44%-13.33%) X 18,00,000 = (16,020)

Working Note – 1

Operating Capital	₹
Equity Share Capital Reserves & Surplus 12% Preference Share Capital 10% Debenture	10,00,000 3,00,000 2,00,000 4,00,000
Total Less: Non operating Investment	19,00,000 1,00,000
Operating Capital	18,00,000

Working Note – 2
Calculation of Return on Operating Capital

	₹
NOPAT = Profit after Tax + Taxes $(2{,}00{,}000 \times 40/60)$	2,00,000 1,33,333
 +Interest Expense	3,33,333 40,000
Operating EBIT (-) Economic taxes @ 40%	3,73,333 1,49,333
NOPAT	2,24,000

Working Note – 3

Calculation of WACC
Kd = 10% (1-0.40) X 4,00,000/19,00,000=1.26 Kp = 12% X 2,00,000/19,00,000 = 1.26% Ke = 7% + 1.1(15%-7%) = 15.8% X 13/19 = 10.81=13.33%

Question No.23 (b)

From the following information in respect of Unnat Ltd., prepare a value added statement for the year 2014

	₹ '000
Turnover	**2,300**
Plant and Machinery (net)	**1,080**
Depreciation on Plant and Machinery	**275**
Dividends to ordinary shareholders	**146**
Debtors	**195**
Creditors	**127**
Total stock of all materials, WIP and finished goods	
Opening Stock	**160**
Closing Stock	**200**
Raw materials purchased	**625**
Cash at Bank	**98**
Printing and Stationary	**22**
Auditor's remuneration	**28**
Retained Profits (Opening balance)	**994**
Retained Profits for the year	**288**
Rent, Rates and Taxes	**165**
Other expenses	**85**
Ordinary share capital issued	**1,500**
Interest on borrowing	**40**
Income tax for the year	**276**
Wage and Salaries	**327**
Employees State Insurance	**35**
PF- Contribution	**28**

Calculate the Value added per employee, average earning per employee and sales per employee on the basis that 95 employees work in Unnat Ltd.

Solution:

Gross Value Added Statement

Sales			**2,300**
Add: Increase in Stock (200-160)			**40**
		Total (A)	**2,340**
Cost of Bought in goods & services			
Raw materials	625		
Printing & Stationary	22		
Rent	165		
Other Expenses	85		
Auditor's remuneration	28		**925**
		GVA	**1,475**
Application Towards			
Employee (28+35+327)	390		
P/ Finance	40		
Government-tax	276		
Share Holder	146		
Entity(275+288)	563		
	1,415	**100**	

(i) Value Added = $\frac{1,415}{95}$ =14.89

(ii) $\frac{288}{95} = 3.03$

(iii) $\frac{2,300}{95} = 24.21$

Question No.24 (a)

The following is the Profit and Loss Account of Morning Glory Ltd. for the year ended 31.03.2015. Prepare a Gross Value Added Statement of Morning Glory Ltd. and show also the reconciliation between Gross Value Added and Profit before taxation.

Profit and Loss Account for the year ended 31.03.2015

(₹ in lakhs)

	Notes		Amount
Income:			
Sales		-	890
Other Income		-	55
			945
Expenditure:			
Production and operational expenses	(a)	641	-
Administration expenses (Factory)	(b)	33	-
Interest	(c)	29	-
Depreciation		17	720
Profit before taxes		-	225
Provision for taxes	(d)	-	30
Profit after tax		-	195
Balance as per last Balance Sheet		-	10
			205
Transferred to General Reserve		45	-
Dividend paid		95	-
		140	-
Surplus carried to Balance Sheet		65	-
		205	-

Notes :

(i) Production and Operational expenses	₹ in lakhs
Consumption of raw materials	293
Consumption of stores	59
Salaries, Wages, Gratuities etc. (Admn.)	82
Cess and Local taxes	98
Other manufacturing expenses	109
	641

(ii) Administration expenses include salaries, commission to Directors ₹ 9.00 lakhs .Provision for doubtful debts ₹ 6.30 lakhs.

(iii)

	₹ in lakhs
Interest on loan from ICICI Bank for working capital	9
Interest on loan from ICICI Bank for fixed loan	10
Interest on loan from IFCI for fixed loan	8
Interest on Debentures	2
	29

(iv) The charges for taxation include a transfer of ₹ 3.00 lakhs to the credit of Deferred Tax Account.

(v) Cess and Local taxes include Excise Duty, which is equal to 10% of cost of bought-in material.

Solution:

Morning Glory Ltd.

Gross Value Added Statement for the year ended 31st March, 2015

	₹ in lakhs	₹ in lakhs
Sales		890
Less: Cost of bought in materials and services:		
Production and operational expenses (293 + 59 + 109)	461	
Administration expenses (33 – 9)	24	
Interest on working capital loan	9	
Excise duty (Refer working note)	55	549
Value added by manufacturing and trading activities		341
Add: Other income		55
Total value added		396

Application of Value Added

			%
To Employees			
Salaries, wages, gratuities etc.		82	20.71%
To Directors		9	2.27%
Salaries and commission			
To Government			
Cess and local taxes (98 – 55)	43		
Income tax	27	70	17.68%
To Providers of capital			
Interest on debentures	2		
Interest on fixed loan	18		
Dividends	95	115	29.04%
To Provide for maintenance and expansion of the company			
Depreciation	17		
General reserve	45		
Deferred tax	3		
Retained profits (65 – 10)	55	120	30.30%
		396	100%

Statement showing reconciliation of Gross Value Added with Profits before taxation

(₹ in lakhs)

Profits before taxes		225
Add:		
Depreciation	17	
Directors' remuneration	9	
Salaries, wages & gratuities etc.	82	
Cess and local taxes	43	
Interest on debentures	2	
Interest on fixed loan	18	171
Total value added		396

Working Note:

Calculation of Excise Duty

Say cost of bought in materials and services is 'x'

Excise Duty is 10% of x = x/10

x = 461 + 24 + 9 + x/10
x = 494 + x/10 = 549 (approx.)*
Excise Duty = 549 – 494 = ₹ 55
* The above calculated excise duty is not exactly 10% of cost of bought in material amounting ₹ 549. The difference is due to approximation.

Question No. 24 (b)

Discuss (i) Market value added and (ii) Shareholders value added

Solution:

(i) Market Value Added (MVA)

Market value Added (MVA) is the difference between the current market value of a firm and the capital contributed by investors. If MVA is positive, the firm has added value. If it is negative the firm has destroyed value.

To find out whether management has created or destroyed value since its inception, the firm's MVA can be used:

MVA=Market value of capital – capital employed

This calculation shows the difference between the market value of a company and the capital contributed by investors (both bondholders and shareholders). In other words, it is the sum of all capital claims held against the company plus the market value of debt and equity. Calculated as:

The higher the MVA, the better. A high MVA indicates the company has created substantial wealth for the shareholders. A negative MVA means that the value of the actions and investments of management is less than the value of the capital contributed to the company by the capital markets, meaning wealth or value has been destroyed.

The aim of the company should be to maximize MVA. The aim should not be to maximize the value of the firm, since this can be easily accomplished by investing ever-increasing amounts of capital.

(ii) Shareholder Value Added (SVA)

Shareholder Value Added (SVA) represents the economic profits generated by a business above and beyond the minimum return required by all providers of capital. "Value" is added when the overall net economic cash flow of the business exceeds the economic cost of all the capital employed to produce the operating profit. Therefore, SVA integrates financial statements of the business (profit and loss, balance sheet and cash flow) into one meaningful measure.

The SVA approach is a methodology which recognizes that equity holders as well as debt financiers need to be compensated for the bearing of investment risk in Government businesses. Historically, it has been apparent that debt financiers have been explicitly compensated, however, this has not been the norm for providers of equity capital. Such inequalities can lead to inefficiencies in the allocation and use of capital.

The SVA methodology is a highly flexible approach to assist management in the decision making process. Its applications include performance monitoring, capital budgeting, output pricing and market valuation of the entity.

Calculation of SVA

SVA = Net Operating Profit After Taxes (NOPAT) – (Capital WACC)

The first step in calculating SVA is to calculate NOPAT; the second step is to estimate capital employed; the third is to estimate the appropriate WACC; the fourth step is to calculate the capital charges; and the fifth step is to calculate SVA.

NOPAT is operating performance measure after taking account of taxation, but before any financing costs. Interest is totally excluded from NOPAT as it appears implicitly in capital charge. NOPAT also requires further equity-equivalent adjustments.

Capital costs include both the cost of debt finance and the cost of equity finance. The cost of these sources of finance is reflected by the return required by the funds provider, be they a lender or a shareholder. These capital cost is referred to as Weighted Average Cost of Capital (WACC) and is determined having regard to the related capital structure of the business. The WACC is used in SVA as the minimum hurdle rate of return the GBE needs to exceed for value to be added.

SVA is a useful concept as it enables both actual results and forecasts to be used to assess whether value has been added in the past and/or whether the financial forecasts and investment decisions will lead to value being added in future. If forecasted balance sheet and income statements indicate that value will be diminished, the strategic decisions which underpin the forecasts will of course need to be reviewed. As such, SVA provides a further basis for evaluating the potential 'investor value impact' of forecasts and capital projects contained in corporate plans

Question No.24 (c)

Discuss why Human Resource Asset is not recognised in the Balance sheet.

Solution:

Although human beings are considered as the prime mover for achieving productivity, and are placed above technology, equipment and money, the conventional accounting practice does not assign significance to the human resources. Human resources are not recognized in balance sheet as there are no measurement criteria for recognition of human resources. Human resource accounting is at developing stage and no accounting principles have been established for valuation of human assets. Costs incurred on human resources are recognised as expenses in profit and loss account. Leading public sector units like OIL, BHEL, NTPC and SAIL etc. have started reporting human resources in their annual reports as additional information.

Question No.24 (d)

List the various information to be furnished by Merchant Bankers to SEBI.

Solution:

A Merchant Banker should disclose the following information to SEBI, when required by it -

(i) Responsibilities of the Merchant Banker with regard to management of an issue,

(ii) Change in the information or particulars previously furnished which affect the Certificate granted to it,

(iii) Details of company whose issue the Merchant Banker has managed or has been associated with,

(iv) Details relating to the breach of the Capital Adequacy requirements as specified in the Regulations,

(v) Details relating to activities as Manager, Underwriter, Consultant or Advisor to an issue.

Study Note — 8 Reporting through XBRL

Question No.25

Explain the term Extensible Business Reporting Language (XBRL).

Solution:

XBRL stands for e**X**tensible **B**usiness **R**eporting **L**anguage. It is one of a family of "XML" languages which is becoming a standard means of communicating information between businesses and on the internet. XBRL provides major benefits in the preparation, analysis and communication of business information and is fast becoming an accepted reporting language globally. It offers major benefits to all those who have to create, transmit, use or analyse such information.

Let us take a closer look at the meaning of the term:

(a) Extensible: means the user can extend the application of a particular business data beyond its original intended purpose and the major advantage is that the extended use can be determined even by the users and not just the ones who merely prepare the business data. This is achieved by adding tags which are both human and machine readable – describing what the data is.
The property of extensibility is very handy in situations when list of items reported for various elements of the financial statements are not the same across firms, industries, and countries. For example, many of item constituting non-current assets in Oil and Gas Industry (items like rigs, exploratory oil and gas wells) may not be applicable to companies in general. In a situation of this kind, XBRL may prepare a taxonomy called a 'Global Common Document' (GCD) for items common to all the firms, industries, and countries, and, any country specific, industry specific and firm-specific variations (extensions / limitations) can, then, be written as independent taxonomies that can be imported and incorporated with the GCD.
(b) Business: means relevant to the type of business transaction. XBRL focus is on describing the financial statements for both public and private companies.

(c) Reporting: the intention behind promoting use of XBRL is to have all companies report their financial statements in a consolidated manner using the specified formats.

(d) Language: XBRL is based on XML, which prescribes the manner in which the data can be "marked-up" or "tagged" to make it more meaningful to human readers as well as to computers-based system.

Study Note — 9 Government Accounting in India

Question No.26 (a)

State the objective and the scope of Indian Government Accounting Standard 3 (Cash Flow Statements).

Solution:

Objective of Government Accounting Standard 3 (Cash Flow Statements)

The objective of this Standard is to provide information about the historical changes in cash and cash equivalents of the Government by means of a cash flow statement, which classifies cash flows during the period into operating, investing and financing activities.

Scope of Government Accounting Standard 3 (Cash Flow Statements)

The cash flow statement should be presented as an integral part of Financial Statements of the Union and State Governments for each period for which such Financial Statements are presented. It should be prepared in accordance with the requirements of this Standard. The Financial Statements should not be described as complying with this Standard unless they comply with all its requirements. The transactions that do not require the use of cash or cash equivalents (non-cash transactions) should be excluded from a cash flow statement.
Information about cash flows may be useful to users of the Government Financial Statements in assessing its cash flows and assessing compliance with legislation and regulations (including authorized budgets where appropriate). Accordingly this Standard requires Governments to present a cash flow statement.
Some activities undertaken by Government do not have direct impact on their current cash flows. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions include accounting for interest payable on provident fund deposits of employees, conversion of debt into equity of an entity. Summary and impact of such non-cash transactions should be disclosed in the notes to Cash Flow Statement forming part of the Financial Statements in a way that provides all the relevant information about these activities.

Question No.26 (b)

Discuss the structure of Government Accounting Standard Advisory Board Secretariat.

Solution:

The Secretariat of Government Accounting Standards Advisory Board (GASAB) is constituted by officers of various Accounts and Finance streams belonging to Civil Services .They are listed below:
1. Indian Audit and Accounts Service (IA&AS)
2. Indian Civil Accounts Service (ICAS)
3. Indian Defence Accounts Service (IDAS)
4. Indian Post and Telecom Accounts Service (IP&TAFS)
5. Indian Railway Accounts Service (IRAS)

Question No.26 (c)

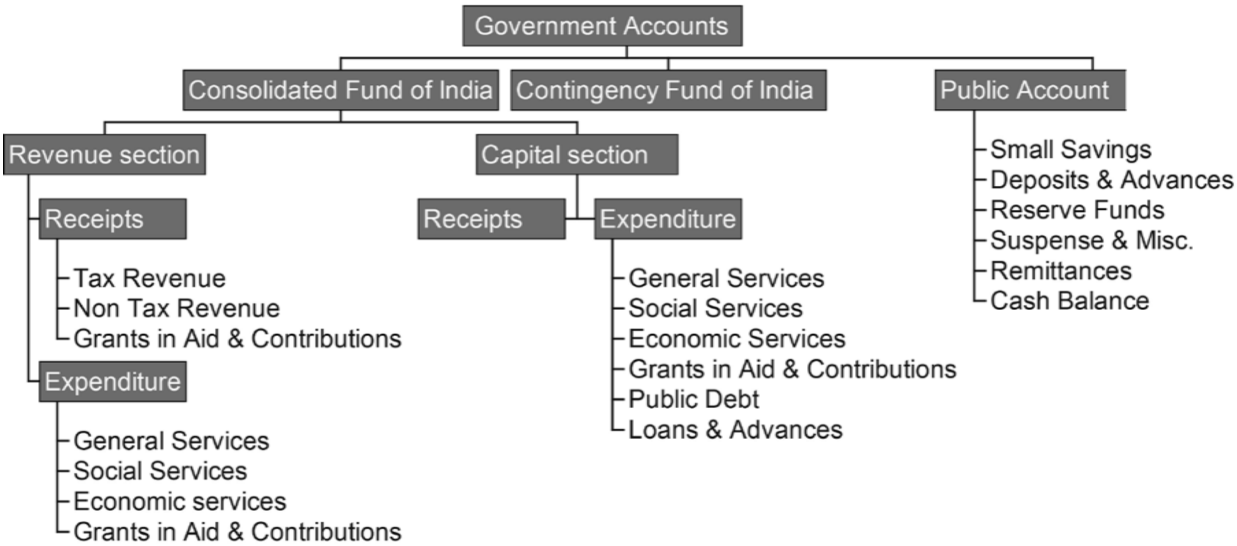
(i) List the Government Accounting Standards which are already notified by Government.

Solution:

Government Accounting Standards that are already 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].

(ii) Describe the Total Structure of Government Accounts.

Solution:



The accounts of Government are kept in three parts: -

Consolidated Fund of India

Contingency Fund of India

Public Account

Consolidated Fund of India

All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund constituted under **Article 266 (1)** of the Constitution of India. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament. This is further segregated into revenue section and capital section.

Contingency Fund of India

The Contingency Fund of India records the transactions connected with Contingency Fund set by the Government of India under **Article 267** of the Constitution of India.

Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest account of Government of India and is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs.

Public Account of India

In the Public Account constituted under Article 266 (2) of the Constitution, the transactions relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to 'Remittance' and 'Suspense' shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.

Question No.27 (a)

List the sources of Government Revenue.

Solution:

Sources of Revenue

- Revenue Receipts
- Tax Revenue
  - Sharable with the States
  - Non sharable
- Non-Tax Revenue
  - Interest
  - Dividends
  - Receipts of Commercial Departments
- External Grants
- Capital Receipts
- Miscellaneous Capital Receipts
  - Disposal of Capital Assets
  - Divestment of SOE Shares
- Repayment of Loans.

Question No.27 (b)

State the objectives of Indian Government Accounting Standard 4 (General Purpose Financial Statements of Government).

Solution:

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).

Question No.28 (a)

List the responsibilities of Government Accounting Standards Advisory Board.

Solution:

Following are the responsibilities of Government Accounting Standards Advisory Board

i. To establish and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
ii. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
iii. To keep the standards current and reflect change in the Governmental environment;
iv. To provide guidance on implementation of standards.
v. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
vi. To improve the common understanding of the nature and purpose of information contained in the financial reports.

Question No.28 (b)

Discuss in brief the Standard – setting procedure of Government Accounting Standards Advisory Board.

Solution:

Standard-setting Procedure for Accounting Standards :

A. The following procedures are adopted by the Government Accounting Standards Advisory Board (GASAB) for formulating Standards:

(i) 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.

(ii) The GASAB Secretariat thereafter prepares the discussion paper on the selected issues for consideration of the GASAB.
(iii) 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.
(iv) On consideration of the Discussion paper and the comments received thereon, the GASAB finalizes the Exposure Draft.
(v) The GASAB may constitute Standing Committee and/or Task based Groups from amongst the Members or their representatives to consider specific areas before finalization.
(vi) 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.
(vii) 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.

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

Question No.29 (a)

Describe Indian Government Accounting Standard 2.

Solution:

Indian Government Accounting Standard 2
Accounting and Classification of Grants-in-aid

Grants-in-aid are payments in the nature of assistance, donations or contributions made by one government to another government, body, institution or individual. Grants-in-aid are given for specified purpose of supporting an institution including construction of assets. The general principle of grants-in-aid is that it can be given to a person or a public body or an institution having a legal status of its own. Such grants-in-aid could be given in cash or in kind used by the recipient agencies towards meeting their operating as well as capital expenditure requirement.

Grants-in-aid are given by the Union Government to State Governments and by the State Governments to the Local Bodies discharging functions of local government under the Constitution. This is based on the system of governance in India, which follows three-tier pattern with the Union Government at the apex, the States in the middle and the Local Bodies (LBs) consisting of the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) at the grass root level. Accounts of these three levels of Government are separate and consequently the assets and liabilities of each level of government are recorded separately. Grants-in-aid released by the Union Government to the State Governments are paid out of the Consolidated Fund of India as per Articles 275 and 282 of the Constitution. The Union

Government releases grants-in-aid to the State/ Union Territory Government under Central Plan Schemes and Centrally Sponsored Schemes. Sometimes, the Union Government disburses funds to the State Governments in the nature of Pass-through Grants that are to be passed on to the Local Bodies. Funds are also released directly by the Union Government to District Rural Development Agencies (DRDAs) and other specialized agencies including Special Purpose Vehicles (SPVs) for carrying out rural development, rural employment, rural housing, other welfare schemes and other capital works schemes like construction of roads, etc.

The 73rd and 74th Constitutional Amendment Acts envisage a key role for the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) in respect of various functions such as education, health, rural housing, drinking water, etc. The State Governments are required to devolve funds, functions and functionaries upon them for discharging these functions. The extent of devolution of financial resources to these bodies is to be determined by the State Finance Commissions. Such funds received by the Local Bodies from the State Governments as grants-in-aid are used for meeting their operating as well as capital expenditure requirements. The ownership of capital assets created by Local Bodies out of grants-in-aid received from the States Government lies with the Local Bodies themselves.

Apart from Grants-in-aid given to the State Governments, the Union Government gives substantial funds as Grants-in-aid to other agencies, bodies and institutions. Similarly, the State Governments also disburse Grants-in-aid to agencies, bodies and institutions such as universities, hospitals, cooperative institutions and others. The grants so released are utilized by these agencies, bodies and institutions for creation of capital assets as well as for meeting day-to-day operating expenses.

This Standard applies to the Union Government and the State Governments in accounting and classification of Grants-in-aid received or given by them.

Objective

The objective of this Standard is to prescribe the principles for accounting and classification of Grants-in-aid in the Financial Statements of Government both as a grantor as well as a grantee. The Standard also aims to prescribe practical solutions to remove any difficulties experienced in adherence to the appropriate principles of accounting and classification of Grants-in-aid by way of appropriate disclosures in the Financial Statements of Government.

Scope

This Standard applies to the Union Government and the State Governments in accounting and classification of Grants-in-aid received or given by them. The Financial Statements should not be described as complying with this Standard unless they comply with all the requirements contained therein. This Standard encompasses cases of Pass-Through Grants.

Question No.29 (b)

Discuss the applicability of IGAS 10 (Public Debt and Other Liabilities of Governments: Disclosure Requirements).

Solution:

The proposed IGAS shall apply to the financial statements prepared by the Union and State Governments and Union Territories with legislature. The IGAS shall also cover "other obligations" as defined in paragraph 4 of this Standard relating to definitions. The IGAS shall not include in its ambit, guarantees and other contingent liabilities and non-binding assurances.

Question No.30 (a)

Discuss the structure of Indian Government Accounting Standards Advisory Board.

Solution:

Government Accounting Standards Advisory Board (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)
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.

Question No.30 (b)

Write a note on –
Methods of Government Accounting,
and Setup of Audit Board in Commercial Audit.

Solution:

Methods of Government Accounting

The mass of the Government accounts being on cash basis is kept on Single Entry. There is, however, a portion of the accounts which is kept on the Double Entry System, the main purpose of which is to bring out by a more scientific method the balance of accounts in regard to which Government acts as banker or remitter, or borrower or lender. Such balances are, of course, worked out in the subsidiary accounts of single entry compilations as well but their accuracy can be guaranteed only by a periodical verification with the balance brought out in the double entry accounts.
Business and merchant accounting methods are different than government accounting system because government accounting system is ruling over the nation and keeps various departments i.e. production, service utility or entertainment industry etc. The operations of department of government sometimes include under taking of a commercial or quasi-commercial character and industrial factory or a store. It is still necessary that the financial results of the undertaking should be expressed in the normal commercial form so that the cost of the services or undertaking may be accurately known.

Setup of Audit Board in Commercial Audit

A unique feature of the audit conducted by the Indian Audit and Accounts Department is the constitution of Audit Boards for conducting comprehensive audit appraisals of the working of Public Sector Enterprises engaged in diverse sectors of the economy.
These Audit Boards associate with them experts in disciplines relevant to the appraisals. They discuss their findings and conclusions with the managements of the enterprises and their

controlling ministries and departments of government to ascertain their view points before finalisation.

The results of such comprehensive appraisals are incorporated by the Comptroller and Auditor General in his reports.