Paper 18 – Corporate Financial Reporting

Caselet 1

Prithvi Ltd. a construction company, was passing through an uncertain economic condition and it sold its 4 cranes having WDV of ` 75 lakhs to Virat Ltd. which has a business of selling and giving cranes on lease to construction companies, for ` 100 lakhs. Prithvi Ltd. again decided to take the 4 cranes back on lease basis. The lease back is an operating lease. Earlier a depreciation of ` 20 lakhs was charged on the WDV of cranes (here depreciation is 10% of the book value of the cranes and the useful life is 10 years). After getting the cranes on lease a lease rental of ` 12 lakhs is paid by Prithvi Ltd. each year. Fair value of the crane is ` 100 lakhs. Evaluate the consequential impact.

Caselet 2

In the above situation if 4 cranes together have the potential to contribute ` 8 lakhs each for the next 8 years sale price is ` 50 & WDV is ` 40. [Do not consider the fair value given in the previous situation]. The discount rate is 10%. How the transaction will affect both the companies?

Caselet 3

Ayushman Ltd. is a manufacturing company. It manufactures automobile parts and sells them out to automobile companies. Ayushman Ltd. decided to set up a new factory in backward area and it planned to purchase a plant for `1,000 lakhs. On 31.03.2013 it purchased the plant and for the purchases made Ayushman Ltd. was entitled to a CENVAT credit of `22 lakhs. The Government also agreed to extend a subsidy of 25% as it is related to development of backward are while accounting for the value of the asset the accountant of the company stated the asset as at `1,000 lakhs in the balance sheet and added the amount of capital subsidy to the Capital Reserve.

Decide the appropriateness of the accounts.

Caselet 4

Jaspal Ltd. is a construction company. It has taken a loan of US $4,00,000 on 1^{st} April, 2012. It has taken the loan to finance a new construction project. Jaspal Ltd. got the loan at an interest rate of 7% per annum, payable annually. On the date of taking the loan the exchange rate was `65 per US$. But on $31^{st}$ March, 2013 it went up to `69 per US$. Jaspal Ltd. could take the loan from an Indian financial institution at local currency at an interest rate of 8% per annum as on the same date i.e., 1^{st} April, 2012 Jaspal Ltd.

Caselet 5

Head office of Mahalakshmi Bank is situated at Chennai and has its branches in all over India. It has different saving schemes for public, different short term money serving schemes to promote savings in low income level, it provides short-term loans to public & small businesses and together with these facilities it finances schools, hospitals and other public welfare institutions at a very low rate of interests. Mahalakshmi Bank interests its deposits in construction projects at cities. It invests in securities and units mutual funds of other companies also. On 31.03.2013 Mahalakshmi Bank has recognized on accrual basis, income from dividends on securities and Units of Mutual Funds. The dividend on securities and units of Mutual Funds were declared after the end of the financial year.

Discuss, what will be the financial impact.

Caselet 6

Indradhanush Ltd. is an Indian company. It has foreign operations and it also has some foreign investments. Indradhanush Ltd. has an equity method investee in Mauritius on 01.10.2012, the company's investment in the investee was 15,000 MR on 01.10.2012 Indradhanush Ltd. entered into a 5 month forward contract to sell 15,000 MR on 01.03.2013 at the forward rate on 01.10.2012 of INR 3.02. Indradhanush Ltd. entered into the forward contract to hedge the foreign currency risk associated with its investment in that equity method investee. The investee paid a dividend equal to its net income for the period, in each period. The exchange rates during and at the end of the contract period was:

Date	Spot Rate	Forward Rate for 01.03.2013
01.10.2012	IMR = INR 3.10	5 month forward rate : IMR = INR 3.02
31.12.2012	IMR = INR 3.16	2 month forward rate : IMR = INR 3.20
01.03.2013	IMR = INR 3.12	

Caselet 7

Avishkar Ltd. is a company having 80,000 outstanding equity shares of `10 each. The following was the Balance Sheet of Avishkar Ltd. as on 31st December, 2013.

Name of the Company: Avishkar Ltd.
Balance Sheet as at: 31st December, 2013

Ref No.		Particulars	Note No.	As at 31st December, 2013	As at 31st December, 2012
	I	**EQUITY AND LIABILITIES**			
	1	Shareholder's Fund			
		(a)Share capital	1	8,00,000	
		(b) Reserves and surplus	2	6,60,000	
		(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			
		(b) Trade payables	3	1,80,000	
		(c) Other current liabilities			
		(d) Short-term provisions			
		Total (1+2+3+4)		**16,40,000**	
	II	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	4	9,40,000	
		(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	5	4,00,000	
		(c) Trade receivables	6	2,00,000	
		(d) Cash and cash equivalents	7	1,00,000	
		(e) Short-term loans and advances			
		(f) Other current assets			
		Total (1+2)		**16,40,000**	

(` in lakh)

Note 1. Share Capital	**As at 31st December, 2013**	**As at 31st December, 2012**
Authorized, Issued, Subscribed and paid-up Share capital:		
80,000 Equity share of ` 10 each	8,00,000	
Total	8,00,000	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	**As at 31st December, 2013**		**As at 31st December, 2012**	
	Nos.	**Amount (`)**	**Nos.**	**Amount (`)**

Opening Balance as on 01.04.12	80,000	8,00,000		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)	----	----		
	80,000	8,00,000		
Less: Buy Back of share	---	---		
Total	80,000	8,00,000		

Note 2. Reserve & Surplus	**As at 31st December, 2013**	**As at 31st December, 2012**
Securities Premium	2,80,000	
General Reserve	1,40,000	
Profit & Loss Account	2,40,000	
Total	6,60,000	

Note 3. Trade Payables	**As at 31st December, 2013**	**As at 31st December, 2012**
Sundry Creditors	1,80,000	
Total	1,80,000	

Note 4. Tangible Assets	**As at 31st December, 2013**	**As at 31st December, 2012**
Tangible Fixed Assets	9,40,000	
Total	9,40,000	

Note 5. Inventories	**As at 31st December, 2013**	**As at 31st December, 2012**
Stock in trade	4,00,000	
Total	4,00,000	

Note 6. Trade Receivables	**As at 31st December, 2013**	**As at 31st December, 2012**
Sundry debtors	2,00,000	
Total	2,00,000	

Note 7. Cash and cash equivalents	**As at 31st December, 2013**	**As at 31st December, 2012**
Balance at Bank	1,00,000	
Total	1,00,000	

Avishkar Ltd. planned to issue one bonus share for every four fully paid-up shares – Securities Premium Account will be utilized.

Caselet 8

Pushkar Ltd. is a cement manufacturing company. It obtained a termed loan during the year ended March, 2013 to an extent of ` 800 lakhs for modernization and development of the cement factory. A building worth ` 250 lakhs were fully complete and Plant and Machinery of ` 360 lakhs were installed by 31st March, 2013. A sum of ` 80 lakhs has been advanced for Assets which is expected to be installed in the following year. ` 110 lakhs has been utilized for working capital requirements. Total interest paid on the loan of ` 800 is ` 64.80 lakhs. Discuss how the interest amount will be treated in the account of Pushkar Ltd.

Caselet 9

Name of the Company: Red Ltd. and Blue Ltd.
Balance Sheet as at: 30th June, 2013

Ref No.		Particulars	Note No.	Red Ltd		Blue Ltd	
				As at 30th June, 2013 `	**As at 30th June, 2012 `**	**As at 30th June, 2013 $**	**As at 30th June, 2012 $**
	I	**EQUITY AND LIABILITIES**					
	1	Shareholder's Fund					
		(a) Share capital	1	30,000		300	
		(b) Reserves and surplus	2	20,000		400	
		(c)Money received against share warrants					
	2	**Share application money pending allotment**					
	3	**Non-current liabilities**					
		(a) Long-term borrowings	3	12,000		200	
		(b)Deferred tax liabilities (Net)					
		(c) Other Long term liabilities					
		(d) Long-term provisions					
	4	**Current Liabilities**					
		(a) Short-term borrowings					
		(b) Trade payables	4	6,000		100	
		(c)Other current liabilities					
		(d) Short-term provisions	5	10,000		200	
		Total (1+2+3+4)		**78,000**		**1,200**	
	II	**ASSETS**					
	1	Non-current assets					
		(a)Fixed assets					
		(i) Tangible assets	6	18,000		200	
		(ii) Intangible assets					
		(iii) Capital work-in-progress					
		(iv) Intangible assets under development					
		(a) Non-current investments	7	16,000			

		(b) Deferred tax assets (Net)					
		(d) Long-term loans and advances					
		(e) Other non-current assets					
	2	**Current assets**					
		(a) Current investments					
		(b) Inventories	8	12,000		300	
		(c) Trade receivables	9	24,000		600	
		(d) Cash and cash equivalents	10	8,000		100	
		(e) Short-term loans and advances					
		(f) Other current assets					
		Total (1+2)		**78,000**		**1,200**	

(` in Lakhs)

	Red Ltd		Blue Ltd	
Note 1. Share Capital	**As at 30th June, 2013 `**	**As at 30th June, 2012 `**	**As at 30th June, 2013 $**	**As at 30th June, 2012 $**
Authorized, Issued, Subscribed and paid-up Share capital:				
Equity share of ` 100 each	30,000		300	
Total	30,000		300	

RECONCILIATION OF SHARE CAPITAL

	Red Ltd				Blue Ltd			
FOR EQUITY SHARE	**As at 30th June, 2013**		**As at 30th June, 2012**		**As at 30th June, 2013**		**As at 30th June, 2012**	
	Nos.	**Amount (`)**	**Nos.**	**Amount (`)**	**Nos.**	**Amount ($)**	**Nos.**	**Amount ($)**
Opening Balance as on 01.04.12		30,000				300		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)								
		30,000				300		
Less: Buy Back of share								
Total		30,000				300		

	Red Ltd		Blue Ltd	
Note 2. Reserve & Surplus	**As at 30th June, 2013 `**	**As at 30th June, 2012 `**	**As at 30th June, 2013 $**	**As at 30th June, 2012 $**

Profit & Loss Account	20,000		200	
Total	20,000		200	

	Red Ltd		Blue Ltd	
Note 3. Long-term Borrowings	**As at 30th June, 2013 `**	**As at 30th June, 2012 `**	**As at 30th June, 2013 $**	**As at 30th June, 2012 $**
Loan Funds	12,000		200	
Total	12,000		200	

	Red Ltd		Blue Ltd	
Note 4. Trade Payables	**As at 30th June, 2013 `**	**As at 30th June, 2012 `**	**As at 30th June, 2013 $**	**As at 30th June, 2012 $**
Sundry Creditors	6,000		100	
Total	6,000		100	

	Red Ltd		Blue Ltd	
Note 5. Short-term Provisions	**As at 30th June, 2013 `**	**As at 30th June, 2012 `**	**As at 30th June, 2013 $**	**As at 30th June, 2012 $**
Provision for Taxation	10,000		200	
Total	10,000		200	

	Red Ltd		Blue Ltd	
Note 6. Tangible Assets	**As at 30th June, 2013 `**	**As at 30th June, 2012 `**	**As at 30th June, 2013 $**	**As at 30th June, 2012 $**
Tangible Assets	18,000		200	
Total	18,000		200	

	Red Ltd		Blue Ltd	
Note 7. Non-current Investment	**As at 30th June, 2013 `**	**As at 30th June, 2012 `**	**As at 30th June, 2013 $**	**As at 30th June, 2012 $**
9,000 Shares of Ltd.	16,000			
Total	16,000			

	Red Ltd		Blue Ltd	
Note 8. Inventories	**As at 30th June, 2013 `**	**As at 30th June, 2012 `**	**As at 30th June, 2013 $**	**As at 30th June, 2012 $**
Stock	12,000		300	
Total	12,000		300	

	Red Ltd		Blue Ltd	
Note 9. Trade Receivables	**As at 30th June, 2013 `**	**As at 30th June, 2012 `**	**As at 30th June, 2013 $**	**As at 30th June, 2012 $**
Sundry Debtors	24,000		600	
Total	24,000		600	

	Red Ltd		Blue Ltd	
Note 10. Cash and Cash Equivalents	**As at 30th June, 2013 `**	**As at 30th June, 2012 `**	**As at 30th June, 2013 $**	**As at 30th June, 2012 $**
Bank Balances	8,000		100	
Total	8,000		100	

Red Ltd. acquired 80% of shares in Blue Ltd. on 01.07.2009, when the P & L A/c showed a balance of $200.

1. Exchange rates per $ prevalent on the relevant dates were : 01.07.2009: ` 30; 01.07.20012: ` 36, 30.06.2013: ` 42.
2. Red Ltd. decided to amortise goodwill, if any, over a period of eight years.
3. Prepare the Consolidate Balance Sheet of Red Ltd. and its subsidiary at 30.06.2013.

Caselet 10

Moon Light Ltd. is an oil refinery company. It purchased an oil well for $ 130 million. Moonlight Ltd. has estimated that the well contains about 300 million barrels of oil. It extracts oil from the well and then refines the oil, stores the refined old in a oil depot (tank farm) near the oil refinery. Then from the depot oil is distributed through pipelines or transported to the end users through road tankers. The company expected to extract and sell 12,000 barrels of oil during the first year, determine the depletion expense that should be recognized as per IFRS 6.