Paper 18 – Corporate Financial Reporting

Case Study 1

Following are the information in respect of Adbhut Ltd. It has decided to value the human resources also and decided to determine the total value of human capital by applying the Lev and Schwartz model:

Distribution of employees of Adbhut Ltd.

Age	Unskilled		Semi-Skilled		Skilled	
	No.	Average annual earnings	No.	Average annual earnings	No.	Average annual earnings
30-39	60	5,000	50	5,500	30	7,000
40-49	30	6,000	15	6,000	15	8,000
50-54	10	7,000	10	7,000	5	9,000

Case Study 2

The following summarized Balance Sheets of Alpha Ltd. and Beta Ltd. as at 31st March, 2012 are given to you:

	Alpha Ltd. `	Beta Ltd. `
Liabilities:		
Equity Share capital of ` 10 each	30,00,000	10,00,000
General Reserve	4,00,000	2,00,000
Profit and Loss Account	3,20,000	20,000
10% Debentures	—	6,00,000
Current liabilities	4,00,000	1,80,000
	41,20,000	20,00,000
Assets:		
Fixed Assets	20,00,000	1,00,000
Sundry Debtors	5,80,000	3,00,000
Stock	9,60,000	4,20,000
20,000 shares in Beta Ltd.	3,00,000	—
60,000 shares in Alpha Ltd.	—	10,00,000
Cash at bank	2,80,000	1,80,000
	41,20,000	20,00,000

Beta Ltd. traded raw material which were required by Alpha Ltd. for manufacture of its products. Stock of Alpha Ltd. includes ` 2,00,000 for purchases made from Beta Ltd. on which the company (Beta Ltd.) made a profit of 12% on selling price. Alpha Ltd. owed ` 50,000 to Beta Ltd. in this respect. It was decided that Alpha Ltd. should absorb Beta Ltd. on the basis of the intrinsic value of the shares of the two companies. Before absorption, Alpha Ltd. declared a dividend of 10%. Alpha Ltd. also decided to revalue the shares in Beta Ltd. before recording entries relating to the absorption.

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

Case Study 3

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.

Case Study 4

K Ltd. furnishes you with the following Balance Sheet as at 31st March, 2012:

		(` 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 2012. 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.**

Case Study 5

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.