FINAL EXAMINATION

GROUP IV

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS
DECEMBER 2014

Paper-18: CORPORATE FINANCIAL REPORTING

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.

Answer all the questions.

All workings must form part of your answer.

Assumptions, if any, must be clearly indicated.

SECTION A

1. (a) S. Ltd. is having a plant (asset) carrying amount of which is ₹100 lakhs as on 31st march, 2011. Its balance useful life is 3 years and residual value at the end of 3 years is ₹10 lakhs. Estimated future cash flow from using the plant in next 3 years are:

For the year ended on	Estimated cash flow (₹ in lakhs)
31.03.2012	40
31.03.2013	20
31.03.2014	20

Calculate "Value in use" for plant, if discount rate is 10%. Also calculate the recoverable amount, if net selling price of plant on 31st March, 2014 is ₹50,00,000, P.V factor @ 10% for years 31.03.2012, 31.03.2013 and 31.03.2014 are 0.909, 0.826 and 0.751 respectively. 5

(b) X. Ltd. has leased equipment costing ₹4,98,70,200 over its useful life for a 3 year lease period on the following terms:

(i) The estimated unguaranteed residual value would be ₹2,00,000.

(ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.

(iii) Implicit interest rate is 10%.

Ascertain the annual lease payment and the unearned finance income.

P. V. factor @ 10% for years 1 – 3 are 0.909, 0.826 and 0.751 respectively. 5

Answer:

1. (a) Present value of future cash flow

Year ended	Future cash flow (₹ in Lakhs)	Discount @ 10% rate	Discounted cash flow (₹ In lakhs)
31.03.2012	40	0.909	36.36
31.03.2013	20	0.826	16.52
31.03.2014	20	0.751	15.02
			67.90
Present value of residual price on 31.03.2014 = 10 × 0.751 =			7.51
Present value of estimated cash flow by use of an asset and Residual value, which is called "Value in use".			75.41

If net selling price of plant on 31.03.2014 is ₹ 50 lakhs, the recoverable amount will be higher of ₹ 75.41 lakhs (Value in use) and ₹ 50 lacs (net selling price), hence recoverable amount is ₹ 75.41 lakhs.

1. (b) Calculation of Annual Lease Payment
(Considered to be made at the end of each accounting year)

		(₹ in Lakhs)
(i)	Cost of the equipment	4,98,70,200
	Unguaranteed Residual Value	2,00,000
	PV of unguaranteed residual value for 3 years @ 10% [₹2,00,000 × 0.751]	1,50,200
	Fair Value to be recovered from Lease Payment [₹4,98,70,200 – ₹1,50,200]	4,97,20,000
	PV factor for 3 years @ 10%	2.486
	Annual Lease Payment [₹4,97,20,000/ PV factor for 3 years @ 10% i.e. 2.486]	2,00,00,000
(ii)	Unearned Financial Income	
	Total lease payments [₹2,00,00,000 × 3]	6,00,00,000
	Add: Residual Value	2,00,000
	Gross Investments	6,02,00,000
	Less: Present value of Investments [₹4,97,20,000 + ₹1,50,200]	4,98,70,200
	Unearned Financial Income	1,03,29,800

SECTION B

Answer to Question No. 2(a) which is compulsory (carrying 5 marks)

and answer any two (Carrying 10 marks each) from the remaining sub-questions.

2. (a) What are the objectives of buy-back of shares by a Limited Company? **5**

(b) The following are the balance Sheets of BEE Ltd. and DEE Ltd. as on 31.03.2014

	(₹ in lakhs)	
	BEE Ltd.	**DEE Ltd.**
Equity and Liabilities:		
Shareholders' Funds:		
Share Capital:		
Equity shares of ₹100 each fully paid	**90,00,000**	**30,00,000**
Reserves and Surplus:		
General Reserve	**8,00,000**	**6,00,000**
Profit and Loss A/c.	**14,68,000**	**60,000**

Non-Current Liabilities:		
14% debentures	-	18,00,000
Current Liabilities:		
Trade payables	12,00,000	5,40,000
Total	1,24,68,000	60,00,000
Assets:		
Non-Current Assets:		
Tangible Assets	60,00,000	3,00,000
Non-Current Investments (at cost):		
6,000 shares in DEE Ltd.	9,00,000	-
18,000 shares in BEE Ltd.	-	30,00,000
Current Assets:		
Inventories	28,80,000	12,60,000
Trade Receivables	17,40,000	9,00,000
Cash and Cash equivalents	9,48,000	5,40,000
Total	1,24,68,000	60,00,000

Inventories of BEE Ltd. include goods worth ₹ 6,00,000 purchased from DEE Ltd which made a profit of 20% on selling price. As on 31.03.2014, BEE Ltd. absorbs DEE Ltd. on the basis of the intrinsic value of the shares of both companies as on 31.03.2014. Before absorption, BEE Ltd. has declared a dividend of 12%. Dividend tax is 10%.

You are required to calculate:

(i) No. of shares to be issued to DEE Ltd.
(ii) Purchase consideration payable by BEE Ltd.
(iii) Capital Reserve/Goodwill which will appear in the Balance Sheet of BEE Ltd.

5+2+3=10

(c) X Ltd. and Y Ltd. were amalgamated on and from 1st April, 2014. A new company Z Ltd. was formed to take over the business of the existing companies. The summarised Balance Sheets of X Ltd. and Y Ltd. as on 31st March, 2014 are given below:

(₹ in Lakhs)

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Share Capital:			Fixed Assets:		
Equity shares of ₹ 100 each	800	750	Land and Building	550	400
12% Preference shares of ₹100 each	300	200	Plant and Machinery	350	250
Reserve and surplus:			Investments	150	50
Revaluation Reserve	200	150			
General Reserve	170	150			
Profit and Loss Account	50	30	Current Assets, Loans and Advances:		
Secured Loans:					
10% Debentures (₹100 each)	60	30	Stock	350	250
Current Liabilities and Provisions:			Sundry Debtors	250	300
Sundry Creditors	270	120	Bills Receivables	50	50
Bills payables	150	70	Cash and Bank	300	200
Total	2,000	1,500	Total	2,000	1,500

Additional Information:

(1) 10% Debenture holders of X Ltd., and Y Ltd., are discharged by Z Ltd., issuing such number of its 15% Debentures of ₹ 100 each, so as to maintain the same amount of interest.

(2) Preference shareholders of the two companies are issued equivalent number 15% preference shares of Z Ltd., at a price of ₹150 per share (face value of ₹100).

(3) Z Ltd. will issue 5 equity shares for each equity share of X Ltd. and 4 equity shares for each equity share of Y Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹10 per share.

Prepare the Balance Sheet of Z Ltd. as on 1st April, 2014 in the revised Schedule VI format, after amalgamation has been carried out on the basis of amalgamation in the nature of purchase. 10

(d) KAY Ltd. and MINAT Ltd. had been carrying on business independently. They agree to amalgamate and form a new company INDUGA Ltd. with authorised share capital of ₹ 8,00,00,000 divided into 80,00,000 equity shares of ₹ 10 each.
On 31.03.2014, the respective Balance Sheets KAY Ltd. and MINAT Ltd. stood as under:

(₹ in Lakhs)

Ref. No.	Particulars	Note No.	KAY Ltd.	MINAT Ltd.
I.	Equity and Liabilities:			
1.	Share holders' Funds			
	(a) Share Capital:			
	Equity shares of ₹ 10 each		300	120
	(b) Reserves and Surplus:			
	General Reserve		120	12
	Profit and Loss Account		60	18
2.	Non-Current Liabilities:			
	Long-term borrowings		-	-
3.	Current Liabilities:			
	Trade payables (Creditors)		60	30
	Other current Liabilities		-	-
	Total		540	180
II.	Assets:			
1.	Non-Current Assets:			
	(a) Fixed Assets			
	(i) Tangible Asset		240	60
	(Other Fixed Assets less depreciation)			
	(ii) Intangible Assets		—	—
	(b) Non-Current Investments			
	6% Tax-free G.R Notes.		60	—
2.	Current Assets:			
	(a) Inventories (Stock)		120	78
	(b) Trade Receivables (Debtors)		102	36
	(c) Cash and Cash equivalents		18	6
	(d) Other Current Assets		—	—
	Total		540	180

Other relevant information:

(1) Their Net Profit (after taxation) were as follows:

(₹ in lakhs)

Year	KAY Ltd.	MINAT Ltd.
2011-2012	78.00	27.00
2012-2013	75.00	24.00
2013-2014	90.00	33.60

(2) Normal trading profit may be considered as 15% on closing capital invested.

(3) Goodwill may be taken as 4 years' purchase of average super profits.

(4) The stock of KAY Ltd. and MINAT Ltd. are to be taken at ₹1,22,40,000 and ₹85,20,000 respectively for the purpose of amalgamation.

The Corporate tax rate is 40% (for KAY Ltd. & MINAT Ltd.).

Required:

(i) Suggest a scheme of capitalization of INDUGA Ltd. and Ratio of exchange of shares.
(ii) Draft the opening Balance Sheet of INDUGA Ltd.
(Notes to Balance Sheet are not required.) **6+4=10**

Answer:

2. (a) Goods Corporate Governance calls for maximizing the shareholders' value. When a company has surplus funds for which it does not have good avenues for deployment assuring an average return on capital employed and earnings per share, the company's financial structure requires balancing.

The reasons for buy-back may be one or more of the followings: -

(i) To improve earnings per Share,
(ii) To improve return on capital, return on net worth and to enhance the long-term shareholder's value.
(iii) To provide an additional exit route to shareholders when shares are undervalued or are thinly traded,
(iv) To enhance consolidation of stake in the company,
(v) To prevent unwelcome takeover bid,
(vi) To return cash surplus to shareholders,
(vii) To achieve optimum capital structure i.e. Debt-equity ratio,

2. (b) Calculation of intrinsic value of BEE Ltd. and DEE Ltd.

(Amount in ₹)

Particulars	BEE Ltd.	DEE Ltd.
Fixed Assets	60,00,000	3,00,000
Trade Receivables	17,40,000	9,00,000
Inventories	28,80,000	12,60,000
Cash and Cash equivalents	9,48,000	5,40,000
Dividend Receivable	-	2,16,000
Total Assets	1,15,68,000	32,16,000
Loss: Liabilities		18,00,000
14% Debentures		
Dividend Payable (including Dividend tax)	11,88,000	
Trade payable	12,00,000	5,40,000
Total Liabilities	23,88,000	23,40,000
Intrinsic value excluding inter-company investment	91,80,000	8,76,000

Intrinsic value of

Bee Ltd. = 91,80,000 +1/5 Dee Ltd.

Dee Ltd. = 8,76,000 +1/5 Bee Ltd.

Substituting the value of Dee Ltd.:

Bee Ltd. = 91,80,000 +1/5 (8,76,000+1/5 Bee Ltd.)

= 91,80,000 + 1,75,200+ 1/25 Bee Ltd.

Bee Ltd. = (93,55,200 × 25/24) = ₹ 97,45,000

Number of shares = 90,000

Intrinsic value per share : ₹ 108.28 (97,45,000 / 90,000)

Dee Ltd. = 8,76,000 +1/5 (97,45,000) = 8,76,000 + 19,49,000 = 28,25,000

Purchase consideration and number of shares to be issued:

Total intrinsic value of Dee Ltd.		28,25,000
Less: 1/5 held by Bee Ltd.		5,65,000
Net value for which shares to be issued		22,60,000
Value per share of Bee Ltd.		108.28
Number of shares to be issued: 2260000 /108.28	=	20,872
Less: Already held by Dee Ltd.		18,000
No of shares to be issued:		2,872

(ii) Purchase consideration: (2,872 × 108.28) = ₹3,10,980

(iii) Calculation of capital reserve/goodwill:

	₹
Assets taken over	32,16,000
Less: Liabilities	23,40,000
Net Assets Taken over	8,76,000
Less: Purchase Consideration	3,10,980
Capital Reserve	5,65,020

2. (C) Balance Sheet (Extracts) of Z Ltd. as on 1st April, 2014.

	Particulars	Note No	(₹ in lakhs)
I.	Equity and Liabilities.		
	(1) Shareholder's Funds		
	(a) Share capital	1	1,200
	(b) Reserve and Surplus		1,650
	(2) Non-Current Liabilities		
	Long-term Borrowings	2	60
	(3) Current Liabilities		
	Trade payables	3	610
	Total		3,520
II.	Assets.		
	(1) Non-current assets		
	(a) Fixed assets		
	Tangible assets	4	1,550
	Intangible assets	5	20
	(b) Non-current Investments (₹ 150 + ₹50)		200
	(2) Current assets		
	(a) Inventories (₹ 350 + ₹250)		600
	(b) Trade receivables	6	650
	(c) Cash and cash equivalents	7	500
	Total		3,520

Notes to Accounts

	Particulars	(₹ in lakhs)	(₹ in lakhs)
1.	Share capital		
	Equity share capital		
	70,00,000,Equity shares of ₹10 each (W.N. 4)	700	
	5,00,000, 15% preference Shares of ₹ 100 each (all the above shares are allotted for other than cash - W.N. 4)	500	1,200
2.	Long Term Borrowings Secured:		
	15% Debentures (₹ 40 + ₹ 20)		60
3	Trade payables		
	Sundry creditors ₹ (270 + 120)	390	

	Bills payables ₹ (150 + 70)	220	610
4.	Tangible assets Land and Building ₹ (550+400) Plant and Machinery ₹ (350 + 250)	 950 600	 1,550
5.	Intangible Asset Goodwill (W.N. 3)		 20
6.	Trade Receivables Sundry Debtors ₹(250 + 300) Bills Receivables ₹(50 + 50)	 550 100	 650
7.	Cash and cash equivalents Cash and Bank ₹(300 + 200)		 500

Reconciliation of Shares

FOR EQUITY SHARE :-	**As at 1st April, 2014**		**As at 1st April, 2013**	
	Nos (in lakhs)	**Amount (₹ lakhs)**	**Nos (in lakhs)**	**Amount (₹ lakhs)**
Opening Balance as on 01.04.13	NIL	NIL	NIL	NIL
Add: Fresh Issue (Incld, Bonus shares, Right shares, split shares, shares issued other than cash)	70	700	NIL	NIL
	70	700	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	70	700	NIL	NIL

FOR PREFERENCE SHARE :-	**As at 1st April, 2014**		**As at 1st April, 2013**	
	Nos (in lakhs)	**Amount (₹ lakhs)**	**Nos (in lakhs)**	**Amount (₹ lakhs)**
Opening Balance as on 01.04.13	NIL	NIL	NIL	NIL
Add: Fresh Issue (Incld, Bonus shares, Right shares, split shares, shares issued other than cash)	5	500	NIL	NIL
	5	500	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	5	500	NIL	NIL

Working Notes:

1. Computation of Purchase Consideration

	(₹ in lakhs)	
	X Ltd.	Y Ltd
(a) Equity Shareholders (W.N. 4) [(8,00,00,000/100)*5] i.e. ₹ 40,00,000 * ₹ 30 each [(7,50,00,000/100)*4] i.e. ₹ 30,00,000 * ₹ 30 each	 1,200	 900

(b) Preference Shareholders (W,N. 4) (3,00,00,000/100) i.e. ₹ 3,00,000 shares * ₹150 each (2,00,00,000/100) i.e., ₹ 2,00,000 shares * ₹150 each	 450 	 300
Amount of Purchase consideration	1 ,650	1,200

2. Net Assets taken Over

	₹ in lakhs			
	X Ltd		Y Ltd	
Assets taken over:				
Land and Building	550		400	
Plant and Machinery	350		250	
Investments	150		50	
Stock	350		250	
Sundry Debtors	250		300	
Bills Receivable	50		50	
Cash and Bank	300		200	
Total		2,000		1,500
Less: Liabilities taken over				
Debentures (W.N 5)	40		20	
Sundry Creditors	270		120	
Bills payables	150	460	70	210
Net assets taken over		1,540		1,290

3. Goodwill/capital reserve

	₹ in lakhs	
	X Ltd.	Y Ltd
Purchase Consideration	1,650	1,200
Less, net assets taken over	1,540	1,290
Goodwill	110	
Capital reserve		90
Net goodwill	(110-90) = 20.	

4. Share Capital/Securities Premium.

(₹ in lakhs)

Particulars	Share Capital		Securities Premium
	X Ltd.	Y Ltd.	
X Ltd.			
Equity Shares (8,00,000 shares * 5 * ₹10)	400		
Securities Premium (8,00,000 shares * 5 * ₹20)			800
Preference Shares (3,00,000 shares *₹100)		300	
Securities Premium (3,00,000 shares * ₹50)			150
Y Ltd.			
Equity Shares (7,50,000 shares * 4 *₹10)	300		600
Securities Premium ((7,50,000 shares * 4 * ₹ 20)			
Preference Shares (2,00.000 shares * ₹100) Securities Premium (2,00,000 shares * ₹50)		200	100
Total	700	500	1,650

5. Debentures, (₹ in Lakhs

	X Ltd.	Y Ltd.
Total Debentures	60	30
Interest @ 10% (A)	6	3
Debentures to be issued to fetch 15% interest (A/15%)	40	20

2. **(d) Computation of Goodwill :**

Normal trading Profit (Amount in ₹ lakhs)

	Kay Ltd.	Minat Ltd.
2011-2012	78.00	27.00
2012-2013	75.00	24.00
2013-2014	90.00	33.60
Profit after tax (tax rate= 40%)	243.00	84.60
Profit before tax	405.00	141.00
Add: Under valuation of closing stock	2.40	7.20
	407.40	148.20
Average of 3 year's profit before tax	135.80	49.40
Less: Income from non-trade investments	3.60	-
Average profit before tax	132.20	49.40
Less: Tax (40%)	52.88	19.76
Average profit after tax	79.32	29.64
Closing Capital Employed:		
Total Assets excluding non-trade investment as per Balance Sheet	480.00	180.00
Add: Undervaluation of closing stock	2.40	7.20
	482.40	187.20
Less: Creditors	60.00	30.00
(A) **Closing capital Employed**	422.40	157.20
Normal profit (15% on closing Capital employed) (NP)	63.36	23.58
Average profit after tax (APAT)	79.32	29.64
Super profit (APAT-NP)	15.96	6.06
(B) Value of Goodwill at 4 years' purchase of super profits	63.84	24.24

(i) Schemes of Capitalisation of Induga Ltd. and ratio of Exchange of shares:

(Amount in ₹ lakhs)

	Kay Ltd.	Minat Ltd.
Net asset as calculated above for closing capital employed (A)	422.40	157.20
Goodwill (W.N-B)	63.84	24.40
6% Tax-free G.P. Notes (non-trade)	60.00	-
Total net Assets	546.24	181.44
Number of Equity shares of ₹ 10 each	30 lakh	12 lakh
Intrinsic value of a share	₹18.208	₹15.12
No of shares to be issued by Induga Ltd. to		
Kay Ltd. (30 × 18.208/10)	54,62,400	
Minat Ltd. (12 × 15.12/10)	18,14,400	
Total Shares	72,76,800	

Ratio of exchange:
Kay Ltd. 30,000:54,624 = 1: 1.82
Minat Ltd. 12,000:18,144 = 1:1.51

(ii) Name of the company**: INDUGA LTD.**
Balance Sheet (Opening) (Extracts) as on 31.03.2014
(After Amalgamation)

Amount in (₹ lakhs)

Ref. No.	Particulars	Note No	Amount

I.	**EQUITY AND LIABILITIES.**		
1.	Shareholder's Funds		
	(a) Share capital	1	727.68
	(b) Reserve and Surplus		-
2.	**Non-Current Liabilities**		
3.	Current Liabilities :		
	Trade payables		90.00
	Total		817.68
II.	**Assets.**		
1.	Non-current assets		
	(a) Fixed assets		
	(i) Tangible assets:		
	Other fixed assets		300.00
	(ii) Intangible assets		
	Goodwill		88.08
	(b) Non-current Investments		
	6% tax-free G. P. notes		60.00
2.	Current assets:		
	(a) Inventories		207.60
	(b) Trade Receivables (Debtors)		138.00
	(c) Cash and cash equivalents		24.00
	- Other current assets		-
	Total		817.68

Note No. 1: (Amount in ₹ Lakh)

Share Capital	
(a) Authorised 80,00,000 Equity shares of ₹10 each	800.00
(b) Issued, subscribed and fully paid up 72,76,800 Equity shares of ₹10 each (issued for consideration other than cash, pursuant to scheme of amalgamation)	727.68 -

RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31.03.2014**		**As at 31.03.2013**	
	Nos (in lakhs)	**Amount (₹ lakhs)**	**Nos (in lakhs)**	**Amount (₹ lakhs)**
Opening Balance as on 31.03.2013	NIL	NIL	NIL	NIL
Add: Fresh Issue (Incld, Bonus shares, Right shares, split shares, shares issued other than cash)	72.768	727.68	NIL	NIL
	72.768	727.68	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	72.768	727.68	NIL	NIL

SECTION C

Answer to Question No. 3(a) which is compulsory (carrying 10 marks) and also answer, any one (carrying 15 marks) from the remaining sub-questions.

3. (a) ANTEK Ltd., SINTEX Ltd. and ROLEX Ltd. are members of a group. ANTEK Ltd. bought 70% of the shares of SINTEX Ltd. on October 1, 2012 and 30% of the shares of ROLEX Ltd. on January 1, 2014. SINTEX Ltd. bought 60% of the shares of ROLEX Ltd. on October 1, 2013.

The following information is available:

Extracts of Profit and Loss Account

Company Name	Balance April 1, 2013	Profit/(Loss) for 2013 -2014	Balance March 31, 2014	Company formed on
	₹	₹	₹	
ANTEK Ltd.	2,75,000	1,25,000	4,00,000	April 1, 2011
SINTEX Ltd.	1,00,000 (Dr.)	2,37,500	1,37,500	April 1, 2012
ROLEX Ltd.	-	1,20,000 (Loss)	1,20,000 (Dr.)	April 1, 2013

Assume, Profit/Loss for the year accrue evenly throughout the year.

Required:

State how the Profits/(Losses) will be reflected in the Consolidated Balance Sheet of the group as on 31st March, 2014. **10**

(b) The summarised Balance Sheets of Summer Ltd. and its Subsidiary Winter Ltd. is on 31st March, 2014 are as follows:

(₹ in '000)

Liabilities	Summer Ltd.	Winter Ltd.	Assets	Summer Ltd.	Winter Ltd.
Equity shares of ₹ 10 each	9,600	4,000	Goodwill	900	600
10% Preference shares of ₹10 each	1,400	760	Plant & Machinery	2,400	1,200
General Reserve	1,100	840	Motor Vehicles	1,900	1,500
Profit & Loss Account	2,000	1,200	Furniture & Fittings	1,300	600
Bank Overdraft	300	200	Investments	5,200	900
Sundry Creditors	800	900	Stock	900	1,440
Bills Payables	—	320	Cash at Bank	400	420
			Debtors	1,910	1,560
			Bills receivables	290	—
Total	15,200	8,220	Total	15,200	8,220

Details of acquisition of shares by Summer Ltd. are as under:

Nature of shares	No. of shares acquired	Date of acquisition	Cost of acquisition (₹)
Preference shares	28,500	01.04.2011	6,20,000
Equity shares	1,60,000	01.04.2012	19,00,000
Equity shares	1,40,000	01.04.2013	16,00,000

Other information:

(i) On 01.04.2013, profit and loss account and general reserve of Winter Ltd. has credit balances of ₹ 6,00,000 and ₹ 4,00,000 respectively.

(ii) Dividend @ 10% was paid by Winter Ltd. for the year 2012-13 out of its profit and loss account balance as on 01.04.2013. Summer Ltd. credited its share of

dividend to its profit and loss account.

(iii) Winter Ltd. allotted bonus shares out of pre-acquisition general reserve at the rate of 1 share for every 10 shares held. Accounting thereof has not yet been done.

(iv) Bills receivables of Summer Ltd. were drawn upon Winter Ltd.

(v) During the year 2013-14, Summer Ltd. purchased goods from Winter Ltd. worth ₹2,00,000 at a sale price of ₹ 2,40,000. 40% of these goods remained unsold at close of the year.

(vi) On 1.04.2013, motor vehicles of Winter Ltd. were overvalued by ₹2,00,000, applicable depreciation rate is 20%.

(vii) Dividends recommended for the year 2013-14 by the holding and the subsidiary companies are 15% and 10% respectively.

Prepare Consolidated Balance Sheet as per Revised Schedule VI as on 31st March, 2014. **15**

(c) A Ltd. acquired 80,000 shares of ₹100 each in B Ltd. on 30.09.2013, The summarised Balance Sheet of the 2 companies as on 31.03. 2014 were as follows:

Liabilities	A. Ltd (₹)	B Ltd. (₹)	Assets	A. Ltd (₹)	B Ltd. (₹)
Share Capital: Shares of ₹100 each	3,00,00,000	1,00,00,000	Fixed Assets: Tangible	1,50,00,000	1,44,70,000
Capital reserve	NIL	55,00,000	Investment in B Ltd.	1,70,00,000	NIL
General Reserve	30,00,000	5,00,000	Stock in hand	40,00,000	20,00,000
Profit and Loss A/c	38,20,000	18,00,000	Loan to A Ltd.	NIL	2,00,000
Loan from B Ltd.	2,10,000	NIL	Debtors	25,00,000	18,00,000
Creditors	17,90,000	7,00,000	Bank	2,00,000	2,00,000
Bills Payable (including ₹50,000 to A. Ltd.)	NIL	1,70,000	Bills Receivable (including ₹50,000 from B. Ltd.)	1,20,000	NIL
Total	3,88,20,000	1,86,70,000	Total	3,88,20,000	1,86,70,000

Contingent Liability (A Ltd.): Bills Discounted = ₹60,000

Additional Information:

(i) A Ltd. made a bonus issue on 31.03.2014 of one share for every two shares held in B Ltd., thereby reducing the Capital Reserve accordingly. The accounting effect has not been given in the above Balance Sheet.

(ii) Interest Receivable for the year (₹ 10,000) in respect of the loan due by A Ltd. to B Ltd. has not been credited in the accounts of B Ltd.

(iii) The credit balance in Profit and Loss A/c of B Ltd. on 01.04.2013 was ₹ 2,10,000.

(iv) The Directors decided on the date of the acquisition that the Fixed Assets of B Ltd. were over-valued and should be written down by ₹5,00,000. Consequential adjustments on depreciation are to be ignored.

(v) The balance in General Reserve of B Ltd. as on 1.4.2013 was ₹5,00,000.

Prepare the Consolidated Balance Sheet as at 31.03.2014 showing relevant workings. **15**

Answer:

3. (a) Basic Information

Company Details	
Holding Company	ANTEX Ltd.
Subsidiary Company	SINTEX Ltd.
Sub-Subsidiary Company	ROLEX Ltd.

Acquisition Dates	
ANTEX Ltd. in SINTEX Ltd.	01.10.2012
ANTEX Ltd. in ROLEX Ltd.	01.01.2014
SINTEX Ltd. in ROLEX Ltd.	01.10.2013

Holding Details		
	SINTEX Ltd.	ROLEX Ltd.
Holding Company	70 % (ANTEX Ltd.)	30% (ANTEX Ltd.)
		60% (SINTEX Ltd.)
Minority Interest	30%	10%

ANALYSIS OF PROFIT/(LOSS) FOR CONSOLIDATION: (Amount in ₹)

	Capital Profit	Revenue Profit
ROLEX LTD.		
Loss for the year (assumed accruing evenly)	(60,000)	(60,000)
Less: Due to Minority interest (10%)	(6,000)	(6,000)
	(54,000)	(54,000)
Due to Sintex Ltd. (60%)	(36,000)	(36,000)
Share of Antek Ltd. (30%)	(18,000)	(18,000)
Revenue loss pertaining to further 3 months to be treated as capital since shares are acquired on Jan1, 2014	(9,000)	9,000
(Loss)/Profit	(27,000)	(9,000)
Sintex Ltd.		
Loss from Rolex Ltd.	(36,000)	(36,000)
Loss as on April 1, 2013	(50,000)	(50,000)
Profit during 2013-14	-	2,37,500
	(86,000)	1,51,500
Due to outsiders (30%)	(25,800)	45,450
Due to Antex Ltd.	(60,200)	1,06,050
Antek Ltd.		
Loss from Rolex Ltd.	(27,000)	(9,000)
Profit/(Loss) from Sintex Ltd.	(60,200)	1,06,050
Own profit	-	4,00,000
	(87,200)	4,97,500

(Amount in ₹)

Share of Minority Shareholders:	
Capital loss in Rolex Ltd.	(6,000)
Revenue loss in Rolex Ltd.	(6,000)
Capital loss in Sintex Ltd.	(25,800)
Total Profit	(37,800)
Revenue Profit in Sintex Ltd.	45,450
Total share of profits	7,560

3. (b) Basic Information at the beginning:

Company Details		
Holding Company	Summer Ltd.	3/4
Subsidiary Company	Winter Ltd.	1/4

Cost of control can be shown as follows:

	₹	₹
Cost of investment in Winter Ltd. [6,20,000 + 19,00,000 +16,00,000]		41,20,000
Less:		
Paid up value of equity shares including bonus shares=[1,60,000 +1,40,000 +(10% of 3,00,000) *10]	33,00,000	
Paid up value of preference share	2,85,000	
Pre-acquisition dividend	1,40,000	37,25,000
Cost of Control/Goodwill		**3,95,000**

Minority Interest

	₹
Equity share capital₹(10,00,000 +1,00,000)	11,00,000
Preference Share Capital ₹(7,60,000 – 2,85,000)	4,75,000
Share of revenue reserve(w.n.1)	1,10,000
Share of revenue profit (w.n.1)	2,41,000
	19,26,000

Proposed Preference Dividend to Minority =₹47,500

Consolidated Balance Sheets(extracts) of Summer Ltd. and its subsidiary Winter Ltd.
As on 31st March 2014

Particulars	Note No.	Amount (₹)
I. **Equity and Liabilities**		
(1) Shareholder' Funds		
(a) Share Capital	1	110,00,000
(b) Reserves and Surplus	2	24,45,500
(2) Minority Interest (w.n. 3a)		19,26,000
(3) Current Liabilities		
(a) Short Term Borrowings	3	5,00,000
(b) Trade Payables	4	17,30,000
(c) Other current liabilities	5	15,80,000
(d) Short term provision (w.n. 3b)		47,500
Total		1,92,29,000
II. **Assets**		
(1) Non-Current assets		
(a) Fixed Assets		
i. Tangible assets	6	87,40,000
ii. Intangible assets	7	18,95,000
(b) Non-current Investments	8	19,80,000
(2) Current Assets		
(a) Inventories	9	23,24,000
(b) Trade receivables	10	34,70,000
(c) Cash and Cash equivalent	11	8,20,000
Total		1,92,29,000

Notes to Accounts (Amount in ₹)

1.	Share Capital			
	Authorised, Issued and paid up capital			
	9,60,000,equity shares of ₹10 each		96,00,000	
	1,40,000,10% preference shares of ₹10 each		14,00,000	110,00,000
2.	Reserves and Surplus			
	General Reserve (W. N. 5)		14,30,000	
	Profit and Loss account (W. N. 4)		10,15,500	24,45,500
3.	Short term borrowings			
	Bank overdraft			
	Summer Ltd.		3,00,000	
	Winter Ltd.		2,00,000	5,00,000
4.	Trade payables			
	Sundry creditors			
	Summer Ltd.	8,00,000		
	Winter Ltd.	9,00,000	17,00,000	
	Bills payables			
	Winter Ltd.	3,20,000		
	Less: Mutual debt	2,90,000	30,000	17,30,000
5.	Other current liabilities			
	Proposed Dividend			
	Equity Shares		14,40,000	
	Preference Shares		1,40,000	15,80,000
6.	Tangible assets			
	Plant and machinery			
	Summer Ltd.	24,00,000		
	Winter Ltd.	12,00,000	36,00,000	
	Motor Vehicles			
	Summer Ltd.	19,00,000		
	Winter Ltd.(₹15,00,000 - 2,00,000 + 40,000)	13,40,000	32,40,000	
	Furniture & Fittings			
	Summer Ltd.	13,00,000		
	Winter Ltd.	6,00,000	19,00,000	87,40,000
7.	Intangible assets			
	Goodwill		9,00,000	
	Summer Ltd.		6.00,000	
	Winter Ltd.		15,00,000	
	Add, goodwill on consolidation (W. N. 2)		3,95,000	18,95,000
8.	Non-current investments			
	Investments			
	Summer Ltd.(52,00,000 - 41,20,000)		10,80,000	
	Winter Ltd.		9,00,000	19,80,000
9.	Inventories			
	Stock			
	Summer Ltd.		9,00,000	
	Winter Ltd.		14,40,000	
			23,40,000	
	Less, unrealised profit		16,000	23,24,000
10	Trade receivables			
	Debtors			
	Summer Ltd.	19,10,000		
	Winter Ltd.	15,60,000	34,70,000	
	Bills receivables			
	Summer Ltd.	2,90,000		

	Less, Mutual Debt	2,90,000	Nil	34,70,000
11	Cash and cash equivalents Cash at hand Summer Ltd. Winter Ltd.		 4,00,000 4,20,000	 8,20,000

Working notes:

Particulars	(₹)	Capital profits (₹)	Revenue Reserve (₹)	Revenue Profit (₹)
(a) General Reserve as on 1.4.2013 Less, Bonus issue (1/10th of ₹40,00,000)	4,00,000 (4,00,000)	-	-	
(b) addition to general reserve during 2013-14 (8,40,000-4,00,000)			4,40,000	
(c) Profit and Loss Account balance as on 1.4.2013 Less, Dividend paid for the year 2012-13	6,00,000 4,00,000	2,00,000		
(d) Profit for the year 2013-14 (12,00,000-2,00,000)				10,00,000
(e) Adjustment for overvaluation of motor vehicles		(2,00,000)		
(f) Adjustment of revenue profit due to overcharged depreciation(20% on 2,00,000)				40,000
(g) Preference dividend for the year 2013-14 @ 10%				(76,000)
			4,40,000	9,64,000
Summer Ltd's Share (3/4)			3,30,000	7,23,000
Minority Interest (1/4)			1,10,000	2,41,000
			4,40,000	9.64,000

(2) Cost of Control	₹	₹
Cost of investment in Winter Ltd		41,20,000
Less, Paid up value of equity shares [including bonus share = 1,60,000 + 1,40,000 + (10% of 3,00,000) * ₹10]	33,00,000	
Less, paid up value of preference share	2,85,000	
Pre-acquisition dividend	1,40,000	37,25,000
Cost of Control/ goodwill		3,95,000
(3) Minority Interest		
Equity share capital (₹10,00,000 + ₹1,00,000)		11,00,000
Preference share capital (₹7,60,000 – ₹ 2,85,000)		4,75,000
Share of revenue reserve (W.N.1)		1,10,000
Share of revenue profit (W.N. 1)		2,41,000
Proposed preference dividend		47,500
		19,73,500
(4) Profit and Loss Account – Summer Ltd.		
Balance		20,00,000
Share in profit of Winter Ltd.(W.N.1)		7,23,000

Share in proposed preference dividend of Winter Ltd.		28,500
		27,51,500
Less, Pre-acquisition dividend credited to profit and loss a/c Unrealised profit on stock (40% of ₹40,000) Proposed equity dividend (96,00,000 * 15%) Proposed preference dividend (14,00,000 * 10%)	1,40,000 16,000 14,40,000 1,40,000	(17,36,000)
		10,15,500
(5) General Reserve – Summer Ltd.		
Balance Add, Share in Winter Ltd. (W. N 1)		11,00,000 3,30,000
		14,30,000

3. (c)

1. Basic information

Company Status:	Holding Company Subsidiary	A Ltd B Ltd.
Dates:	Acquisition Consolidation	30.09.2013 31.03.2014
Status	Holding Company Subsidiary	80% 20%

2. Analysis of Reserves and Surplus of B Ltd.

(a) General Reserve

Balance as per B/S ₹ 5,00,000

As on 01.04.2013 (Date of previous balance sheet) ₹5,00,000

Assumed that entire balance is available on this date (capital Profit)

From 01.04.2013 to 31.03.2014 (upto consolidation)

NIL – Balancing Figure – Revenue Reserve

(b) Profit and Loss Account

Balance as on date of consolidation = ₹18,00,000

Add: Interest on Loan to A (Given) = ₹ 10,000

Corrected balance ₹18,10,000

Balance as on 01.04.2013 (date of previous Balance Sheet) = ₹2,10,000 (Capital Profit)

Profit for 2013 - 2014 (Balancing Figure) ₹ 16,00,000
Upto date of Acquisition 01.04.2013 to 30.09.2013 = ₹ 16,00,000 × 6/12 = ₹ 8,00,000 Capital Profit

Acquisition to Consolidation 30.09.2013 to 31.03.2014 = ₹ 16,00,000 × 6/12 = ₹ 8,00,000 Revenue profit

Total Capital Profits = ₹ 2,10,000 + 8,00,000 = ₹ 10,10,000
Total Revenue Profits = ₹ 8,00,000

(c) Capital Reserve

		₹	Remarks
Balance as on Date of Acquisition Less: Bonus Issue (₹ 1,00,00,000 × ½) Adjusted Balance	= = =	55,00,000 50,00,000 5,00,000	The entire balance is considered Capital Profits

(d) Revaluation of Assets = Loss: ₹5,00,000 to be adjusted against (Capital Profit)

3. Analysis of Net Worth of B Ltd.

Particulars	Total	A Ltd.	Minority
	100 %	80%	20%
Share Capital	1,00,00,000		
Add: Bonus Issue (1,00,00,000 × ½)	50,00,000		
	1,50,00,000	1,20,00,000	30,00,000
Capital Profits:			
General Reserve	5,00,000		
Profit and loss A/c	10,10,000		
Capital reserve	5,00,000		
Loss On Revaluation of assets	(5,00,000)		
	15,10,000	12,08,000	3,02,000
Revenue profits	NIL		
Profit and loss A/c	8,00,000	6,40,000	1,60,000
Minority Interest			34,62,000

4. Cost of Control

	₹	₹
Cost of Investment as per Balance Sheet Less: Nominal Value Of equity Capital Share in Capital Profit as calculated above	 1,20,00,000 12,08,000	1,70,00,000 1,32,08,000
Goodwill on Consolidation		37,92,000

5. Consolidated Reserves and Surplus

Particulars	Gen. Res.	P/L A/c
Balance as per balance Sheet of A Ltd. Add: Share of Rev. Res. Profit from B Ltd.	30,00,000 NIL	38,20,000 6,40,000
Consolidated balance	30,00,000	44,60,000

Name of the Company: A Ltd. and its subsidiary B Ltd.

Consolidated Balance Sheet(extracts) as at 31st March 2014

Ref No.	**Particulars**		**Note No.**	**As at 31st March, 2014**	**As at 31st March, 2013**
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital @ ₹ 100 each	1	3,00,00,000	-
		(b) Reserves and surplus	2	74,60,000	-

Ref No.	Particulars		Note No.	As at 31st March, 2014 ₹	As at 31st March, 2013 ₹
		(c) Money received against share warrants		-	-
				3,74,60,000	-
	2	**Minority Interest**		34,62,000	-
	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	24,90,000	-
		(c) Other current liabilities	4	1,20,000	-
		(d) Short-term provisions		-	-
				26,10,000	-
		TOTAL (1+2+3+4)		4,35,32,000	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	5	2,89,70,000	-
		(ii) Intangible assets (goodwill)		37,92,000	-
		(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		-	-

Ref No.	Particulars		Note No.	As at 31st March, 2014	As at 31st March, 2013
				₹	₹
		(e) Other non-current assets		-	-
				3,27,62,000	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories	6	60,00,000	-
		(c) Trade receivables	7	43,00,000	-
		(d) Cash and cash equivalents	8	4,00,000	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	9	70,000	-
				1,07,70,000	-
		TOTAL (1+2)		4,35,32,000	-

WORKING NOTES

1. **Share Capital**

Particulars	As at 31.03.14	As at 31.03.13
Authorised Capital	NIL	
Issued and Paid up	3,00,00,000	Nil
	3,00,00,000	NIL

2. **Reserves and Surplus**

Particulars	As at 31.03.14	As at 31.03.13
General reserve	30,00,000	
Profit and Loss	44,60,000	
	74,60,000	NIL

3. **Trade payable**

Particulars	As at 31.03.14	As at 31.03.13
Creditors		
A	17,90,000	
B	7,00,000	
	24,90,000	NIL

4. **Current Liabilities**

Particulars	As at 31.03.14	As at 31.03.13
Bills payable		
B	1,70,000	
Inter Co. owings	50,000	
	1,20,000	NIL

5. **Tangible Assets**

Particulars	As at 31.03.14	As at 31.03.13
Fixed Assets:		
A	1,50,00,000	Nil
B	1,44,70,000	
	2,94,70,000	NIL
Less: Revaluation Loss	5,00,000	
	2,89,70,000	NIL

6. **Inventories**

Particulars	As at 31.03.14	As at 31.03.13
Stock		
A	40,00,000	
B	20,00,000	
	60,00,000	NIL

7. **Trade Receivables**

Particulars	As at 31.03.14	As at 31.03.13
Sundry Debtors		
A	25,00,000	
B	18,00,000	
	43,00,000	NIL

8. **Cash and Cash equivalents**

Particulars	As at 31.03.14	As at 31.03.13
Bank		
A	2,00,000	
B	2,00,000	
	4,00,000	NIL

9. **Other Current Assets**

Particulars	As at 31.03.14	As at 31.03.13
Bills Receivable		
A	1,20,000	
B	NIL	
Inter co. receivables	50,000	
	70,000	NIL

Section D

Answer to Question No. 4(a) which is compulsory (carrying 5 marks) and answer any two (carrying 10 marks each) from the remaining sub-questions.

4. (a) What are the various books of accounts and records to be maintained by Merchant Bankers? What are the various information which need to be furnished by Merchant Bankers to SEBI? 5

(b) On February 01, 2013, Virat Ltd. entered into a contract with Tuhin Ltd. to receive the fair value of 1,000 Virat Ltd's own equity shares outstanding as on 31.01.2014 in exchange for payment of ₹ 1,04,000 in cash i.e. ₹ 104 per share. The contract will be settled in net cash on 31.01.2014.

The fair value of this forward contract on the different dates were:

(i) Fair Value of forward on 01.02.2013	**NIL**
(ii) Fair Value of forward on 31.12.2013	**₹6,300**

(iii) Fair Value of forward on 31.01.2014	**₹2,000**

Presuming that Virat Ltd. closes its books on 31st December each year, pass entries:

(i) If net is settled in cash
(ii) If net is settled by Tuhin Ltd. by delivering shares of Virat Ltd **10**

(c) Himalaya Ltd. announced a Stock Appreciation Right (SAR) on 01.04.2011 for each of its 400 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31.03.2014, but before 30.06.2014. The fair value of SAR was ₹21 in 2011-12, ₹ 23 in 2012-13 and ₹24 in 2013-14. In 2011-12, the company estimates that 2% of employees shall leave the company annually. This was revised to 3% in 2012-13. Actually, 10 employees left the company in 2011-12,5 left in 2012-13 and 3 left in 2013-14. The SAR therefore actually vested to 382 employees. On 30.06.2014, when the SAR was exercised, the intrinsic value was ₹ 25 per share.

Show the Stock Appreciation Right Account by fair value method. **10**

(d) VENTEX Ltd. presents to you the following Balance Sheets and Income Statements.

Balance Sheets	(₹ in thousands)	
Particulars	As on 31.3.2013	As on 31.3.2014
Liabilities:		
Share Capital:		
Equity Share Capital	10,000	10,000
Reserves & Surplus:		
Retained Earnings	8,300	9,460
Secured loans:		
12% Debentures	6,000	5,000
Current liabilities & Provisions:		
Trade Creditors	1,025	1,217
Outstanding Expenses	218	274
	25,543	25,951
Assets:		
Fixed Assets at Cost	24,000	26,000
Provision for Depreciation	(8,000)	(9,800)
Investment	2,500	1,000
Current Assets, Loans and Advances:		
Inventories	4,133	5,071
Trade Debtors	1,600	1,800
Provision for Bad Debts	(80)	(90)
Cash in hand and at Bank	1,342	1,934
Miscellaneous Expenditures:		
Underwriting Commission	48	36
	25,543	25,951

Profit and Loss Account for the year ended March 31, 2014.

	(₹ in thousand)
Sales	**36,402**
Cost of Goods sold	**(18,600)**
Compensation Received in Law suit	**550**
Interest received on Investments	**210**
Profit on Sale of Investments	**75**
Sundry Operating Expenses	**(7,835)**
Interest on Debentures	**(660)**
Provision for Bad Debts	**(10)**
Provision for Depreciation	**(1,800)**
Underwriting Commission written off	**(12)**
Net Profit before Tax	**8,320**
Tax for the year Paid	**4,160**
Net Profit after Tax	**4,160**

Supplementary Information:
Ventex Ltd. informs you that the Debentures have been redeemed at par.

Required:

Prepare the CASH FLOW statement for the year ended March 31,2014 in accordance with AS-3 (Revised) using the 'Direct Method'. **10**

Answer:

4. (a)

Various books and records to be maintained by Merchant Bankers

Merchant Bankers are required to maintain the following books of accounts and records and necessary documents like:

- Copy of Balance Sheet as at the end of the accounting period
- Copy of Profit and Loss account for the above noted period
- Copy of the Auditor's Report on the Accounts for the period
- Statement of Financial Position with regard to the following, namely
  - **Period of Maintenance**: Merchant Bankers are required to preserve the books of accounts and other records and documents which needs to be maintained for a minimum period of five years.
  - **Intimation to SEBI**: Merchant Bankers are required to intimate the Board the place of maintenance of the books of accounts, records and documents.
  - **Furnishing of Accounts to SEBI**: After each accounting year, Merchant Bankers are required to furnish copies of the Balance Sheet, Profit and Loss Account and other documents to SEBI. The documents and financial statements may relate to any of the five preceding financial years.

List of various information to be furnished to SEBI by the Merchant Bankers:

A Merchant Banker should disclose the following information to SEBI as and when required by it with respect to the following, like

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

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

(c) Details of Company whose issue the Merchant Banker has managed or has been associated with.

(d) Details regarding to the breach of the Capital Adequacy requirements as specified in the Regulations.

(e) Details relating to the activities of the Manager, Underwriter, Consultant or Advisor to an issue.

4. (b) If settled in Cash:

Date	Particulars	Dr. ₹	Cr. ₹
01.02.13	No entry is required because fair value of derivative is zero and no cash is paid or received		
31.12.13	Forward contract (Asset) A/c Dr To Profit and Loss A/c (Gain recorded due to increase in fair value of the forward contract	6,300	 6,300
31.01.14	Profit and Loss A/c Dr To Forward Contract (Asset) A/c (Loss recorded due to decrease in fair value of the forward contract)	4,300	 4,300
31.01.14	Cash A/c Dr To Forward Contract (Asset) A/c (Being forward contract settled in cash)	2,000	 2,000

If net is settled by delivery of shares

First three entries will be same. The fourth entry will be as under:

Date	Particulars	Dr. ₹	Cr. ₹
31.01.14	Equity A/c Dr To Forward Contract (Asset) A/c (being forward contract settled by delivery of shares)	2,000	 2,000

4. (c)

Provision for SAR's Account

Dr. Cr.

Year	Particulars	₹	Year	Particulars	₹
2011-12	To, Balance c/d	2,63,200	2011-12	By, Employees Compensation Expenses	2,63,200
		2,63,200			2,63,200
2012-13	To, Balance c/d	5,62,733	2012-13	By, Balance b/d By, Employees Compensation Expenses	2,63,200 2,99,533
		5,62,733			5,62,733
2013-14	To, Balance c/d	9,16,800	2013-14	By, Balance b/d By, Employees Compensation Expenses	5,62,733 3,54,067
		9,16,800			9,16,800
2014-15	To, Balance c/d	9,55,000	2014-15	By, Balance b/d By, Employees Expenses	9,16,800 38,200
		9,55,000			9,55,000

The provision for SAR is a liability, as settlement of SAR is through cash payment equivalent to an excess of market price of company's share on exercise date over the exercise price.

Working Notes:

Year 2011- 12:

1. No. Of employees to whom SAR's were announced (382+10+5+3)= 400 employees.

2. Total number of employees after 3 years, on the basis of estimation in 2011-12 = (400 * 0.98 * 0.98 * 0.98) = 376 employees.
3. No of SAR's expected to vest = 376 * 100 = 37,600 SAR.
4. Fair value of SAR's = 37,600 * ₹21 = ₹7,89,600.
5. Recognised as expense in 2011-12 = ₹ 7, 89,600 / 3 years = ₹2,63,200

Year 2012- 13:

1. Total number of employees after 3 years, on the basis of estimation in 2012-13 = (400 - 10) *0.97 * 0.97 = 367 employees.
2. No of SAR's expected to vest = 367 * 100 = 36,700 SAR.
3. Fair value of SAR's = 36,700* ₹23 = ₹8,44,100.
4. Cumulative value of SAR's to be recognised as an expense = ₹ 8, 44,100 *2/3 = ₹5,62,733.
5. SAR's recognise as expense in 2012-13 = ₹5,62,733 – ₹ 2,63,200 = ₹ 2,99,533.

Year 2013-14:

1. Fair value of SAR's = ₹24.
2. SAR actually vested = 382 *100 = 38,200 SAR
3. Fair Value = 38,200 * ₹24 = ₹9,16,800.
4. Cumulative value of SAR's to be recognised = ₹9,16,800.
5. Value of SAR's to be recognised as an expense = ₹9,16,800 – ₹5,62,733 = ₹3,54,067.

Year 2014-15:

1. Cash payment of SAR's = 38,200 SAR's * ₹25 = ₹9,55,000.
2. Value of SAR's to be recognised as an expense in 2014-15 = ₹9,55,000 – ₹9,16,800 = ₹38.200.

4. (d)

VENTEX LTD.

Cash Flows Statement for the year ended 31st March , 2014

(Amount in ₹ thousand)

	₹	₹
Cash flows from Operating Activities :		
Cash receipts from customers	36,202	
Cash paid to suppliers and employees	(27,125)	
Cash inflow from operations	9,077	
Income tax paid	(4,160)	
Cash flow before extraordinary items:	4,917	
Compensation received in law suit	550	
Net cash from operating activities		5,467
Cash flows from investing activities:		
Purchase of fixed assets	(2,000)	
Sale proceeds of investments	1,575	
Interest received on investment*	210	
Net cash used in investing activities		(215)
Cash flows from financing activities:		
Redemption of debentures at par	(1,000)	
Interest on debentures paid*	(660)	
Dividends paid	(3,000)	
Net cash used in financing activities		(4,660)
Net increase in cash and cash equivalents		592
Cash and cash equivalents as on 31st March'13		1,342
(Opening Balance)		-

Cash and equivalents as on 31st march 14 (Closing Balance)		1,934

* Alternatively, interest received on investments and interest paid on debentures may be treated as flows from operating activities.

Working notes: (Amount in ₹ thousand)

		₹	₹
(i)	Calculation of cash receipts from customers:	₹	₹
	Sales		36,402
	Add: Trade Debtors as on 31st March , 2013		1,600
			38,002
	Less: Trade Debtors as on 31st March, 2014		1,800
			36,202
(ii)	Calculation of cash paid to suppliers and employees:		
	Cost of goods sold		18,600
	Add: Sundry Operating Expenses		7,835
			26,435
	Add: Inventory as on 31st March, 2014		5,071
	Trade Creditors as on 31st March,2013		1,025
	Outstanding expenses as on 31st March, 2013		218
			32,749
	Less: Inventory as on 31st March, 2013	4,133	
	Trade Creditors as on 31st March, 2014	1,217	
	Outstanding expenses as on 31st march,2014	274	5,624
			27,125
(iii)	Fixed Assets purchased during the year:		
	Fixed Assets, at cost, on 31st March,2014		26,000
	Less: Fixed Assets, at cost on 31st March,2013		24,000
			2,000
(iv)	Sales Proceeds of investments:		
	Cost of investments sold (₹25,00,000- ₹10,00,000)		1,500
	Add: Profit on sale of investments		75
			1,575
(v)	Calculation of dividends paid:		
	Retained earnings on 31st March,2013		8,300
	Add: Net profit for the year ended 31st March, 2014		4,160
			12,460
	Less: Retained earnings as on 31st March, 2014		9,460
	Dividends paid		3,000

Section E

Answer any three questions (carrying 5 marks each).

5. (a) Evaluate the methods of Government Accounting. 5

(b) With respect to Government Accounting Standards issued by Government Accounting Standards Advisory Board (GASAB), comment on "Background Aspects". 5

(c) Discuss CAG's role in the context of Government Accounting in India. 5

(d) Describe the composition of Public Accounts Committee. 5

Answer:

5. (a) 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 a 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 from government accounting system because government accounting system which rules over the nation and keeps the various departments, i.e. production, service, utility or entertainment industry etc. The operations of the department of the government sometimes include undertaking 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 cast of the services or undertaking may be accurately known. In the government account, there are few problems affected adversely in the case of central and state government transaction communication procedure, bank accounts and uniformity are improper. It was suggested that the Central and State Government should adopt fully computerised accounting system in routine procedure of all transactions and adopted accounting system should be familiar with global accounting standards. Improvement programs, i.e. symposium, seminar is helpful for sustaining the accounting system.

Business and merchant accounting methods are different than government accounting system because government accounting system is ruling over the nation and keeps various departments like the production, service utility or the entertainment industry etc. government accounting system is wider than the specific company accounts.

5. (b)

Government Accounting Standards issued by Government Accounting standards Advisory Board (GASAB),

<u>Background aspects</u>

GASAB has been constituted by Comptroller and Auditor General of India with the support of Government of India through a notification date 12.08.2002.

The decision to set up GASAB has been taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace with the international trends.

The new priorities focus on the aspect of good governance, fiscal prudence, efficiency and transparency in public spending instead of just identifying resources for public scheme funding.

The accounting systems, the world over are being revisited with an emphasis on transition from rule to principle based standards and migration from cash to accrual based system of accounting.

GASAB, as nodal advisory body in India, is taking similar action to establish and improve standards of government accounting and financial accounting, reporting and enhance accountability mechanism.

5. (c)

(A) Under section 10 of the Comptroller and Auditor General's (duties, powers and conditions of service) Act,1971, the Comptroller and Auditor General shall be responsible,

(a) For compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control and treasuries , offices or departments responsible for the keeping of such accounts; and

(b) For keeping such accounts in relation to any of the matters specified in clause

(a) as may be necessary;

Provided that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-

(i) The said accounts of the union (either at once or gradually by the issue of several orders);or
(ii) The accounts of any particular services or departments of the Union;

Provided further that the Governor of a state with the previous approval of the President and after consultation with Comptroller and Auditor General, by order, relieve him from the responsibility for compiling -

(i) The said accounts of the State (either at once or gradually by issue of the several orders) or
(ii) The accounts of any particular services or departments of the State;

Provided also that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for keeping the accounts of any particular class or character.

(B) Where, under any arrangement, a person other than the Comptroller and Auditor general has, before the commencement of this Act, been responsible –

(i) For compiling the accounts of any particular service or department of the Union or of a State, or
(ii) For keeping the accounts of any particular class or character, such arrangement shall, notwithstanding anything contained in sub-section (1), continue to be in force unless, after consultation with the Comptroller and Auditor General, it is revoked in the case referred to in clause (i), by an order of the President or the Governor of the State, as the case may be , and in the case referred to in clause (ii) by an order of the President.

5. (d) <u>Composition of Public Accounts Committee</u>.

The Committee on Public Accounts is constituted by Parliament each year for examination of accounts showing the appropriation of sums granted by Parliament for expenditure of Government of India, the annual finance accounts of Government of India, and such other accounts laid before Parliament as the Committee may deem fit such as accounts of autonomous and semi-autonomous bodies (except those Public Undertakings and Government Companies which come under the purview of the Committee on Public Undertakings).

The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajya Sabha elected by that House in like manner are associated with the Committee. The Chairman is appointed by the speaker from amongst its members of Lok Sabha. The speaker, for the first time, appointed a member of the Opposition as the Chairman of the Committee for 1967-68. This practice has been continued since then. A Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointed.

This system of election ensures that each Party/Group is represented on the Committee in proportion to its respective strength in the two houses.