FINAL EXAMINATION

GROUP IV

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2015

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) M/s. Eagle Ltd. gives you the following information as on 31.03.2015:

(i) The Company has charged depreciation of ₹ 6,45,600 in its books of accounts, while as per income-tax computation, the depreciation available to the company is ₹ 7,64,100.

(ii) The expense of ₹ 6,85,500 has been charged to profit and loss account which are disallowed under the Income-tax Act.

(iii) The Company has debited share issue expenses of ₹ 5,46,400, which will be available for deduction under the Income-tax Act for the next year.

(iv) The Company has made provision for doubtful debts for ₹ 45,600 during the year.

(v) The Company has made donation of ₹ 3,00,000, which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income-tax law.

You are required to compute the deferred tax assets and deferred tax liability as on 31.03.2015. The tax rate applicable is 30%. **5**

(b) Calculate the diluted earnings per share from the following information:

Net profit for the current year (after tax)	**₹ 86,50,000**	
No. of equity shares outstanding	**25,00,000**	
No. of 10% convertible debentures of ₹ 100 each **Each debenture is convertible into 10 equity shares**	**1,00,000**	
Interest expenses for the current year	**₹ 5,00,000**	
Tax relating to interest expenses	**30%**	**5**

Answer:

1. (a) Statement showing calculation of Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL)

Particulars	**Amount of difference**	**Nature of difference**	**DTA @ 30%**	**DTL @ 30%**
	(₹)		**(₹)**	**(₹)**
(i) Excess allowable depreciation as per income-tax law	1,18,500	Timing	-	35,550
(ii) Disallowed expenses as per income tax	6,85,500	Permanent	-	-
(iii) Share issue expenses charged in books but to be allowed as deduction in income tax from next year	5,46,400	Timing	1,63,920	-
(iv) Provision for doubtful debts - disallowed as per income tax law	45,600	Permanent	-	-
(v) Donation debited to Profit & Loss Account -				
Allowed as per income tax	1,50,000	No difference	-	-
Disallowed as per income tax	1,50,000	Permanent	-	-
			1,63,920	35,550

1. (b) Computation of diluted earnings per share $= \frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

Adjusted net profit for the current year	₹
Net Profit for the current year	86,50,000
Add : Interest expense for the current year	5,00,000
Less : Tax relating to interest expense (30% of ₹ 5,00,000)	(1,50,000)
Adjusted net profit for the current year	90,00,000

Note : Conversion of convertible debentures into Equity Share is a dilutive potential equity shares. Hence, to compute the adjusted profit, the interest paid on such debentures will be added back as the same would not be payable, in case these are converted into equity shares.

Weighted average number of equity shares

Number of equity shares resulting from conversion of debentures

$= \frac{1,00,000 \times 100}{10}$ = 10,00,000 Equity Shares

Weighted average number of equity shares used to compute diluted earnings per share

= [(25,00,000 × 12) + (10,00,000 × 6*)]/12 = 30,00,000 Shares

Diluted earnings per share $= \frac{₹\,90,00,000}{30,00,000 \text{ Shares}}$ = ₹ 3.00 per share

* Interest on debentures for full year amounts to ₹ 10,00,000 (i.e. 10% of ₹100,00,000). However, interest expense amounting to ₹ 5,00,000 has been given in the question. It may be concluded that debentures have been issued during the year and interest has been provided for 6 months.

SECTION B

Answer **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) Describe the conditions which must be fulfilled for an amalgamation in the nature of merger. 5

(b) Following is the Extract of Balance Sheets of A Ltd. and B Ltd. as on 31.03.2015:

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Share Capital:			Goodwill	25,000	20,000
Equity Share capital of ₹ 10			Plant and		
each fully paid	10,00,000	4,00,000	Machinery	12,00,000	4,00,000
General Reserve	6,50,000	1,50,000	Inventories	4,00,000	1,50,000
Profit and Loss Account	2,55,000	40,000	Debtors	3,50,000	40,000
Trade Payables	1,45,000	25,000	Cash at Bank	1,75,000	20,000
Provisions	1,00,000	15,000			
	21,50,000	6,30,000		21,50,000	6,30,000

The two companies have decided to amalgamate and for this purpose, a new company C Ltd. is formed. Terms of amalgamation are as under:

(1) C Ltd. to issue fully paid shares (Face Value : ₹10) to the shareholders of A Ltd. and B Ltd., at a price of ₹10.00 and ₹5.00 above the intrinsic value of the shares respectively.

(2) Fixed assets of both the companies are to be revalued at 10% above book value. B Ltd.'s Stock-in-trade as on 31.03.2015 includes stock of ₹50,000 purchased from A Ltd. at a profit of 25% on cost price.

(2) Goodwill shown in the books of A Ltd. and B Ltd. was considered to be worthless.

(3) A Ltd. had declared dividend of 10% on 31.03.2015 which has still not been paid.

(4) The scheme of amalgamation was not supported by 100 shareholders of A Ltd. and they had to be paid ₹5.00 per share above intrinsic value as consideration in cash, which was borne by C Ltd.

(5) All the assets of both the companies are taken over at the revalued amounts and liabilities have been paid in full by C Ltd.

You are required to Calculate:

(i) Intrinsic value of shares of A Ltd. and B Ltd.

(ii) Purchase Consideration paid by C Ltd.

(iii) Value of Goodwill which will appear in the Balance Sheet of C Ltd. 5+4+1=10

(c) Star Ltd. has the following capital structure on 31st March, 2015:

Particulars	₹ in Crores
1. Equity share Capital (shares of ₹ 10 each)	300
2. Reserve & Surplus:	

General Reserve	270
Security Premium	100
Profit & Loss Account	50
Export Reserve (statutory reserve)	80
3. Loan Fund	800

On recommendation of the Board of Directors, the shareholders have 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.

The market price was hovering in the range of ₹ 20 and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of ₹ 25 per share.

(i) Advise the company on maximum number of shares that can be bought back and record journal entries for the same, assuming the buy-back has been completed in full, within next three months.

(ii) If borrowed funds were ₹ 1200 lakhs and ₹ 1500 lakhs respectively, would your answer change?

Show workings. **10**

(d) X Ltd. and Y Ltd. decide to amalgamate and to form a new company XY Ltd. The following are their Balance Sheets as at 31.03.2015:

Liabilities	X Ltd. ₹	Y Ltd. ₹	Assets	X Ltd. ₹	Y Ltd. ₹
Share Capital (₹ 100 each)	15,00,000	8,00,000	Fixed Assets	9,50,000	2,00,000
			Investments:		
General Reserve	2,00,000	50,000	2000 Shares in Y Ltd.	4,50,000	
12% Debentures	2,00,000	1,00,000	6000 Shares in X Ltd.		7,00,000
Sundry Creditors	1,00,000	50,000	Current Assets	6,00,000	1,00,000
	20,00,000	10,00,000		20,00,000	10,00,000

The following information is provided:

(1) Fixed assets of X Ltd. and Y Ltd. are to be taken at ₹ 10,00,000 and ₹ 4,00,000 respectively.

(2) 12% Debenture holders of X Ltd. and Y Ltd. are discharged by XY Ltd. by issuing such numbers of its 15% debentures of ₹ 100 each, so as to maintain the same amount of interest.

(3) Share of XY Ltd. are of ₹ 100 each.

(4) Assume amalgamation is in the nature of purchase.

You are required to:

(i) Calculate the amount of Purchase Consideration for X Ltd. and Y Ltd.

(ii) Draw up the Balance Sheet of XY Ltd. (Notes to Accounts are not required). **6+4=10**

Answer:

2. (a) Amalgamation in the nature of merger is an amalgamation which should satisfies all the following conditions:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

2. (b) (i) Calculation of Net Assets

	A Ltd. (₹)	A Ltd. (₹)	B Ltd. (₹)	B Ltd. (₹)
Fixed assets (Plant & Machinery)	12,00,000		4,00,000	
Add: 10% increase in price	1,20,000	13,20,000	40,000	4,40,000
Inventories		4,00,000	1,50,000	
Less: Loading on stock (50,000 × 1/5)			10,000	1,40,000
Debtors		3,50,000		40,000
Cash at Bank		1,75,000		20,000
Value of Total Assets (A)		**22,45,000**		**6,40,000**
Less: Liabilities				
Trade Payables		1,45,000		25,000
Provisions		1,00,000		15,000
Proposed Dividend		1,00,000		
Value of Total Liabilities (B)		**3,45,000**		**40,000**
Value of Net Assets of the company (A-B)		19,00,000		6,00,000
No. of shares of the company		1,00,000		40,000
Intrinsic value of shares		19		15

(i) Computation of Purchase Consideration

	A Ltd. (₹)	B Ltd. (₹)
Intrinsic value of shares	19	15
Premium to be paid by C Ltd.	10	5
Amount to be paid per share	29	20
No. of share holders agreeing to	99,900	40,000

amalgamation		
Total amount to paid by C Ltd.	28,97,100	8,00,000
No. of shares to be issued(₹10 per shares)	2,89,710	80,000
Payment to dissenting shareholders of A Ltd. [100 ×(19+5)] in cash	2,400	-
Purchase Consideration	28,99,500	8,00,000

Total Purchase Consideration = ₹(28,99,500 + 8,00,000)=₹36,99,500

Less: Total Value of Net Assets taken over ₹(19,00,000 + 6,00,000) = ₹25,00,000

Goodwill which will appear in the Balance Sheet of C Ltd. = ₹11,99,500.

2. (c) Maximum number of shares that can be bought back:

	Situation		
	I	**II**	**III**
Shares outstanding test (w.n-1)	7.5	7.5	7.5
Resource test (w.n.-2)	7.2	7.2	7.2
Debt-equity ratio test (w.n.- 3)	12.80	4.80	-
Maximum number of shares for buy back (least of the above)	7.20	4.80	-

Note: Under situation-III, the company does not qualify the debt-equity ratio test. So the company cannot buy-back shares (u/s 70 under Companies Act, 2013.)

Journal Entries

(₹ in crores)

Particulars		**Situation -I**		**Situation -II**	
		Dr	**Cr**	**Dr**	**Cr**
Shares Bought Back A/C To, Bank A/C (Being purchase of shares from public)	Dr	180	 180	120	 120
Share Capital A/C Security Premium A/C General Reserve (balancing figure) To , Share Bought Back A/C (Being cancellation of shares on buy back)	Dr Dr Dr	72 100 8	 180	48 72 -	 120
General Reserve A/C To, Capital Redemption Reserve (Being transfer of reserve to capital redemption reserve to the extent capital is redeemed)	Dr	72	 72	48	 48

Working note -1

Share outstanding test:-

(a) No. of shares outstanding 30.0 crores

(b) 25% of shares outstanding 7.5 crores

Working note -2

Resource test:-

(i)	Paid up capital	₹ 300 crores
(ii)	Free Reserve	₹ 420 crores
(iii)	Shareholders fund (i + ii)	₹ 720 crores
(iv)	25% of shareholders fund	₹ 180 crores
(v)	Buy-back price per share	₹ 25
(vi)	No. of shares that can be bought back	7.20 crores

Working note -3

Debt- Equity Ratio Test (₹ in Crores)

Particulars	**Situation -I**	**Situation -II**	**Situation -III**
Borrowed funds	800	1200	1500
Maximum equity to be maintained after buy-back in the ratio 2:1	400	600	750
Present equity(shareholders fund)	720	720	720
Maximum possible dilution in equity	320	120	0
Maximum shares that can be bought back @ ₹ 25 per share	12.80	4.80	

2. (d) (i) Value of Net Assets of X Ltd. and Y Ltd. as on 31.03.2015.

		X Ltd. **₹**		**Y Ltd.** **₹**
Assets taken over : Fixed Assets Current Assets		 10,00,000 6,00,000		 4,00,000 1,00,000
Less: Liabilities taken over:		16,00,000		5,00,000
Debentures	$2,00,000 \times \frac{12}{100} \times \frac{100}{15}$ = 1,60,000		$1,00,000 \times \frac{12}{100} \times \frac{100}{15}$ = 80,000	
Sundry Creditors	1,00,000	2,60,000	50,000	1,30,000
		13,40,000		3,70,000

(ii) Value of shares of X Ltd. and Y Ltd.

The value of shares of X Ltd. is ₹ 13,40,000 plus 1/4 of the value of the shares of Y Ltd.

Similarly, the value of shares of Y Ltd. is ₹ 3,70,000 + 2/5 of the value of shares of X Ltd.

Let 'm' denotes the value of shares of X Ltd., and 'n' denotes the value of shares of Y Ltd.

Then, m = 13,40,000 + 1/4 n; and

n = 3,70,000 + 2/5 m

Substituting the value of n,

m = 13,40,000 + 1/4 (3,70,000 + 2/5 m)

m = 13,40,000 + 92,500 + 1/10 m

9/10 m = 14,32,500

m = 15,91,667

n = 3,70,000 + 2/5 (15,91,667)

n = 10,06,667

(iii) Amount of Purchase Consideration

	X Ltd. (₹)	Y Ltd. (₹)
Total Value of Shares (as determined above)	15,91,667	10,06,667
Less : Internal investments :		
2/5 for shares held by Y Ltd.	6,36,667	-
1/4 for shares held by X Ltd.	-	2,51,667
Amount due to outsiders	9,55,000	7,55,000

Purchase Consideration, i.e., ₹ 9,55,000 + ₹ 7,55,000 = ₹ 17,10,000 will be satisfied by issue of 17,100 shares (shares of ₹ 100 each)

(iv) Net Amount of Goodwill / Capital Reserve

	₹	₹
Total Purchase Consideration		
X Ltd.	9,55,000	
Y Ltd.	7,55,000	17,10,000
Less : Net Assets taken over		
X Ltd.	13,40,000	
Y Ltd.	3,70,000	17,10,000
		NIL

Balance Sheet ofXY Ltd.
as at 31st March, 2015.

Particulars		**Note No.**	**Amount (₹)**
I.	**Equity & Liabilities**		
(i)	Share holders' Funds (17,100 shares of ₹ 100 each allotted as fully paid for consideration other than cash)		17,10,000
(ii)	Non-current Liabilities Long term borrowings (15% Debentures)		2,40,000
(iii)	Current Liabilities Trade Payable (₹) (1,00,000 + 50,000)		1,50,000
		Total	21,00,000
II.	**Assets**		
(i)	Non-current assets (a) Fixed assets-Tangible (10,00,000 + 4,00,000)		14,00,000

(ii)	Current assets (6,00,000 + 1,00,000)		7,00,000
		Total	21,00,000

SECTION C

Answer* 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) P Ltd. acquired 5,000 shares of Q Ltd. at ₹ 48 per share-cum-dividend constituting 62.50% holding in the later. Immediately after purchase, Q Ltd. declared and distributed a dividend at ₹ 4 per share, which P Ltd. credited in its Profit and Loss Account.

One year later, Q Ltd. declared a bonus of one fully paid Equity Share of ₹ 10 each for every five shares held. Later on, Q Ltd. proposed to raise funds and made a right issue of 1 share for 5 shares hold at ₹ 36 per share. P Ltd. exercised its right.

After sometime, at its AGM, Q Ltd. has decided to split its Equity Shares 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 Q Ltd. to 90%, P Ltd. acquired sufficient number of shares at ₹ 30 each.
Ascertain the cost of control as on 31st December, if P Ltd.'s share in Capital profits of Q Ltd. (duly adjusted for purchase in lots) as on that date was ₹ 3,15,000. 10

(b) Football Ltd. acquired 52,500 shares of Hockey Ltd. for ₹ 6,00,000 on 31st March, 2014. The Balance Sheet of Hockey Ltd. on that date was under:

Liabilities	₹	Assets	₹
75,000 equity shares of ₹10 each fully paid	7,50,000	Fixed Assets	5,25,000
Pre-incorporation profit	15,000	Current Assets	3,22,500
Profit and Loss Account	30,000		
Creditors	52,500		
	8,47,500		8,47,500

Balance Sheets of both the companies as on 31st March, 2015 were as follows:

(in ₹)

Liabilities	Football Ltd.	Hockey Ltd.	Assets	Football Ltd.	Hockey Ltd.
Equity Shares of ₹ 10 each fully paid (before bonus issue)	22,50,000	7,50,000	Fixed Assets	39,60,000	11,55,000
Securities Premium	4,50,000	—	Investment: 52,500 shares in Hockey Ltd. (at cost)	6,00,000	.
Pre-incorporation profit	-	15,000			
General Reserve	30,00,000	9,52,500	Current Assets	22,05,000	8,77,500
Profit and Loss Account	7,87,500	2,10,000			
Creditors	2,77,500	1,05,000			

	67,65,000	20,32,500		67,65,000	20,32,500

Directors of Hockey Ltd. made bonus issue on 31.03.2015 in the ratio of one equity share of ₹ 10 each fully paid for every two equity shares held on that date. This bonus share issue was out of post-acquisition profits by using General Reserve.

Calculate (i) cost of control/Capital Reserve (ii) Minority Interest (iii) Consolidated Profit and Loss Account (a) before issue of bonus shares (b) immediately after issue of bonus shares.

Also, prepare a Consolidated Balance Sheet after the bonus issue, as on 31st March, 2015. 15

(c) PB Ltd. owns 80% of R Ltd, 40% of S Ltd. and 40% of T Ltd. S Ltd. is jointly controlled entity and T Ltd. is an Associate. Balance Sheets of Four Companies as on 31st March, 2015 are given below:

(Amount in ₹ Lakhs)

	PB Ltd.	R Ltd.	S Ltd.	T Ltd.
(i) *Equity & Liabilities:* Shareholders' Funds				
Share Capital-Equity (₹1 each)	1,200	480	960	960
Reserves and Surplus-				
Retained Earnings	4,800	4,080	4,320	4,320
Current Liabilities:				
Trade Payables-Creditors	240	360	300	300
Total	**6,240**	**4,920**	**5,580**	**5,580**
(ii) *Assets:*				
Non-Current Assets:				
Fixed Assets	1,200	960	1,680	1,200
Non-Current Investments:				
Investment in R	960	-	-	-
Investment in S	720	-	-	-
Investment in T	720	-	-	-
Current Assets:	2,640	3,960	3,900	4,380
Total	**6,240**	**4,920**	**5,580**	**5,580**

PB Ltd. acquired shares in R Ltd. many years ago, when retained earnings of R Ltd. were ₹ 624 lakh.

PB Ltd. acquired its shares in S Ltd. at the beginning of the year, when retained earnings of S Ltd. were ₹ 480 lakh. PB Ltd. acquired its shares in T Ltd. on 01.04.2014, when retained earnings of T Ltd. were ₹ 480 lakh.

The balance of Goodwill relating to R Ltd. had been written off three years ago.

The value of Goodwill in S Ltd. remains unchanged.

Required:

Prepare the Consolidated Balance Sheet of PB Ltd. as on 31st March, 2015 as per AS-21, AS-23 and AS-27. 15

Answer:

3. (a)

1. Cost of Investment:

Particulars	Shares	₹
Cost of first acquisition (5000 x ₹48) Less: Pre-acquisition dividend (5000 x ₹4)	5,000 nil	2,40,000 (20,000)
Actual cost of investment Add: Bonus Shares (l/5th x 5000 shares)	5,000 1,000	2,20,000 nil
Cost after Bonus Shares Add: Right shares (l/5th x6000 shares x ₹36)	6,000 1,200	2,20,000 43,200
Cost after Right issue but before share split	7,200	2,63,200
Cost after share split (W. N.) (7,200 x 2) Add: Acquisition to increase holding to 90% (W.N.- 2) (6336 x ₹30)	14,400 6,336	2,63,200 1,90,080
Balance on date of consolidation	20,736	4,53,280

2. Calculation of number of shares to be acquired to increase stake to 90%:

Particulars	Shares
a. Shares held before acquisition	14,400
b. % of holding	62.5%
c. Hence, total number of shares of Q Ltd [a /b] = [14,400/62.5%]	23,040
d. 90% of above [c x 90%]	20,736
e. Number of shares to be acquired [d-a] [20,736-14,400]	6,336

3. Cost of Control

Particulars		₹
Cost of Investment (A)		4,53,280
Less: Nominal value of equity shares Share of Capital Profit Total (B)	20,736 x ₹5 per share	(1,03,680) (3,15,000) (4,18,680)
Goodwill (A-B)		34,600

3. (b)

Consolidated Balance Sheet of Football Ltd and its subsidiary Hockey Ltd. as on 31st March 2015.

Particulars	Note No	₹
I. Equity and Liabilities (1) Shareholder's Funds		
(a) Share Capital	1	22,50,000
(b) Reserve and Surplus	2	49,86,750
(2) Minority Interest		5,78,250
(3) Current Liabilities		
Trade payables (2,77,500 + 1,05,000)		3,82,500
Total		**81,97,500**
II. Assets		
(1) Non-Current Assets		
Tangible Fixed Assets (39,60,000 + 11,55,000)		51,15,000
(2)Current Assets (22,05,000 + 8,77,500)		30,82,500
Total		**81,97,500**

Notes to accounts:

Particulars	₹	₹
Share Capital Equity Shares of ₹10 each		22,50,000
Reserve and Surplus		
Securities Premium	4,50,000	
Capital Reserve	2,19,000	
General Reserve	30,00,000	
Profit and Loss Account	13,17,750	
		49,86,750

Shareholding Pattern

Particulars	**No of shares**	**%of holding**
Football Ltd		
(i) Purchased on 31.03.2014	52,500	
(ii) Bonus issue (52,500/2)	26,250	
Total	78,750	70%
Minority Interest	22,500	
(i) Existing	11,250	
(ii) Bonus (22,500/2)	33,750	30%

(ii) Before issue of bonus shares

	₹	₹
Goodwill/capital reserve		
Investment in Hockey Ltd		6,00,000
Less: Face value of investments	5,25,000	
Capital profits (W.N)	31,500	5,56,500
Cost of control - Goodwill		43,500
Minority Interest		
Share Capital		2,25,000
Capital Profits (W.N)		13,500
Revenue profit (W.N)		3,39,750
		5,78,250
Consolidated profit and loss account - Football Ltd		
Balance		7,87,500
Add: Share in revenue profit of Hockey Ltd (W.N)		7,92,750
		15,80,250

(iii) Immediately after issue of bonus shares

	₹	₹
Goodwill/capital reserve		
Face value of investments (5,25,000 + 2,62,500)	7,87,500	
Capital profits (W.N)	31,500	8,19,000
Less: Investment in Hockey Ltd		6,00,000
Capital Reserve		2,19,000
Minority Interest		
Share Capital (2,25,000 + 1,12,500)		3,37,500

Capital Profits (W.N) Revenue profit (W.N)		13,500 2,27,250 **5,78,250**
Consolidated profit and loss account - Football Ltd Balance Add: Share in revenue profit of Hockey Ltd (W.N)		 7,87,500 5,30,250
		13,17,750

Working Note:-

	Capital Profits	**Revenue Profits**	
	Before and after issue of bonus shares	Before bonus issue	After bonus issue
Pre-incorporation profits Profit and Loss Account on 31.03 2014	15,000 30,000		
	45,000		
General Reserve		9,52,500	9,52,500
Less: Bonus Shares			3,75,000 5,77,500
Profit for the period from 1st April 2014 to 31st March 2015 (₹2,10,000 - ₹30,000)		1,80,000	1,80,000
		11,32,500	7,57,500
Football Ltd's Share (70%)	31,500	7,92,750	5,30,250
Minority Share (30%)	13,500	3,39,750	2,27,250

* Share of Football Ltd in General Reserve has been adjusted in Consolidated Profit and Loss Account.

3. (c)

PB Ltd.
Consolidated Balance Sheet as at 31st March, 2015

(Amounting in ₹ Lakh)

	Particulars	Note No.	Amount
I.	**Equity and liabilities**		
	1. Shareholders'Funds:		
	a. Share Capital		1200
	b. Reserves and surplus	1	10560
	2. Minority Interest (W.N.3)		912
	3. Current liabilities		
	(a) Trade payables- creditors	2	720
	Total		13392
II.	**Assets:** 1. Non-current assets (a) Fixed Assets		
	(i) Tangible Assets	3	2832
	(ii) Intangible Assets (Goodwill)		144
	(b) Non-current investment		
	Investment in Associates(W.N.4)		2256

	2. **Current assets**	4	8160
	Total		13392

Notes to Accounts:

	₹	₹
1. Reserves and Surplus		
(a) Retained Earnings (W.N.2)		10560
2. Trade payables		
(b) Creditors(240+360+40%of 300)		720
3. Fixed Assets		
₹ (1200+960+40% of 1680)		2832
4. Current Assets		
₹ (2640+3960+40% of 3900)		8160

Working Notes:

(Amount in ₹ Lakh)

1. **Computation of Goodwill (Subsidiary)- R Ltd.**

Cost of Investment		960
Less: Paid up value of shares acquired (480 x 0.80)	384	
Share in pre-acquisition profit of R Ltd. (624 x 0.80)	499	(833)
Goodwill		77
S Ltd. (Jointly Controlled Entity):		
Cost of investment		720
Less: Paid up value of shares acquired (40% of 960)	384	
Share in pre-acquisition profits (40% of 480)	192	(576)
Goodwill		144

Note: Jointly controlled entity S to be consolidated on proportionate basis i.e. 40% as par AS27.

Associate T Ltd. (AS-23)		
Cost of investment		720
Less: Paid up value of shares acquired (960 x 0.40)	384	
Shares in pre-acquisition profits (480 x 0.40)	192	(576)
Goodwill		144

(Amount in ₹ Lakh)

Goodwill shown in consolidated Balance Sheet

Goodwill of S Ltd.	144
Goodwill of R Ltd.	77
Less: Goodwill written off of – R Ltd.	(77)

Goodwill	144	
2. **Consolidated Retained Earnings**		
PB Ltd.		4800
Share in post acquisition profits of R Ltd. (80% of (4080-624)		2765
Share in post acquisition profits of S Ltd.(40% of (4320-480)		1536
Share in post acquisition profits of T Ltd. (40% of (4320-480)		1536
Less: Goodwill written off – R. Ltd.		(77)
		10560
3. Minority Interest 'R' Ltd.		
Share capital (20% of 480)		96
Share in Retained Earnings (20% of 4080)		816
		912
4. Investment in Associates - T. Ltd.		
Cost of Investments (including goodwill ₹144 lakhs)		720
Share of post acquisition profits		1536
Carrying amount of investment (including goodwill ₹144)		2256

SECTION D

Answer* 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) Discuss in brief the concept of Triple Bottom Line Reporting (TBLR). 5

(b) (i) ADMAS LTD., a Registered Dealer, purchased a Machinery for ₹ 72,70,000 inclusive of State VAT of ₹ 2,70,000 on 1st June, 2014. As per the State VAT Laws, the Input VAT on Capital Goods is adjustable in 36 equal monthly installments beginning from 1st July of the year. The dealer charges 15% p. a. depreciation on the Machinery. During the year 2014-15, the dealer has set-off a sum of ₹ 20,000 from the VAT Credit Receivable on Capital Goods, against VAT payable on the Sales made by him.

Required:

Show the Journal Entries describing VAT Credit Treatment in the Books of ADMAS LTD. 5

(ii) Mega Ltd. issued 4,00,000, 6% Convertible Debenturs of ₹ 10 each on 1st April, 2011. The debentures are due for redemption on 31st March, 2015 at a premium of 10%, convertible into equity shares to the extent of 50% and the balance to be settled in cash to the debenture holders. The Interest rate on equivalent debentures without conversion rights was 10%. You are required to separate the debt and equity components at the time of the issue and show the accounting entry in the company's books at initial recognition.

The following Present Values of ₹ 1 at 6% and at 10% are supplied to you.

Interest Rate	Year 1	Year 2	Year 3	Year 4
6%	0.94	0.89	0.84	0.79
10%	0.91	0.83	0.75	0.68

5

(c) Happy Ltd. granted on 1st April, 2012, 60,000 Employees stock options at ₹ 30, when the market price was ₹ 60. These options will vest at the end of year 1, if the earning of Happy Ltd. is more than 14% or it will vest at the end of the year 2, if the average earning of two years is more than 11% or lastly it will vest at the end of third year, if the average earning of 3 years will be 8% or more. 2,000 unvested options lapsed on 31st March, 2013. 1500 unvested options lapsed on 31st March, 2014 and finally 1000 unvested options lapsed on 31st March, 2015.

The earnings of Happy Ltd. was as follows:

Year ended on	Earning in %
31.03.2013	12%
31.03.2014	9%
31.03.2015	5%

Employees exercised for 55,000 stock options which vested in them at the first opportunity and the balance options were lapsed.

Pass necessary journal entries and show the necessary working. 10

(d) Vintage Ltd. has provided the following information:

	(₹ in lakhs)
Equity Share Capital (₹ 10 each)	500
10% Preference Share Capital (₹ 10 each)	400
Reserve and Surplus	210
15% Debentures	1400
10% Non-trade Investments (Nominal Value ₹ 200 lakhs)	280
Land and Building held as Investment	20
Advance given for Purchase of Plant	10
Capital Work in Progress	30
Underwriting Commission (Not written off)	10
Earning per share (₹)	14
Tax Rate	30%
Beta Factor	1.50
Market rate of return	16.50%
Risk Free Rate	9.50%

Note: Advance given for Purchase of Plant and Capital Work-in-progress are to be treated as operating item.

Calculate Economic Value Added (EVA) by the Company. 10

Answer:

4. (a) The concept of TBL reporting refers to the publication to the 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 relationship 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 the 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 organisational and societal success - economic, environmental, social.
- In the private sector, a commitment to CSR implies a commitment to some form of TBL reporting.

4. (b) (i)

ADMAS LTD.

Journal Entries

(Amount in ₹)

Sl.	Particulars	Debit	Credit
1.	Machinery A/c Dr. VAT Credit deferred A/c Dr. To Bank A/c (Being machinery purchased and input tax thereon paid)	70,00,000 2,70,000	 72,70,000
2.	VAT Credit Receivable (Capital goods) A/c Dr. To VAT Credit deferred(capital goods) A/c (Being VAT credit available on Capital goods for current period i.e. 1st July to 31st March = (2,70,000 x 9/36]	67,500	 67,500
3.	VAT payable A/c Dr. To VAT Credit Receivable(capital goods) A/c (Being set-off of VAT Credit against Liability for VAT payment)	20,000	 20,000
4	Depreciation A/c Dr. To Machinery A/c [Being depreciation charged on Machinery (70,00,000 x 0.15 x 10/12)]	8,75,000	 8,75,000

(ii) Computation of Debt component of Convertible Debentures as on 1.4.2015:

Present value of the principal repayable after 4 years	(₹)
• [40,00,000 x 50% x 1.10 x 0.68 (10% Discount factor] =	14,96,000
• Present Value of interest	
[2,40,000 x 3.17 (4 years cumulative 10% discount factor)] =	7,60,800
Total present value of debt component (a + b)	22,56,800
Issue proceeds from convertible debt (c)	40,00,000
Value of equity component {c - (a + b)}	17,43,200

Journal entry at initial recognition

Cash / Bank	Dr.	40,00,00	
To 6% Debenture (Liability Component) A/C			22,56,800
To 6% Debenture (Equity Component) A/C			17,43,200
(Being the disbursement recorded at fair value)			

4. (c)

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
31.03.2013	Employees compensation expenses A/C	Dr.	8,70,000	
	To ESOS outstanding A/C			8,70,000
	(Being compensation expense recognized in respect of the 58,000 ESOS granted at a discount of ₹ 30 each, amortised on straight line basis over vesting years (Refer W.N.)			
31.03.2013	Profit and Loss Account	Dr.	8,70,000	
	To Employees compensation expenses A/C			8,70,000
	(Being compensation expense charged to Profit & Loss A/C)			
31.03.2014	Employees Compensation expenses A/C	Dr.	2,60,000	
	To ESOS outstanding A/C			2,60,000
	(Being compensation expense recognized in respect of the 56,500 ESOS - (Refer W.N.)			
31.03.2014	Profit and Loss Account	Dr.	2,60,000	
	To Employees compensation expenses A/C			2,60,000
	(Being compensation expense charged to Profit & Loss A/C)			
31.03.2015	Employees compensation expenses A/c	Dr.	5,35,000	
	To ESOS outstanding A/C			5,35,000
	(Being compensation expense recognized in respect of the 55,500 ESOS (Refer W.N.)			
31.03.2015	Profit and Loss Account	Dr.	5,35,000	
	To Employees compensation expenses A/C			5,35,000
	(Being compensation expense charged to Profit & Loss A/C)			
	Bank A/c (55,000 × ₹ 30)	Dr.	16,50,000	

	ESOS Outstanding A/c To Equity Share Capital (55,000 × ₹ 10) A/C To Securities premium A/c (55,000 × ₹ 50) (Being 55,000 ESOS exercised)	Dr.	16,50,000	 5,50,000 27,50,000
	ESOS Outstanding A/c To General Reserve A/C (Being ESOS Outstanding A/c transferred to General Reserve A/c, on lapse of 500 options the end of exercise period)	Dr.	15,000	 15,000

Working Notes:

Statement showing compensation expenses to be recognized

Particulars	Year 1 (31.03.2013)	Year 2 (31.03.2014)	Year 3 (31.03.2015)
Expected vesting period (at the end of the year)	2 years	3 years	-
Number of options expected to vest	58,000 options	56,500 options	55,500 options
Total compensation expenses accrued @ ₹ 30 (i.e. 60 - 30)	₹ 17,40,000	₹ 16,95,000	₹ 16,65,000
Compensation expenses of the year	(17,40,000×½) ₹ 8,70,000	(16,95,000×2/3) ₹ 11,30,000	₹ 16,65,000
Compensation Expenses recognised previously	Nil	₹ 8,70,000	₹ 11,30,000
Compensation expenses to be recognized for the year	₹ 8,70,000	₹ 2,60,000	₹ 5,35,000

4. (d)

Computation of Economic Value Added (EVA)

Particulars	₹ in lacs
Net operating Profit after tax (NOPAT)	873.00
Less : Weighted average cost of operating capital employed (13.08% of 2,200) (See W.N. 7)	287.76
Economic Value Added (EVA)	585.24

Working Notes :

1. Net Operating Profit after Tax

Earnings per share	₹ 14
No. of Equity Shares	50 lacs
	(₹ in Lacs)
Profit after interest, Tax & Preference Dividend (50 lacs x ₹ 14)	700.00
Add : Preference Dividend (10% of ₹ 400 lacs)	40.00
Profit after tax	740.00
Add : Tax @ 30% [740 / 70 × 30]	317.14

Profit before Tax	1,057.14
Add : Interest on Debentures (15% of ₹ 1400 lacs)	210.00
Profit before Interest & Tax	1,267.14
Less : Income from Non-trade Investment (10% of ₹ 200 lacs)	20.00
Net Operating Profit before tax	1,247.14
Less : Tax @ 30%	374.14
Net Operating Profit after Tax (NOPAT)	873.00

2. Cost of Equity = Risk Free Rate + Beta Factor x (Market rate-Risk Free Rate)

   = 9.50% +1.50 (16.50 -9.50) = 20%

3. Cost of Preference Shares = 10%

4. Cost of Debt = Interest Rate x (1 - tax rate) = 15% x (1 - 0.30) = 10.5%

5. Total Capital Employed = [Equity Share Capital + Retained Earning + Preference Share Capital + Debentures]

   = [500 + (210 - 10) + 400 + 1400] = 2500

6. Weighted Average Cost of Capital (WACC)

$$= (\frac{700}{2500}\times 20\%)+(\frac{400}{2500}\times 10\%)+(\frac{1400}{2500}\times 10.5\%)$$

   = 5.60+1.60 + 5.88=13.08%

7. Operating Capital Employed

			(₹ in lacs)
	Total Capital		2,500
Less :	Non-operating Capital Employed		
	10% Non-trade Investment	280	
	Land and Building held as investment	20	
			300
Operating Capital Employed			2,200

SECTION E

Answer* any three *sub-questions (carrying 5 marks each).

5. (a) Discuss the purpose of constitution of Government Accounting Standards Advisory Board (GASAB) by Comptroller and Auditor General of India. 5

(b) Enumerate the sources of Government Revenue. 5

(c) Briefly describe the role of Public Accounts Committee. 5

(d) Explain the objectives of Indian Government Accounting Standard (IGAS)-4 on "General Purpose Financial Statements of Government". 5

Answer:

5. (a) Government Accounting Standards Advisory Board (GASAB) has been constituted by Comptroller and Auditor General of India (CAG), with the support of Government of India through a notification dated 12th August 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 good governance, fiscal prudence, efficiency & 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 a nodal advisory body in India, is taking similar action to establish and improve standards of government accounting and financial reporting and enhance accountability mechanisms.

5. (b) The source of Government Revenue are enumerated below:

- Revenue Receipts
- Tax Revenue
  - Shareable with the states
  - Non-shareable
- 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

5. (c) The role of Public Accounts Committee:

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

- Examining government financial documents; and
- Considering the reports of the Auditor -General

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

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

- That the moneys shown in the account as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged:

- That the expenditure conforms to the authority which governs it; and
- That every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority

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

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

5. (d) Objective of IGAS-4

(i) 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.

(ii) 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.

(iii) 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 be defined to obtain a basic standard for financial reporting.

(iv) 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 characteristic in the information being presented. Desirable attributes of financial reporting are required to heighten their value to the users.

(v) 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).