

## 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

*Question No. 1 is compulsory.*

1. (a) RR Private Limited has taken machinery on lease from RR Ltd. The information is as under:

Lease term = 4 years

Fair value of inception of lease = ` 20,00,000

Lease rent = ` 6,25,000 p.a. at the end of year

Guaranteed residual value = ` 1,25,000

Expected residual value = ` 3,75,000

Implicit interest rate = 15%

Discounted rates for 1<sup>st</sup> year, 2<sup>nd</sup> year, 3<sup>rd</sup> year and 4<sup>th</sup> year are 0.8696, 0.7561, 0.6575, 0.5718 respectively. Calculate the value of lease liability as per AS-19. 5

**Answer:**

1. (a) According to para 11 of AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee.

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Present value of minimum lease payments will be calculated as follows:

Years	Minimum Lease Payment (Discount rate @15%)	Internal rate of return	Present value
1	6,25,000	0.8696	5,343,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	7,50,000*	0.5718	4,28,850
<b>Total</b>	<b>26,25,000</b>		<b>18,55,850</b>

Present value of minimum lease payments ₹ 18,55,850 is less than fair value at the inception of lease i.e. ₹ 20,00,000, therefore, the lease liability should be recognized at ₹ 8,55,850 as per AS 19.

\* Minimum Lease Payment of 4<sup>th</sup> year includes guaranteed residual value amounting ₹ 1,25,000.

- (b) ZCC Ltd. is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2012, 2013 and 2014 for ₹ 11,00,000, ₹ 16,00,000 and ₹ 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of ₹ 7,00,000, ₹ 18,00,000 and ₹ 23,00,000 for the years 2012, 2013 and 2014 respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/liability for the years 2012, 2013 and 2014. 5

Answer:

1. (b)

ZCC Ltd.

### Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Net Deferred Tax Liability (balance)
2012	11,00,000	7,00,000	4,00,000	1,40,000
2013	16,00,000	18,00,000	2,00,000	(70,000)
2014	<u>21,00,000</u>	<u>23,00,000</u>	2,00,000	<u>(70,000)</u>
	<u>48,00,000</u>	<u>48,00,000</u>		NIL

### 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) The Balance Sheet of Arjuna Ltd. as on 31<sup>st</sup> December, 2014 is given below:

<b>Equity and Liabilities</b>		<b>Assets</b>	
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<b>(1) Shareholders' Funds:</b> <b>Share Capital</b> (i) Equity Shares of ₹ 10 each      50,50,000 (ii) 8% Preference Shares of ₹ 10 each      9,50,000 <b>(2) Non-Current Liabilities:</b> <b>Long-Term-Borrowings</b> - 12% Debentures      15,00,000  <b>(3) Current Liabilities:</b> <b>Sundry Creditors and Other</b> <b>Current Liabilities</b> 10,00,000 <b>Total</b> <b>85,00,000</b>		<b>(1) Non-Current Assets:</b> <b>Fixed Assets</b> 50,00,000  <b>(2) Current Assets:</b>  (a) Inventories      20,00,000 (b) Trade Receivables-Debtors      10,00,000 (c) Cash & Cash Equivalents      5,00,000  <b>Total</b> <b>85,00,000</b>
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Sarathi Ltd. agrees to take over Arjuna Ltd. by issuing two Preference Shares of ₹ 10 each for every Preference Shares held by the Shareholders of Arjuna Ltd. and requisite number of Equity Shares of ₹ 10 each at par to discharge the amount of purchase consideration after issuing Preference Shares. Purchase Consideration is settled as per Book Value of the assets and current liabilities taken over only. The Debentures will be taken over by Sarathi Ltd. on the agreement that these will be paid off at 10% premium after one year. Debenture holders of Arjuna Ltd. will accept 12% Debentures of Sarathi Ltd. Calculate purchase consideration. 5

**Answer:**

**2. (a)**

### Purchase Consideration by Net Assets Method

Particulars	₹
Book Value of Assets taken over (i.e. Total of Assets Side)	85,00,000
Less: Liabilities taken over — Debentures @ 10% Premium (₹ 15 Lakhs + 10% of ₹ 15 Lakhs)	(16,50,000)
Sundry Creditors & Other Liabilities	(10,00,000)
<b>Net Purchase Consideration</b>	<b>58,50,000</b>

This purchase consideration shall be discharged by 8% Preference Shares and Equity Shares of Sarathi Ltd. (Issue of Debentures to the Debenture holders' of Arjuna Ltd. shall not be included in Purchase Consideration).

Number of Shares to be issued is computed as under -

A. Preference Shares to be issued       $(\text{₹ } 9,50,000 / 10) \times 2 = 1,90,000$  Shares

B. Balance of Purchase Consideration = ₹ 58,50,000 - ₹ 19,00,000 = ₹ 39,50,000

B. Equity Shares to be issued       $= \frac{\text{₹ } 39,50,000}{10} = 3,95,000$  Shares

**(b) The Balance Sheet of Big Ltd. and Small Ltd. as at 31.03.2015:**

(₹ in lakh)

	Big Ltd.	Small Ltd.		Big Ltd.	Small Ltd.

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Share Capital	40	15	Sundry Assets (including cost of shares)	56	20
Profit & Loss A/c	7.5	-	Goodwill	4	5
Sundry Creditors	12.5	12.5	Profit and Loss A/c	-	2.5
	60.0	27.5		60.0	27.5

**Additional Information:**

- (i) The two companies agree to amalgamate and form a new company, Medium Ltd.
- (ii) Big Ltd. holds 10,000 shares in Small Ltd. acquired at a cost of ` 2,50,000 and Small Ltd. holds 5,000 shares in Big Ltd. acquired at a cost of ` 7,00,000.
- (iii) The shares of Big Ltd. are of ` 100 and are fully paid and the shares of Small Ltd. are of ` 50 each on which ` 30 has been paid-up.
- (iv) It is agreed that the goodwill of Big Ltd. would be valued at ` 1,50,000 and that of Small Ltd. at ` 2,50,000.
- (v) The shares which each company holds in the other are to be valued at book value having regard to the goodwill valuation decided as given in (iv).
- (vi) The new shares are to be of a nominal value of ` 50 each credited at ` 25 paid.

You are required to:

- (i) prepare the Balance Sheet of Medium Ltd., as at 31st March, 2015 after giving effect to the above transaction; and
- (ii) prepare a statement showing the shareholdings in the new company attributable to the shareholders of the merged companies. 10

**Answer:**

### 2. (b) Balance Sheet of Medium Ltd. as on 31.03.2015

	Particulars	Note	This Year (`)	Prev. Year (`)
<b>I</b>	<b>EQUITY AND LIABILITIES</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	1	45,50,000	
(2)	<b>Current Liabilities</b>			
	Trade Payables		25,00,000	
	<b>Total</b>		<b>70,50,000</b>	
<b>II</b>	<b>ASSETS</b>			
(1)	<b>Non-Current Assets:</b>			
	Fixed Assets			
	Intangible Assets	2	4,00,000	
(2)	<b>Current Assets</b>			
	` (53,50,000 + 13,00,000)		66,50,000	
	<b>Total</b>		<b>70,50,000</b>	

**Notes to the Balance Sheet (` Crores) Note 1: Share Capital**

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Particulars	This Year (`)	Prev. Year (`)
1,82,000 shares of `50 each `25 paid up [Issued for consideration other than cash]	45,50,000	
<b>Total</b>	<b>45,50,000</b>	

### Note 2: Fixed Assets

Particulars	This Year (`)	Prev. Year (`)
Intangible Assets		
Goodwill `(1,50,000 +2,50,000)	4,00,000	
<b>Total</b>	<b>4,00,000</b>	

### Statement of Shareholding in Medium Ltd.

Particulars	Big Ltd.	Small Ltd.
Total value of Assets	44,20,513	8,52,564
Less: Pertaining to shares held by the other company	5,52,564	1,70,513
	38,67,949	6,82,051
Rounded off to	38,67,950	6,82,050
Shares of new company (at `25 per share)	1,54,718	27,282

Total purchase consideration to be paid to Big Ltd and Small Ltd.

$$(\text{` } 38,67,950 + \text{` } 6,82,050) = \text{` } 45,50,000$$

Number of shares in Big Ltd.  $(40,00,000/100)$  40,000 shares

Number of shares in Small Ltd.  $(15,00,000/50)$  50,000 shares

Holding of Small Ltd. in Big Ltd.  $(5,000/40,000)$  1/8

Holding of Big Ltd. in Small Ltd.  $(10,000/50,000)$  1/5

Number of shares held by outsiders in Big Ltd.  $(40,000 - 5,000) =$  35,000

Number of shares held by outsiders in Small Ltd.  $(50,000 - 10,000) =$  40,000

### Workings Note:

#### Calculation of Book Value of Shares

	Big Ltd	Small Ltd.
Goodwill	1,50,000	2,50,000
Sundry Assets other than shares in other company $(56,00,000 - 2,50,000)$ $(20,00,000 - 7,00,000)$	53,50,000	13,00,000
	55,00,000	15,50,000
Less: Sundry Creditors	12,50,000	12,50,000
	42,50,000	3,00,000

If "x" is the Book Value of Assets of Big Ltd and "y" of Small Ltd.

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$$x = 42,50,000 + \frac{1}{5}y$$

$$y = 3,00,000 + \frac{1}{8}x$$

$$x = 42,50,000 + \frac{1}{5}\left(3,00,000 + \frac{1}{8}x\right)$$

$$= 42,50,000 + 60,000 + \frac{1}{40}x$$

$$\frac{39}{40}x = 43,10,000$$

$$x = 43,10,000 \times \frac{40}{39}$$

$$\mathbf{x = 44,20,513 \text{ (approx.)}}$$

$$y = 3,00,000 + \frac{1}{8}(44,20,513)$$

$$= 3,00,000 + 5,52,564$$

$$= \text{` } 8,52,564 \text{ (approx.)}$$

$$\begin{aligned} \text{Book Value of one share of Big Ltd.} &= \frac{44,20,513}{40,000} \\ &= \text{` } 110.513 \text{ (approx)} \end{aligned}$$

$$\begin{aligned} \text{Book Value of one share of Small Ltd.} &= \frac{8,52,564}{50,000} \\ &= \text{` } 17.05 \text{ (approx)} \end{aligned}$$

**(c) The Balance Sheets of HARD LUCK Ltd. on 31<sup>st</sup> March, 2015 is as under:**

Liabilities	`	Assets	`
Authorised, Issued Equity Share Capital 20,000 shares of ` 100 each	20,00,000	Goodwill	2,00,000
10,000, 7% Preference Shares of 100 each	10,00,000	Plant and Machinery	18,00,000
Sundry Creditors	7,00,000	Stock	3,00,000
Bank Overdraft	3,00,000	Debtors	7,50,000
		Preliminary Expenses	1,00,000
		Cash	1,50,000
		Profit and Loss Account	7,00,000
	<b>40,00,000</b>		<b>40,00,000</b>

Two years' preference dividends are in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and paying dividend provided the capital base is reduced.

An internal reconstruction scheme as follows was agreed to by all concerned:

- (i) Creditors agreed to forego 50% of the claim.
- (ii) Preference shareholders withdrew arrear dividend claim. They also agreed to lower their capital claim by 20% by reducing nominal value in consideration of 9%

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dividend effective after reorganization, in case equity shareholders' losses exceed 50% on the application of the scheme.

- (iii) Bank agreed to convert overdraft into term loan to the extent required for making current ratio equal to 2:1.
- (iv) Revalued figure for plant and machinery was accepted as ₹ 15,00,000.
- (v) Debtors to the extent of ₹ 4,00,000 were considered good.
- (vi) Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganisation.

Show:

- (a) Total loss to be borne by the equity and preference shareholders for the reorganisation.
- (b) Share of loss to the individual classes of shareholders.
- (c) New structure of share capital after reorganization.
- (d) Working capital of the reorganized Company. 10

Answer:

2. (c)

(a) Loss to be borne by Equity and Preference Shareholders	
Profit and loss account (debit balance)	7,00,000
Preliminary expenses	1,00,000
Goodwill	2,00,000
Plant and machinery (₹ 18,00,000 - ₹ 15,00,000)	3,00,000
Debtors (₹ 7,50,000 - ₹ 4,00,000)	<u>3,50,000</u>
Amount to be written off	16,50,000
Less : 50% of sundry creditors	<u>3,50,000</u>
Total loss to be borne by the equity and preference shareholders	<u>13,00,000</u>

**Note :** Two years' preference dividend (arrears) have been ignored in the computation of loss to be borne by equity and preference shareholders.

(b) **Share of loss to preference shareholders and equity shareholders**

Total loss of ₹ 13,00,000 being more than 50% of equity share capital i.e. ₹ 10,00,000.	
Preference shareholders' share of loss = 20% of ₹ 10,00,000	= ₹ 2,00,000
Equity shareholders' share of loss (₹ 13,00,000 - ₹ 2,00,000)	= <u>₹ 11,00,000</u>
Total loss	= <u>₹ 13,00,000</u>

(c) **New structure of share capital after reorganisation**

Equity shares :	
20,000 equity shares of ₹ 45 each, fully paid up	
(₹ 20,00,000 - ₹ 11,00,000)	9,00,000

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Preference shares:

10,000, 9% preference shares of ₹ 80 each, fully paid up

(₹ 10,00,000 - ₹ 2,00,000) 8,00,000

17,00,000

(d) **Working capital of the reorganized company**

Current Assets :

Stock 3,00,000

Debtors 4,00,000

Cash 1,50,000

8,50,000

Less : Current Liabilities :

Creditors 3,50,000

Bank overdraft\*\* 75,000     4,25,000

Working capital 4,25,000

**Note :** Current ratio shall be 2 :1, i.e. total current liabilities shall be 50% of ₹ 8,50,000 (i.e. ₹ 3,00,000 + 4,00,000 + 1,50,000) = ₹ 4,25,000. Therefore, Bank overdraft = ₹ 75,000 (₹ 4,25,000 less creditors ₹ 3,50,000).

(d) **The following are the Balance Sheet of SUN Ltd. and MOON Ltd. As at 31.3.2015:**

(Figure in ₹ lakhs)

Liabilities	SUN Ltd.	MOON Ltd.	Assets	SUN Ltd.	MOON Ltd.
<b>Share Capital:</b>			<b>Fixed Assets:</b>		
Equity Shares (₹ 10 per share)	500.00	300.00	Land and Building	250.00	155.00
14% Preference Shares (₹ 100 each)	220.00	170.00	Plant and Machinery	325.00	170.00
General Reserve	50.00	25.00	Furniture & Fittings	57.50	35.00
Export Profit Reserve	30.00	20.00	Investments	70.00	50.00
Investment Allowance			<b>Current Assets, Loans and</b>		
Reserve	—	10.00	<b>Advances:</b>		
Profit & Loss A/c	75.00	50.00	Stock	125.00	95.00
13% Debentures (₹ 100 each)	50.00	35.00	Debtors	90.00	103.00
Trade Creditors	45.00	35.00	Cash & Bank	72.50	52.00
Other Current Liabilities	20.00	15.00			
	<u>990.00</u>	<u>660.00</u>		<u>990.00</u>	<u>660.00</u>

SUN Ltd. takes over MOON Ltd. on April, 2015. The purchase consideration is discharged as follows:

- (i) Issued 35,00,000 Equity Shares of ₹ 10 each at par with Equity Shareholders of MOON Ltd.
- (ii) Issued 15% Preference Shares of ₹ 100 each to discharge the Preference Shareholders of MOON Ltd. at 10% premium.



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(iii) The Debentureholders of MOON Ltd. will be converted into equivalent number of Debentures of SUN Ltd.

(iv) The statutory reserves of MOON Ltd. are to be maintained for two more years.

**Required:**

Prepare the Balance Sheet as on April 10, 2015 (Opening Balance Sheet) of SUN Ltd. after amalgamation has been carried out on the basis of amalgamation in the nature of the Merger. 10

**Answer:**

### 2. (d) Balance Sheet of Sun Ltd. as on 10.04.2015

Particulars		10.04.2015	10.04.2014
<b>Equity and Liabilities</b>		` in Lakhs	` in Laths
(1) Shareholders' Funds:			
(a) Share Capital	<b>1</b>	1,257	
(b) Reserves & Surplus	<b>2</b>	193	
(2) Non-Current Liabilities			
- Secured Loan – 13% Debentures (` 100 each)		85	
(3) Current Liabilities:			
(a) Trade Payables - Sundry Creditors		80	
(b) Other Current Liabilities		35	
<b>Total</b>		<b>1,650</b>	
<b>Assets</b>			
(1) Non-Current Assets:			
(a) Fixed Assets:	<b>3</b>	992.5	
(i) Tangible Assets			
(b) Non-current investments		120	
(2) Current Assets:			
(a) Inventories - Stock		220	
(b) Trade Receivables - Debtors		193	
(c) Cash & Cash Equivalents – Cash & Bank		124.5	
<b>Total</b>		<b>1,650</b>	

**Notes to Balance Sheet:**

1. Share Capital	10.04.2015	10.04.2014
	` in Lakhs	` in Lakhs
<b>Authorised, Subscribed and Paid up Capital :</b>		
85,00,000 Equity Shares of ` 10 each	850	
15% 1,87,000 Preference Shares of ` 100 each	187	
14% 2,20,000 Preference Shares of ` 100 each	220	
<b>Total</b>	<b>1,257</b>	

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2. Reserves and Surplus	10.04.2015 ` in Lakhs	10.04.2014 ` in Lakhs
(i) General Reserves	8	
(ii) Investment Allowance Reserve	10	
(iii) Export Profit Reserves	50	
(ii) Profit & Loss Account	125	
<b>Total</b>	<b>193</b>	

3. Tangible Assets	10.04.2015 ` in Lakhs	10.04.2014 ` in Lakhs
(i) Land and Buildings	405	
(ii) Plant and Machinery	495	
(iii) Furniture & Fittings	92.5	
<b>Total</b>	<b>992.5</b>	

### Working Notes:

1. Purchase Consideration:

Particulars	( ` in Lakh)
Equity Shareholders of Moon Ltd.	350.00
Preference Shareholders of Moon Ltd.	187.00
<b>Total</b>	<b>537.00</b>

2. The difference between the amount recorded as share capital issued by transferor company and the amount of share capital of transferee company should be the adjusted in reserves:

Thus General Reserves:

$$\text{` [75 - (537-470)] Lakh} = \text{` 8 Lakh.}$$

3. Total Equity Share Capital = ` 500 lacs (Existing) + ` 350 lacs (New Issue).

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

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

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

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

Ascertain the Cost of Control as on 31<sup>st</sup> December, if S's share in Capital Profits (duly adjusted for purchase in lots) as on that date was ₹ 3,15,000. 10

Answer:

3. (a)

### A. Cost of Investment

Particulars	Shares	₹
<b>Cost of first Acquisition</b> (5,000 × ₹ 48)	5,000	2,40,000
Less: Pre-Acquisition Dividend (5,000 × ₹ 4 per Share)	N.A.	(20,000)
<b>Corrected Cost of Investment</b>	5,000	2,20,000
Add: Bonus Shares (1/5 × 5,000 Shares)	1,000	–
<b>Cost after Bonus Shares</b>	6,000	2,20,000
Add Rights Shares (1/5 × 6,000 Shares × ₹ 36)	1,200	43,200
<b>Cost after Rights issue before Share Split</b>	7,200	2,63,200
<b>Cost after share split (WN)</b> (2 Sh, for 1 for 7,200 Sh = 7,200 × 2)	14,400	2,63,200
Add: Acquisition to increase holding to 80% (WN) (4,032 × ₹ 30)	4,032	1,20,960
Balance on date of Consolidation	16,432	3,84,160

**Notes:**

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

### Calculation of Number of Shares to be acquired to increase stake to 80%

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

### 2. Cost of Control

Particulars	₹
Cost of Investment	(A) (from 1 above) 3,84,160
Nominal Value of Equity Capital	(18,432 × ₹ 5 per Share) 92,160
Share in Capital Profit	3,15,000
<b>Total of Above</b>	<b>(B) 4,07,160</b>
<b>Capital Reserve (if B &lt; A)</b>	<b>(B-A) 2,3,000</b>

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- (b) The following are the Balance Sheet of Ram Ltd., Shyam Ltd. and Tom Ltd. as on 31.03.2015:

	` in '000		
Particulars	Ram Ltd.	Shyam Ltd.	Tom Ltd.
<b>Liabilities</b>			
Equity Share Capital (` 100 each)	8,000	4,000	1,600
General Reserve	1,600	280	—
Profit and Loss Account	1,360	960	—
Current Liabilities	1,280	3,000	1,120
<b>Total</b>	<b>12,240</b>	<b>8,240</b>	<b>2,720</b>
<b>Assets</b>			
<b>Investments:</b>			
32,000 shares in Shyam Ltd.	4,800	—	—
4,000 shares in Tom Ltd.	200	—	—
12,000 shares in Tom Ltd.	—	720	—
Profit and Loss Account	—	—	640
Current assets	7,240	7,520	2,080
<b>Total</b>	<b>12,240</b>	<b>8,240</b>	<b>2,720</b>

From the following information, prepare consolidated Balance Sheet of Ram Ltd. and its subsidiaries as on 31.03.2015:

- (i) Shyam Ltd. has advanced ` 8,00,000 to Tom Ltd.
- (ii) Current Liabilities of Ram Ltd. includes ` 4,00,000 due to Tom Ltd.
- (iii) Shyam Ltd. and Tom Ltd. have not paid any dividend.
- (iv) Ram Ltd. acquired its investments on 01.04.2014 from Shyam Ltd. and then amount standing to credit of General Reserve and Profit & Loss Account were ` 2,80,000 and ` 5,20,000 respectively.
- (v) Ram Ltd. acquired investments in Tom Ltd. on 01.04.2014. when the debit balance in Profit and Loss Account in books of Tom Ltd. was ` 4,80,000.
- (vi) Shyam Ltd. acquired its investments in Tom Ltd. on 01.04.2012 and then the debit balance in Profit and Loss Account was ` 1,60,000.
- (vii) Shyam Ltd.'s stock includes stock worth ` 4,80,000 which was invoiced by Ram Ltd. at 20% above cost.

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Answer:

3. (b) Consolidated Balance Sheet of Ram Ltd. and its subsidiaries Shyam Ltd and Tom Ltd. as on 31.3.20 15

	Particulars	Note	31.03.2015 ` '000	31.03.2014 ` '000
<b>I</b>	<b>EQUITY AND LIABILITIES</b>			
(1)	<b>Shareholders' Funds:</b>			
	Share Capital		8,000	
	Reserves & Surplus			
	- General Reserves		1,600	
	- Profit and Loss A/c		1,496	
(2)	<b>Minority Interest</b>		952	
(3)	<b>Current Liabilities</b>			
	Trade payables [(1,280+3,000+1,120)-1,200]		4,200	
	<b>Total</b>		<b>16,248</b>	
<b>II</b>	<b>ASSETS</b>			
(1)	<b>Non-Current Assets:</b>			
	Intangible Assets - Goodwill		688	
(2)	<b>Current Assets;</b>			
	[(7,240+7,520+2,080)-(1,200+80)]		15,560	
	<b>Total</b>		<b>16,248</b>	

**Working Notes:**

1. **General Reserves Accounts and Profit and Loss Accounts of Shyam Ltd.:**

**General Reserve Account of Shyam Ltd.**

Dr.			Cr.		
Date	Particulars	` '000	Date	Particulars	` '000
31.3.15	To Balance c/d	280	1.4.14	By Balance b/d	280
		<b>280</b>			<b>280</b>

**Profit and Loss Account of Shyam Ltd.**

Dr.			Cr.		
Date	Particulars	` '000	Date	Particulars	` '000
31.3.15	To Balance c/d	960	1.4.14	By Balance b/d	520
				By Profit earned during the year (Bal. Fig.)	440
		<b>960</b>			<b>960</b>

# Suggested Answer\_Syl12\_Dec2015\_Paper 18

## 2. Profit and Loss Account of Tom Ltd.

Dr.			Cr.		
Date	Particulars	` '000	Date	Particulars	` '000
1.4.12	To Balance b/d	160	31.3.13	By Balance c/d	160
		<b>160</b>			<b>160</b>
1.4.13	To Balance b/d	160	31.3.14	By Balance c/d	480
	To Loss incurred during the year (Bal. Fig.)	320			
		<b>480</b>			<b>480</b>
1.4.15	To Balance b/d	480	31.3.15	By Balance c/d	640
	To Loss incurred during the year (Bal. Fig.)	160			
		<b>640</b>			<b>640</b>

### 3. Analysis of Profits of Tom Ltd.

	Particulars	Capital Profits ` '000	Revenue Profits ` '000
(i)	<b>From the view point of Shyam Ltd.</b>		
	Debit Balance in Profit and Loss Account as on 1.4.2012	(160)	
	Loss incurred between 1.4.2012 to 31.3.2015		(480)
	[(320 + 160) – Refer W.N. 2]		
		(160)	(480)
	Share of Shyam Ltd. 75% [carried forward to W.N. 4]	(120)	(360)
(ii)	<b>From the view point of Ram Ltd.</b>		
	Debit Balance of Profit and Loss Account as on 1.4.14	(480)	
	Loss during the year 2014-15		(160)
		(480)	(160)
	Share of Ram Ltd. (25%)	(120)	(40)

### 4. Analysis of Profits of Shyam Ltd. (From the viewpoint of Ram Ltd.)

Particulars	Capital Profits ` '000	Revenue Profit ` '000
General Reserve as on 1.4.14	280	
Profit and Loss Account Balance as on 1.4.14	520	
Profit earned during 2014-15 (W.N. 1)		440
Brought forward Shyam Ltd.'s share of loss in Tom Ltd. [W.N. 3(i)]	(120)	(360)
Share of Shyam Ltd. in revenue loss of Tom Ltd. for the period 1.4.14 to 31.3.14 [75% of (360-40)] being treated as capital loss from view point of Ram Ltd.	(240)	240
	440	320
Less: Share of Minority Interest (20%)	88	64
Balance taken to Ram Ltd. (80%)	352	256

## Suggested Answer\_Syl12\_Dec2015\_Paper 18

### 5. Cost of Control

Particulars	` '000	` '000
Investment by Ram Ltd. in Shyam Ltd.	4,800	
Tom Ltd.	200	
Investment by Shyam Ltd. in Tom Ltd.	720	5720
Less: Paid up value of shares of:		
Shyam Ltd.	3,200	
Tom Ltd. (400 + 1,200)	1,600	
	4,800	
Investment by Shyam Ltd. in Tom Ltd.	720	5,270
Less: Paid up value of shares of:		
Shyam Ltd.	3,200	
Tom Ltd. (400 + 1,200)	1,600	
	4,800	
Capital loss of Ram Ltd. in Tom Ltd. [W.N. 3(ii)]	(120)	
Capital Profit of Ram Ltd. in Shyam Ltd. (W.N. 4)	352	5,032
Goodwill		688

### 6. Consolidated Profit and Loss A/c of Ram Ltd.

Particulars	` '000
Profit and Loss A/c Balance	1,360
Post acquisition share of loss from Tom Ltd.	(40)
Post acquisition share of profit from Shyam Ltd.	256
	1,576
Less: Unrealised Profit on Stock (1/6 <sup>th</sup> of 480)	80
	1,496

### 7. Minority Interest

Particulars	` '000
Paid up value of shares in Shyam Ltd. (20% of 4,000)	800
Share of Capital Profit (W.N. 4)	88
Share of Revenue Profit (W.N. 4)	64

(c) The following is an abstract of the Balance Sheets of H Ltd., S Ltd. and D Ltd. as on March 31, 2015:

Liabilities	H Ltd.	S Ltd.	D Ltd.
<b>Share Capital:</b>			
Equity Share of ` 10 each fully paid	20,00,000	10,00,000	6,00,000
<b>Reserves and Surplus:</b>			
Reserves	1,80,000	2,00,000	1,44,000

## Suggested Answer\_Syl12\_Dec2015\_Paper 18

Profit and Loss A/c	2,00,000	40,000	1,02,000
<b>Current Liabilities &amp; Provisions:</b>			
Creditors	60,000	60,000	20,000
	24,40,000	13,00,000	8,66,000
<b>Assets:</b>			
Fixed Assets	11,00,000	6,00,000	8,00,000
<b>Investments:</b>			
75,000 shares in S Ltd.	10,00,000	—	—
15,000 shares in D Ltd.	2,00,000	—	—
40,000 shares in D Ltd.	—	5,60,000	—
<b>Current Assets, Loans &amp; Advances:</b>			
Stock	1,20,000	1,00,000	56,000
Cash at Bank	20,000	40,000	10,000
	24,40,000	13,00,000	8,66,000

H Ltd. purchased the shares in S Ltd. and in D Ltd. on Sept. 30, 2014, and S Ltd. also purchased the shares in D Ltd. on the same day.

The following are the balances at the beginning of the year (01.04.2014)

	S Ltd.	D Ltd.
Reserves	1,80,000	1,20,000
Profit & Loss A/c	20,000	16,800

You are to assure that Profit accrue uniformly every month.

**Required:**

Prepare a Consolidated Balance Sheet of H Ltd. and its Subsidiaries as at March 31, 2015.

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**Answer:**

**3. (c) Balance Sheet of H Ltd. and its subsidiaries as on 31<sup>st</sup> March, 2015**

	Particulars	Note	31.03.2015 (`)	31.03.2014 (`)
<b>I</b>	<b>EQUITY AND LIABILITIES</b>			
<b>(1)</b>	<b>Shareholders' Funds:</b>			
	Share Capital – Equity shares of ` 10 each		20,00,000	
	Reserves & Surplus			
	- Reserves		1,96,500	
	- Profit and Loss A/c		2,39,450	
<b>(2)</b>	<b>Minority Interest</b>		3,89,594	
<b>(3)</b>	<b>Current Liabilities</b>			
	Trade payables (Creditors)			



## Suggested Answer\_Syl12\_Dec2015\_Paper 18

	[60,000 + 60,000 + 20,000]		1,40,000
	<b>Total</b>		<b>29,65,544</b>
<b>II</b>	<b>ASSETS</b>		
<b>(1)</b>	<b>Non-Current Assets:</b>		
	Fixed Assets		
	Tangible Assets [11,00,000 + 6,00,000 + 8,00,000]		25,00,000
	Intangible Assets - Goodwill		1,19,544
<b>(2)</b>	<b>Current Assets:</b>		
	Inventories [1,20,000 + 1,00,000 + 56,000]		2,76,000
	Cash and cash equivalents [20,000 + 40,000 + 10,000]		70,000
	<b>Total</b>		<b>29,65,544</b>

### Position on 30.09.2014

Particulars	Reserve ( ` )	Profits ( ` )
D Ltd.		
Balance as on 31.03.2015	1,44,000	1,02,000
Less: Balance as on 01.04.2014	1,20,000	16,800
Increase during the year	24,000	85,200
Estimated increase for half year	12,000	42,600
Balance as on 30.09.2014	(1,20,000 + 12,000) i.e. 1,32,000	(16,800 + 42,600) i.e. 59,400
S Ltd.		
Balance as on 31.03.2015	2,00,000	40,000
Less: Balance as on 01.04.2014	1,80,000	20,000
Increase during the year	20,000	20,000
Estimated increase for half year	10,000	10,000
Balance as on 30.09.2014	(1,80,000 + 10,000) i.e. 1,90,000	(20,000 + 10,000) i.e. 30,000

### Analysis of Profits:

Particulars	Capital Profit ( ` )	Revenue Reserve ( ` )	Revenue Profit ( ` )
D Ltd.			
Reserves as on 30.09.2014	1,32,000		
Profit and Loss A/c as on 30.09.2014	59,600		
Increase in Reserves		12,000	
Increase in Profit and Loss A/c			42,600
<b>Total</b>	<b>1,91,400</b>	<b>12,000</b>	<b>42,600</b>

## Suggested Answer\_Syl12\_Dec2015\_Paper 18

Share of H Ltd. (25%)	47,850	3,000	10,650
Share of S Ltd. (66.67%)	1,27,606	8,000	28,400
Minority Interest (8.33%)	15,944	1,000	3,550
S Ltd.			
Reserves as on 30.09.2014	1,90,000		
Profit and Loss A/c as on 30.09.2014	30,000		
Increase in Reserves		10,000	
Increase in Profit and Loss A/c			10,000
Total	2,20,000	10,000	10,000
From D Ltd.	--	8,000	28,400
Total	2,20,000	18,000	38,400
Share of H Ltd. (75%)	1,65,000	13,500	28,800
Minority Interest (25%)	55,000	4,500	9,600

### Computation of Cost of Control:

Particulars	(₹)	(₹)
Cost of Investment in S Ltd.	10,00,000	-
Cost of Investment in D Ltd. (2,00,000 + 5,60,000)	7,60,000	17,60,000
Less:		
Share of Capital Profit in D Ltd. (47,850 + 1,27,606)	1,75,456	
Share of Capital Profit in S Ltd.	1,65,000	3,40,456
Nominal Value of Shares (7,50,000 + 1,50,000 + 4,00,000)		13,00,000
Goodwill		1,19,544

### Computation of Consolidated Reserves and Profit:

Particulars	Reserves (₹)	Profit and Loss A/c (₹)
Balance of H Ltd.	1,80,000	2,00,000
Share in D Ltd.	3,000	10,650
Share in S Ltd.	13,500	28,800
TOTAL	1,96,500	2,39,450

### Computation of Minority Interest:

Particulars	(₹)
Nominal Value of Shares in S Ltd.	2,50,000
Nominal Value of Shares in D Ltd.	50,000
Share of Capital Profit in S Ltd.	55,000
Share of Capital Profit in D Ltd.	15,944
Share of Revenue Reserves and Profit in S Ltd.	(4,500 + 9,600) i.e. 14,100
Share of Revenue Reserves and Profit in D Ltd.	(1,000 + 3,550) i.e. 4,550

# Suggested Answer\_Syl12\_Dec2015\_Paper 18

Total	3,89,594
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## 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) MS ANDRILA. an investor buys a stock option of ANISHA LTD. in July 2015 with a strike price on 30th July. 2015 ₹ 300, to be expired on 30th August, 2015. The premium is ₹ 25 per unit and the market lot is 100. The margin to be paid is ₹ 130 per unit.

**Required:**

Show the accounting treatment (Journal Entries) in the Books of Ms ANDRILA when:

- (i) The option is settled by delivery of the asset,  
(ii) The option is settled in Cash and the Index price is ₹ 310 per unit.

5

**Answer:**

4. (a) **Ms. ANDRILA**

- (i) When the option is settled by delivery of the Asset:

### Journal Entries:

Date	Particulars		Dr. (₹)	Cr. (₹)
30.7.2015	Equity Stock Option Premium (Anisha Ltd.) A/c To Bank A/c (Being Premium Paid on Stock Option of Anisha Ltd. purchased at ₹ 25 per unit for 100 units constituting one lot.)	Dr.	2,500	2,500
30.8.2015	Equity Shares of Anisha Ltd. A/c To Bank A/c (Being Call option exercised and shares acquired)	Dr.	30,000	30,000
30.8.2015	Profit & Loss A/c To Equity Stock Option Premium (Anisha Ltd.) A/c (Being Premium on option written off on exercise of option.)	Dr.	2,500	2,500

**Note :** No entries have been passed in respect of Margin payments. This is because, the buyer of the option contract is not required to pay any margin.

- (ii) When the option is settled in cash and the index price ₹ 310 per unit:

### Journal Entries:

Date	Particulars		Dr. (₹)	Cr. (₹)
30.7.2015	Equity Stock Option Premium (Anisha Ltd.) A/c To Bank A/c (Being Premium paid on stock option of Anisha Ltd. purchased at ₹ 25 per unit for 100 units constituting one lot.)	Dr.	2,500	2,500
30.8.2015	Bank A/c	Dr.	1,000	

## Suggested Answer\_Syl12\_Dec2015\_Paper 18

	To Profit & Loss A/c (Being the Profit on exercise of option received. Profit = Market lot of 100 x (I.P. of ` 310 - S.P. of ` 300)		1,000
30.8.2015	Profit & Loss A/c	Dr.	2,500
	To Equity Stock Option Premium (Anisha Ltd.) A/c (Being Premium on option written off on exercise of option.)		2,500

- (b) A Mutual Fund raised funds on 01.04.2014 by issuing 10 lakhs units @ 17.50 per unit. Out of this Fund, ` 160 lakhs invested in several capital market instruments. The initial expenses amount to ` 9 lakhs. During June, 2014 the Fund sold certain securities worth ` 100 lakhs for ` 125 lakhs and it bought certain securities for ` 90 lakhs. The Fund Management expenses amounting to ` 5 lakhs per month. The dividend earned was ` 3 lakhs. 80% of the realised earnings were distributed among the unitholders. The market value of the portfolio was ` 175 lakhs. Determine Net Asset Value (NAV) per unit as on 30.06.2014. 10**

**Answer:**

**4. (b)** Total Funds raised by Mutual Fund = 17.5 x 10 Lakhs = 175 Lakhs

	(` In lakhs)	
Opening Bank Balance (175 -160 -9)	6	
Add: Proceeds from sale of securities	125	
Add: Dividend received	<u>3</u>	
Less:		134
Cost of securities purchased	90	
Management expenses (` 5 lakhs x 3 months)	15	
Realised gains distributed [80% of (` 125 lakhs - ` 100 lakhs)]	20	
Dividend distributed (80% of ` 3 lakhs)	<u>2.40</u>	<u>127.40</u>
Closing Bank Balance		6.60
Closing Market value of portfolio		<u>175.00</u>
Closing Net Assets		<u>181.60</u>
No. of Units (Lakh)		10.00
Closing NAV - ` 181.60 lakhs divided by 10 lakh units	=	` 18.16

## Suggested Answer\_Syl12\_Dec2015\_Paper 18

(c) The following particulars in respect of Stock Option granted by a Company are available:

Grant date	April 1, 2012
Number of Employees covered	500
Number of Options granted per employee	100
Fair Value of Option per share on grant date (₹)	25

The Vesting Period shall be determined as below:

- (i) If the Company earns ₹ 120 Crores or above after taxes in 2012-13, the Options will vest on 31.03.2013.
- (ii) If condition (a) is not satisfied but the Company earns ₹ 250 Crores or above after taxes in aggregate in 2012-13 and 2013-14, the Options will vest on 31.03.2014.
- (iii) If condition (i) and (ii) are not satisfied but the Company earns ₹ 400 Crores or above after taxes in aggregate in 2012-13 and 2013-14 and 2014-15, the Options will vest on 31.03.2015.

Position on 31.03.2013	Position on 31.03.2014
(a) Company earned ₹ 115 Crores after taxes in 2012-13	(a) Company earned ₹ 130 Crores after taxes in 2013-14
(b) Company expects to earn ₹ 140 Crores in 2013-14 after taxes	(b) Company expects to earn ₹ 160 Crores in 2014-15 after taxes
(c) Expected vesting date: 31.03.2014	(c) Expected vesting date: 31.03.2015
(d) No. of employees expected to be entitled to Option = 474	(d) No. of employees expected to be entitled to Option = 465
Position on 31.03.2015	
(a) The Company earned ₹ 165 Crores after taxes in 2014-15	
(b) No. of employees on whom Option actually vested = 450	

Compute the expenses to recognize in each year.

10

**Answer:**

**4. (c)**

**1. Year 2012-13**

Profit for the Period	₹ 115 Crores
Therefore, Option will vest on	31.03.2014
Hence, vesting period is	2 Years
Fair Value of Option per share	₹ 25
Number of Shares actually vested under the Scheme = [474 Employees x 100]	47,400
Total Fair Value = 47,400 Shares × ₹ 25	₹ 11,85,000
Value of Option recognized as expense in 2012-2013 = ₹ 11,85,000/2	₹ 5,92,500

# Suggested Answer\_Syl12\_Dec2015\_Paper 18

## 2. Year 2013-14

Cumulative Profits for 2012-13 and 2013-14 (115 Crores + 130 Crores)	` 245 Crores
Therefore, Option will vest on	31.03.2015
Hence, vesting period is	3 Years
Fair Value of Option per share	` 25
Number of Shares expected to vest under the Scheme = 465 Employees x 100 Shares	46,500
Fair Value of Options expected to vest = 46,500 x ` 25	` 11,62,500
Cumulative value of Option to recognize as expense for Two Years = (` 11,62,500/3 Years) x 2 Years	7,75,000
Less: Value of Option recognized as expense in 2012-13	(5,92,500)
<b>Value of Option recognized as expense in 2013-14</b>	<b>` 1,82,500</b>

## 3. Year 2014-15

Fair Value of Option per share	` 25
Number of Shares expected to vest under the Scheme = 450 Employees x 100 Shares	45,000
Total Fair Value of the Options vesting = 45,000 x ` 25	` 11,25,000
Total Vesting Period	3 Years
Cumulative value of Option to recognize in 12-13,13-14 and 14-15	11,25,000
Less: Value of Option recognized as expense in 12-13 and 13-14	(7,75,000)
<b>Value of Option recognized as expense in 2014-15</b>	<b>` 3,50,000</b>

- (d) Prepare a value added statement for the year ended on 31.03.2015 and reconciliation of total value added with profit before taxation, from the Profit and Loss Account of Futures Ltd. for the year ended on 31.03.2015:

(` in '000)

<b>Income:</b>		
Sales	24,400	
Other Income	508	
		24,908
<b>Expenditure:</b>		
Operating cost	21,250	
Excise duty	1,110	
Interest on Bank Overdraft	75	
Interest on 9% Debentures	1,200	
		23,635
Profit before Depreciation		1,273
Depreciation		405
Profit before tax		868
Provision for tax		320
Profit after tax		548
Proposed Dividend		48
Retained Profit		500

The following additional information are given:

- (i) Sales represents Net sales after adjusting Discounts, Returns and Sales tax.

# Suggested Answer\_Syl12\_Dec2015\_Paper 18

(ii) Operating cost includes ₹ 82,50,000 as wages, salaries and other benefits to Employees.

(iii) Bank overdraft is temporary.

10

**Answer:**

**4. (d)**

**Value Added Statement of M/s Futures Ltd.**

₹ in '000

Particulars	₹	₹	%
Sales		24,400	
Less: Operating cost - Cost of bought in material & services (₹ 21,250 - ₹ 8,250)	13,000		
Excise duty	1,110		
Interest on bank overdraft	75	14,185	
Value added by trading and manufacturing activities		10,215	
Add: Other income		508	
Total value added		10,723	
<b>Application of value added</b>			%
To pay Employees:			
Wages, salaries and other benefits		8,250	76.94
To Pay Government: Corporate tax		320	2.98
To pay providers of capital:			
Interest on 9% debentures	1,200		
Dividends	48	1,248	11.64
To Provide for maintenance and expansion of the company:			
Depreciation	405		
Retained profit	500	905	8.44
		10,723	100.00
<b>Reconciliation</b>			
Profit before tax		868	
Depreciation		405	
Wages, salaries and other benefits to employees		8,250	
Debenture interest		1,200	
		10,723	

## SECTION E

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

**5. (a) Write a note on the objectives of Indian Government Accounting Standard 4 (General Purpose Financial Statements of Government).** 5

**Answer:**

**5. (a)** 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

# Suggested Answer\_Syl12\_Dec2015\_Paper 18

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requirements relating to structure and contents of financial statements of government prepared under cash basis of accounting.

The statement of receipts and disbursements during the year and information about cash flows of an Entity enable stakeholders to evaluate the likely sources and uses of cash and the ability of an Entity to generate adequate cash in the future. This information also indicates the expenditure priorities of the Entity in the delivery of goods and services as well as the impact of the taxation policies of the Entity. Stakeholders can then assess the sustainability of the Entity's activities (whether future budgetary resources will be sufficient to sustain public services and to meet obligations as they become due) and appraise financial accountability.

All Financial Statements need to be standardized to obtain optimal information, to ensure comparability with the Entity's own financial Statements of previous periods and with those of other entities. The basis and policies of accounting need to be uniform to permit meaningful consolidation to develop Whole of Government Accounts. Desirable attributes need to be defined to obtain a basic standard for financial reporting.

To achieve these objectives, this Standard sets out the financial elements for the presentation of financial reports prepared under the cash basis of accounting. It also requires that the selection of accounting policy should ensure certain qualitative characteristics in the information being presented. Desirable attributes of financial reporting are required to heighten their value to the users.

General Purpose Financial Statements (GPFS) essentially consists of Finance Accounts and Appropriation Accounts. The Financial Statements referred to in this standard are the General Purpose Financial Reports (GPFR).

**(b) List the responsibilities of the Government Accounting Standards Advisory Board 5**

**Answer:**

**5. (b) Responsibilities of the Government Accounting Standards Advisory Board:**

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

**(c) Discuss —**

- (i) The changes made in the set-up of Public Accounts Committee on 26th January, 1950.**
- (ii) Procedure of Appointment of Chairman of the Public Accounts Committee. 3+2=5**

**Answer:**



# Suggested Answer\_Syl12\_Dec2015\_Paper 18

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5. (c) (i) The changes made in the set-up of Public Accounts Committee on 26th January, 1950:

From the inception in the year 1921 till early 1950, the Finance-member was appointed as the Chairman of the Public Accounts Committee and its Secretarial functions were looked after by the Finance Department (later Ministry of Finance).

With the coming into force of the Constitution of India on 26th January, 1950, the Committee became a Parliamentary Committee under the control of Speaker. Its Secretarial functions were transferred to the Parliament Secretariat (now Lok Sabha Secretariat).

(ii) Procedure of Appointment of Chairman of the Public Accounts Committee:

The Chairman of the Committee is appointed by the Speaker from amongst the members of Lok Sabha elected to the Committee. As a convention, starting from the Public 'Accounts Committee of 1967-68, a member of the Committee belonging to the main opposition party/group in the House is appointed as the Chairman of the Committee.

**(d) Discuss — Public Debt and Other Liabilities of Governments: Disclosure Requirements. 5**

**Answer:**

**5. (d) Introduction:**

In terms of Article 292 of the Constitution, the executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by Law. Article 293(1) of the Constitution provides a similar provision in respect of State Governments. Section 48A(1) of the Government of Union Territory Act 1963 and Section 47A(1) of Government of NCT of Delhi Act 1991, also provides for borrowing upon the security of the Consolidated Fund of the Union Territory concerned or Consolidated Fund of the Capital within such limits, if any, as may be fixed by Parliament by law and the stipulations indicated therein.

**Objective:**

The objective of the IGAS is to lay down the principles for identification, measurement and disclosure of public debt and other obligation of Union and the State Governments including Union Territories with legislatures in their respective financial statements. It ensures consistency with international practices for accounting of public debt in order to ensure transparency and disclosure in the financial statements of Government for the benefit of various stake holders.

**Scope:**

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