FINAL EXAMINATION

GROUP IV

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2016

Paper- 18: CORPORATE FINANCIAL REPORTING

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

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

All workings must form part of your answer.

Whenever necessary, suitable assumption may be made and disclosed by way of a note.

Answer Question No. 1 (carrying 20 marks) which is compulsory and also answer any five questions (carrying 16 marks each) from Question No. 2 to Question No. 8.

1. Answer any four questions (carrying 5 marks each) from the following: 5×4 = 20

(a) SWIFT Ltd. acquired a patent at a cost of ₹144 lakh for a period of six years and the product life cycle is also six years. The company capitalized the cost and started amortising at ₹ 24 lakh per annum. After 3 years, it was found that the product life cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years are expected to be ₹ 48 lakh, ₹72 lakh, ₹60 lakh, ₹56 lakh and ₹52 lakh respectively.
Find out the amortization cost of the patent for each of the years, as per AS- 26.

(b) PLANTINUM LTD. supplied the following information:

Net profit for 2014 – 15	₹33 lakh
Net profit for 2015 – 16	₹49.50 lakh
No. of shares before rights issue	1,65,000
Rights issue ratio	One for every four held
Right issue price	₹270
Date of Exercising rights option	30th June, 2015 (Fully Subscribed on this date)
Fair value of share before rights issue	₹405

You are required to compute:

(i) Basic earnings per share and
(ii) Adjusted earnings per share as per AS- 20.

(c) From the following details of Zebra Ltd., calculate the deferred tax asset/liability as per AS-22 and the amount of tax to be debited in the Profit & Loss A/c under different heads for the year ended 31-03-2016.

Particulars	₹
Accounting profit	**15,00,000**
Book profit as per MAT	**13,50,000**
Profit as per Income-tax Act	**2,00,000**
Tax rate	**30%**
MAT rate	**7.50%**

(d) Describe the process of election of public accounts committee.

(e) Ranjan furnishes the following information about all "Options" at the Balance Sheet date as on 31-03-2016. Determine the total amount of provision to be made in his books of account.

Securities	₹		
	A	B	C
Details of Option bought			
Premium paid	**25,000**	**20,000**	**15,000**
Premium prevailing on Balance Sheet date	**20,000**	**10,000**	**6,000**
Details of Option sold			
Premium received	**15,000**	**26,000**	**12,000**
Premium prevailing on Balance Sheet date	**20,000**	**16,000**	**8,000**

Answer: 1

(a) Total cost of the patent is ₹144 lakhs.

Amortization for first 3 years = (144/6) × 3 = ₹ 72 lakh

Unamortized amount of ₹144 lakhs - ₹72 lakhs = ₹72 lakh to be written off for next 5 years in proportion of cash flows from the product in these years. The amount to be written off during next year's calculated as follows:

Year	Net cash flow (₹)	Ratio	Amortization Amount (₹)
4	48	0.167	12.02
5	72	0.25	18.00
6	60	0.208	14.98
7	56	0.194	13.97
8	52	0.181	13.08
Total	288	1.00	72.00

(b) Basic EPS: Profit available to equity shareholders/ No. of shares

	2014 – 2015	2015 – 2016
Basic EPS	$\frac{33,00,000}{1,65,000}$ = ₹20 per share	$\frac{49,50,000}{1,65,000}$ = ₹30 per share
Adjusted earnings per share	$\frac{33,00,000}{1,65,000 \times 1.070}$ = ₹18.69 per share	$\frac{49,50,000}{(1,65,000 \times 1.07 \times 0.25) + (2,06,250 \times 0.75)}$ $= \frac{49,50,000}{1,98,825}$ = ₹24.90 per share
Right factor = $\frac{\text{Fair value per share prior to right issue}}{\text{Theoretical ex-right fair value per share}}$	405/378 = 1.071	

Right factor:

Theoretical Ex-right

$$\text{Fair Value} = \frac{\text{Aggregate fair Value of share prior to right issue + Proceeds from right issue}}{\text{No. of shares outstanding after right issue}}$$

$$= \frac{(₹405 \times 1,65,000) + (₹270 \times 41,250)}{2,06,250} \quad = \frac{7,79,62,500}{2,06,250}$$

= ₹378

(c)

Tax expense as per accounting profit	15,00,000 × 30%	= ₹4,50,000
Tax as per Income tax profit	2,00,000 × 30%	= ₹60,000
Tax as per MAT	13,50,000 × 7.5%	= ₹1,01,250
Deferred tax liability as on 31-03-2016 (Tax expense – Current tax)	4,50,000 – 60,000	= ₹3,90,000

Amount of tax to be debited in the Profit & Loss A/c under different heads for the year ended 31-03-2016.

Current tax	₹60,000
Deferred tax liability	₹3,90,000
Excess of MAT over current tax	₹41,250
Total	₹4,91,250

(d) 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 of Public undertakings and Government Companies which come under the purview of the Committee on Public undertaking).

In April each year, a motion is moved in Lock Sabha by the Minister of Parliament Affairs or Chairman of the Committee, if in office, calling upon members of the House to elect from amongst themselves 15 members to the Public Accounts Committee. After the motion is adopted, a programme fixing the dates for filing the nominations/ withdrawal of candidatures and the election if necessary is notified in Lok Sabha Bulletin Part-II. On receipt of nominations, a list of persons who have filed nomination papers is put up on the Notice Boards. In case the number of members nominated is equal to the number of members to be elected then, after expiry of time for withdrawal of candidatures, the members nominated are declared elected and the result published in Bulletin Part-II. If the number of members nominated after withdrawals is more than number of members to be elected election is held on the stipulated date and result of election published in Bulletin Part-II.

(e)

Year	A (₹)	B (₹)	C (₹)
<u>In case of options bought</u> Premium paid	25,000	20,000	15,000

Less: Premium prevailing on balance sheet date	(20,000)	(10,000)	(6,000)
Provision required as on 31.03.2016 (A)	5,000	10,000	9,000
In case of options sold Premium prevailing on balance sheet date	20,000	16,000	8,000
Less: Premium received	(15,000)	(26,000)	(12,000)
Provision required as on 31.03.2016 (B)	5,000	(10,000)	(4,000)
Net provision to be made as on 31.03.2016 (A+B)	10,000	Nil	5,000
Total provision to be made	10,000	+ 5,000	= 15,000

2. The following are the summarized Balance Sheet ZIN Ltd. and VES Ltd. as on March 31,2016.

(Amount in ₹)

Equity and Liability	ZIN Ltd.	VES Ltd.	Assets	ZIN Ltd.	VES Ltd.
1. Shareholders' Funds:			**1. Non-Current Assets:**		
(a) Share Capital			**(a) Fixed Assets**	**14,00,000**	**10,00,000**
(i) Equity shares of ₹10 each	**12,00,000**	**12,00,000**	**(b) Non-Current investments**		
(ii) 10%Pref. Shares of ₹10 each	**4,00,000**	**4,00,000**	**(i) 12,000 equity shares of VES Ltd.**	**1,60,000**	
(b) Reserves & Surplus	**6,00,000**	**8,00,000**	**(ii) 20,000 equity shares of Z in Ltd.**		**3,20,000**
2. Non-Current liabilities:			**2. Current Assets:**		
Long term Borrowings (12% Debentures)	**4,00,000**	**6,00,000**	**(a) Inventories**	**4,80,000**	**12,80,000**
			(b) Trade Receivables		
3. Current Liabilities:			**(i) Debtors**	**7,20,000**	**7,60,000**
Trade Payables			**(ii) Bills Receivable**	**1,20,000**	**80,000**
(i) Sundry Creditors	**4,40,000**	**5,00,000**			
(ii) Bills payable	**60,000**	**1,00,000**	**(c) Cash & Cash Equivalents**	**2,20,000**	**1,60,000**
Total	**31,00,000**	**36,00,000**	**Total**	**31,00,000**	**36,00,000**

Fixed assets of both the companies are to be revalued at 15% above Book values and stock and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends, preference dividends having been already paid. After the above transactions are given effect to, Zin Ltd. will absorb Ves Ltd. on the following terms:

(a) 8 equity shares of ₹ 10 each will be issued by Zin Ltd. at par against 6 shares of Ves Ltd.

(b) 10% preference share of Ves Ltd. will be paid off at 10% discount, by issue of 10% preference share of ₹100 each in Zin Ltd. at par.

(c) 12% Debenture Holders of Ves Ltd. are to be paid off at a 8% premium by 12% debentures in Zin Ltd. issued at a discount of 10%.

(d) ₹ 60,000 to be paid by Zin Ltd. to Ves Ltd. for liquidation expenses.

(e) Sundry Creditors of Ves Ltd. include ₹40,000 due to Zin Ltd.

You are required to Prepare:

(i) Statement of purchase consideration payable by Zin Ltd.

(ii) Balance Sheet of Zin Ltd. as on March 31, 2016 after its absorption of Ves Ltd. as per Schedule-III to the Companies Act, 2013 with Notes to Accounts. 3+13 = 16

Answer:

(i) Calculation of Purchase Consideration to be paid to Ves Ltd.

No. of shares of Ves Ltd.	1,20,000
Less: Held by Zin Ltd.	12,000
No. of shares held by outsiders	1,08,000

Exchange Ratio = 8:6 i.e. 4:3

∴ No. of shares to be issued by Zin Ltd.

$$1{,}08{,}000 \times \frac{4}{3} = 1{,}44{,}000$$

Less: Shares already held by Ves Ltd.	=	20,000
		1,24,000

It can also be calculated on equal footing as:

No. of Shares of Ves Ltd.	$1{,}20{,}000 \times \frac{4}{3} = 1{,}60{,}000$
(-) Held by Zin Ltd (assuming if it was held by other than Zin Ltd) $12{,}000 \times \frac{4}{3} = 16{,}000$	16,000
	1,44,000
	20,000
(-) Held by Ves Ltd. Shares to be issued	1,24,000

Particulars	₹
10% Preference shares @ 10% discount by issue of 10% Preference shares of A Ltd. of ₹100 each i.e. ₹$4{,}00{,}000 \times \frac{90}{100}$	3,60,000

Purchase consideration:	
1,24,000 equity shares of ₹10 each	₹12,40,000
3,600 10% Preference shares of ₹100 each	₹3,60,000
	₹16,00,000

(ii)

Name of the Company: Zin Ltd.					
Balance Sheet as at 31.03.2016					
Ref No.		**Particulars**	**Note No.**	**As at 31st March, 2016**	**As at 31st March, 2015**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	32,00,000	
		(b) Reserves and surplus	2	8,62,000	
	2	Non-current liabilities			
		(a) Long-term borrowings	3	11,20,000	
	3	Current Liabilities			
		(a) Trade payables	4	10,60,000	
		Total		62,42,000	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	27,60,000	
		(b) Other non-current assets	6	72,000	
	2	Current assets			
		(a) Inventories	7	16,96,000	
		(b) Trade receivables	8	16,02,000	
		(c) Cash and cash equivalents	9	1,12,000	
		Total		62,42,000	

[Relevant notes]

		(₹)
Note 1. Share Capital	**As at 31st March, 2016**	**As at 31st March, 2015**
Authorised, Issued,and paid up Capital of ₹ 10 each	24,40,000	

2,44,000 Equity Shares of ₹10 each	24,40,000	
40,000 10% Preference Shares of ₹10 each	4,00,000	
3,600 10% Preference Shares of ₹100 each	3,60,000	
Total	32,00,000	
Note 2. Reserves and Surplus		
Reserve	4,32,000	
Revaluation Reserve	2,10,000	
Capital Reserve	2,20,000	
Total	8,62,000	
Note 3. Long Term borrowing		
12% Debentures 4,00,000+[(6,00,000×108%)/0.90]	11,20,000	
Total	11,20,000	
Note 4. Trade payables		
Sundry Creditors [4,40,000 + 5,00,000 – 40,000]	9,00,000	
Bills Payable [60,000 + 1,00,000]	1,60,000	
Total	10,60,000	
Note 5. Tangible Assets		
Fixed Assets [(14,00,000×115%)+(10,00,000×115%)]	27,60,000	
Total	27,60,000	
Note 6. Other non-current Assets		
Discount on Issue of Debentures [6,00,000×108%(10/90)]	72,000	
Total	72,000	
Note 7. Inventories		
Stock [4,80,000 + (12,80,000 × 95%)]	16,96,000	
Total	16,96,000	
Note 8. Trade Receivables		
Debtors (7,20,000 + 95% of 7,60,000)- 40,000	14,02,000	
Bills Receivables [1,20,000 + 80,000]	2,00,000	
Total	16,02,000	
Note 9. Cash and Cash Equivalent		
Cash at Bank	1,12,000	
Total	1,12,000	

Working Note:

1. **Calculation of goodwill/capital reserve**

Particulars	₹
Net asset taken over from Ves Ltd.	
Fixed asset (10,00,000 × 115%)	11,50,000
Stock (12,80,000 × 95%)	12,16,000
Debtors (7,60,000 × 95%)	7,22,000
Bills Receivable	80,000
Cash at bank	60,000
	32,28,000
Less: 12% Debenture (₹6,00,000 × 108%]	6,48,000
Sundry creditors and Bills Payable	6,00,000
	19,80,000
Less: Investment cancelled	1,60,000
	18,20,000
Less: Purchase consideration	16,00,000
Capital Reserve	2,20,000

2. **Computation of amount of cash at bank of Ves Ltd.**

Particulars	₹
Balance as per Balance Sheet	1,60,000
Add: Dividend from Zin Ltd.	20,000
	1,80,000
Less: Dividend paid by Ves Ltd.	1,20,000
	60,000

3. **Combined cash in Balance Sheet**

Particulars	₹
Balance of Zin Ltd. as per B/S	2,20,000
Take over from Ves Ltd.	60,000
	2,80,000
Less: Dividend paid	1,20,000
Expenses on Liquidation	60,000
	1,00,000
Add: Dividend from Ves Ltd.	12,000
	1,12,000

4. **Calculation of Reserves**

Particulars	₹
As per Balance Sheet of Zin Ltd.	6,00,000
Less: Expenses on Liquidation	60,000
Less: Dividend declared	1,20,000
	4,20,000
Add: Dividend received from Ves Ltd.	12,000
	4,32,000

Note: only for reference

- If purchasing Co. meets the Realisation Expenses directly, no entry is required in selling Co's Books.

- If purchasing company reimburses the Realisation Expenses, then "Purchasing Co." Account should be debited instead of Realisation Account. A separate receipt entry should be recorded for the reimbursement received (Alternatively, the payment of Liquidation Expenses and consequent reimbursement can be ignored in the books of the Selling Company).
- If the Realisation Expenses are shared by the purchasing Company and Selling company, the journal entry will be:

Realisation A/c Dr.
To, Cash/Bank A/c

3. BLU LTD. is a holding company and ANU LTD. and TINU LTD. are subsidiaries of BLU LTD., their Balance Sheets as on 31.03.2016 are given below: (Amount in ₹)

	BLU LTD.	ANU LTD.	TINU LTD.		BLU LTD.	ANU LTD.	TINU LTD.
Share Capital	6,00,000	6,00,000	3,60,000	Fixed Assets	1,20.000	3,60,000	2,58,000
Reserves	2,88,000	60,000	54,000	Investments:			
Profit & Loss Account	96,000	72,000	54,000	Shares in ANU Ltd.	5,70,000	—	—
TINU Ltd. Balance	18,000			Shares in TINU Ltd.	78,000	3,18,000	____
Trade payables	42,000	30,000		Inventories in Trade	72,000		
BLU Ltd. Balance		42,000		ANU Ltd. Balance	48,000		
				Trade receivables	1,56,000	1,26,000	1,92,000
				BLU Ltd. Balance			18,000
	10,44,000	8,04,000	4,68,000		10,44,000	8,04,000	4,68,000

The following particulars are given:

(a) The share capital of all companies is divided into shares of ₹10 each.

(b) BLU Ltd. held 48,000 shares of ANU LTD. and 6,000 shares of TINU LTD.

(c) ANU Ltd. held 24,000 shares of TINU LTD.

(d) All these investments were made on 30.09.2015

(e) On 31.03.2015 the position was as shown below: (Amount in ₹)

	ANU LTD.	TINU LTD.
Reserve	48,000	45,000
Profit and Loss Account	24,000	18,000
Trade payables	30,000	6,000
Fixed Assets	3,60,000	2,58,000
Inventories in trade	24,000	2,13,000
Trade receivables	2,88,000	1,98,000

(f) 10% dividend is proposed by each company.

(g) The whole of inventories in trade of ANU LTD. as on 30.09.2015 (₹24,000) was later sold to BLU Ltd. for ₹26,400 and remained unsold by BLU LTD. as on 31.03.2016.

(h) Cash-in-transit from ANU LTD. to BLU LTD. was ₹ 6,000 as at the close of business.

Required:

Prepare the consolidated Balance Sheet of BLU GROUP as on 31.03.2016 as per requirements of schedule-III of the Companies Act, 2013 with Notes to Accounts. 16

Answer:

Balance Sheet of Blu Ltd. and its Subsidiaries as at 31.03.2016

	Equity and Liabilities	Note	Amount (₹)	Amount (₹)
1	**Shareholders' Funds**			
	(a) Share capital		6,00,000	
	(b) Reserve and Surplus	1	3,61,830	
2	**Minority Interest (W. N. 4)**		2,26,920	
3	**Current Liabilities**			
	(a) Trade payables		72,000	
	(b) Short term Provisions	2	60,000	
	Total		**13,20,750**	
1	**Non- Current Assets**			
	(a) Fixed Assets			
	(i) Tangible Assets		7,38,000	
	(ii) Intangible Assets	3	33,150	
2	**Current Assets**			
	(a) Inventories	4	69,600	
	(b) Trade receivables		4,74,000	
	(c) Cash and cash equivalents	5	6,000	
	Total		**13,20,750**	

Notes to Accounts:

		₹	₹
1.	**Reserves and Surplus**		
	Reserves of Blu Ltd. as on 31.03.2016	2,88,000	
	Share in Anu Ltd.	7,200	
	Share in Tinu Ltd.	750	2,95,950
	Profit and Loss A/c		
	Blu Ltd's balance as on 31.3.2016	96,000	
	Share in Anu Ltd.	28,800	
	Share in Tinu Ltd.	3,000	
	Less: Proposed Dividend of Blu Ltd. [10% of ₹6,00,000]	(60,000)	
	Less: Unrealised profit on inventory [80% of ₹2,400]	(1,920)	65,880
	Total		**3,61,830**
2.	**Short term Provision**		
	Proposed Dividend		60,000

3.	**Intangible Assets**		
	Goodwill		33,150
4.	**Inventories**		
	Inventories less unrealized profit		69,600
5.	**Cash and Cash equivalents**		
	Cash in transit (48,000 - 42,000)		6,000

Working Notes:

Shareholding Pattern

Total shares	60,000	36,000
Held by Blu Ltd.	48,000 (80%)	6,000 [1/6 th]
Held Anu Ltd.	NA	24,000 [4/6 th]
Minority holding	20%	1/6 th

(i) Analysis of Reserves & Profit of Tinu Ltd.

				Pre-acquisition	Post-acquisition	
					Reserves	**P&L**
Reserves	31/3/16		54,000			
	31/3/15		45,000	45,000		
	Increase		9,000	4,500	4,500	
P & L Account	31/3/16		54,000			
	31/3/15		18,000	18,000		
	Increase		36,000	18,000		18,000
			Total	85,500	4,500	18,000
Shares	Blu	0.2		14,250	750	3,000
	Anu	0.7		57,000	3,000	12,000
	Minority	0.2		14,250	750	3,000

(ii) Analysis of reserves & Profit of Anu Ltd.

ANU- ANALYSIS OF PROFITS				Pre-acquisition	Post-acquisition	
					Reserves	**P&L**
Reserves	31/3/16		60,000			
	31/3/15		48,000	48,000		
	Increase		12,000	6,000	6,000	
P & L Account	31/3/16		72,000			
	31/3/15		24,000	24,000		
	Increase		48,000	24,000		24,000
			Sub- Total	1,02,000	6,000	24,000
ANU'S SHARE IN TINU					3,000	12,000
			Total	1,02,000	9,000	36,000
Shares	Blu	0.8		81,600	7,200	28,800
	Minority	0.2		20,400	1,800	7,200

(iii) Computation of Cost of Control:

Investment in		
Anu	5,70,000	
Tinu	3,96,000	9,66,000

Less: Paid up value of Investment Anu Tinu	 4,80,000 3,00,000	 (7,80,000)
Less: Pre-acquisition capital profits Anu Tinu	 81,600 71,250	 (1,52,850)
Total Goodwill		33,150

(iv) Computation of Minority interest

	ANU	TINU
Share Capital	1,20,000	60,000
Share in pre-acquisition Profit	20,400	14,250
Share in post-acquisition Reserves	1,800	750
Share in post-acquisition Profits	7,200	3,000
Less: provision for unrealized profit	(480)	
	1,48,920	78,000
Total Minority Interests		**2,26,920**

4. (a) Star Ltd. has the following capital structure on 31st March, 2016:

	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**

The shareholders on recommendation of Board of Directors have approved vide special resolution at their meeting on 10th April, 2016, 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 existing shareholders to offer their shares for buy-back, it was decided to offer a price of ₹25 per share.

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.

If borrowed funds were ₹1,200 crores and ₹1,500 crores respectively, would your answer change? 10

(b) A Mutual Fund raised ₹100 lakh on 01.04.2015, by issue of 10 lakh units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakh. The initial expenses amounted to ₹7 lakh. During April, 2015, the fund sold certain securities of cost ₹38 lakh for ₹40 lakh and purchased certain other securities for ₹ 28.20 lakh. The fund management expenses for the month amounted to ₹ 4.50 lakh, of which ₹0.25 lakh was in arrears. The dividend earned was ₹ 1.286 lakh. 70% of the realised

earnings was distributed. The market value of the portfolio on 30.04.2015 was ₹ 103.714 lakh.

Determine the Net Asset Value (NAV) of a mutual fund. **6**

Answer:

(a) JOURNAL ENTRIES FOR BUY BACK (APPLICABLE ONLY FOR SITUATION 2) (₹ IN CRORES)

Date	Particulars		Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
1	Equity Share Buy Back A/c	Dr.	180		120	
	To Bank A/c			180		120
	(Being buy back of equity shares of ₹10 each @ ₹25 per share)					
2	Equity Share Capital A/c	Dr.	72		48	
	Securities Premium A/c	Dr.	100		72	
	General Reserve A/c	Dr.	8			
	To Equity Share Buy Back A/c			180		120
	(Being cancellation of shares bought back)					
3	General Reserve A/c	Dr.	72		48	
	To Capital Redemption Reserve A/c			72		48
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital redeemed through free reserves)					

Working Notes:

(i) Shares Outstanding Test:
Max. No. of Shares that can be bought back = 25% of 30 = 7.5 crores

(ii) Resources Test:
Max. Number of shares that can be bought back
= [25% of (Paid up Capitals + Free Reserves)]/Buy Back Price per share
= [25%(₹300 + 420)]/₹25 = 7.20 crores

(iii) Debt-Equity Test:

Particulars	Situation 1	Situation 2	Situation 3
(a) Loan Funds (₹ in crores)	800	1,200	1,500
(b) Minimum Equity to be maintained after buy back in the ratio of 2 : 1 (₹ in crores)	400	600	750
(c) Present Equity Shareholders Funds (₹ in crores)	720	720	720
(d) Future Equity Shareholder's Funds	320	120	N.A.
(e) Maximum number of shares that can be bought back @ ₹ 25 per share (shares in crores) [(d)/₹25]	12.80	4.80	Nil

Note: Under Situations 3 the company does not qualify for buy back of shares as per the provisions of Section 68 of The Companies Act, 2013.

(b) COMPUTATION OF NAV PER UNIT

Particulars	₹ in lakhs	₹ in lakhs	
Opening Bank Balance [(100 - 90 - 7) ₹ lakhs]	3.00		
Add: Proceeds from sale of securities	40.00		
Dividend received	1.286	44.286	
Less: Cost of securities	28.20		
Fund management expenses [(4.50 - 0.25) ₹ lacs]	4.25		
Capital gains distributed [70% of (40.00 - 38.00) ₹ lacs]	1.40		
Dividends distributed (70% of ₹ 1.286 lakhs)	0.90	(34.75)	
Closing bank balance		9.536	
Closing market value of portfolio		103.714	
		113.25	
Less: Arrears of Expenses		(0.25)	
A. Closing Net assets		113.00	
B. Number of units			10,00,000
C. Closing Net Assets Value (NAV) [113 lakhs/10 lakh]			₹11.30

5. (a) QUITTLE LTD. announced a Stock Appreciation Right (SAR) on 01.04.2012 for each of its 900 employees. The scheme gives the employees the right to claim cash payment equivalent to excess of market price of company's shares on exercise date, over the exercise price ₹150 per share in respect of 100 shares, subject to the conditions of continuous employment of 3 years. The SAR is exercisable after 31.03.2015 before 30.06.2015.

Particulars	2012-13	2013-14	2014-15
Fair value of SAR (₹)	**40**	**45**	**50**
Actual No. of employees left	**40**	**25**	**15**
Company estimation for employees leaving the company annually	**4%**	**6%**	**-----**

On 30. 06.2015 when SAR was exercised, the intrinsic value per share was ₹60 per share.

Required:

Show provision for Stock Appreciation Right (SAR) account along with necessary workings by fair value method. 10

(b) SUBHASHREE BANK has a criterion that it will give loans to companies that have an "Economic Value Added" greater than zero for the past three years, on an average. The bank is considering lending money to a small company that has the economic value characteristics shown below. The data relating to the company is as follows:

(i) Average operating income after tax equals ₹60 lakh per year for the last three years.

(ii) Average total assets over the last three years equals ₹180 lakh.

(iii) Weighted average cost of capital appropriate for the company is 15%, which is applicable for all three years.

(iv) The company's average current liabilities over the last three years are ₹36 lakh.
Does the company meet the bank's criterion for a positive Economic Value Added (EVA)? 6

Answer:

(a) **QUITTLE LTD.**

Calculation of Provision for Stock Appreciation Right (SAR):

(As per guidance note on Accounting for employee share based payment)

Particulars	2012-13	2013-14	2014-15
No. of SARS Expected	79,257.60	78,490	82,000
	(860 × 0.96 × 0.96 × 100 SARS)	(835 × 0.94 × 100 SARS)	(820 employee × 100 SARS)
Fair Value (₹)	40	45	50
Closing provision required (₹)	(40 × 79257.60 × 1/3) = 10,56,768	(45 × 78,490 × 2/3) = 23,54,700	(50 × 82,000) = 41,00,000
Opening Provision (₹)	0	10,56,768	23,54,700
Expense for the year (₹)	10,56,768	12,97,932	17,45,300

Provision for Stock Appreciation Right (SAR) Account (for 2012 – 13)

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance C/d	10,56,768	By Employee Compensation Expenses	10,56,768
	10,56,768		**10,56,768**

Provision for Stock Appreciation Right (SAR) Account (for 2013 – 14)

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance C/d	23,54,700	By Balance b/d	10,56,768
		By Employee compensation expenses	12,97,932
	23,54,700		**23,54,700**

Provision for Stock Appreciation Right (SAR) Account (for 2014 – 15)

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance c/d	41,00,000	By Balance b/d	23,54,700
		By Employee compensation expenses	17,45,300
	41,00,000		**41,00,000**

Provision for Stock Appreciation Right (SAR) Account (for 2015 – 16)

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank (82,000 × 60)	49,20,000	By Balance b/d	41,00,000
		By Employee Expenses	8,20,000
	49,20,000		**49,20,000**

(b) Calculation of economic value added

(Amount in ₹ Lakh)

Particulars	Amount
Net operating profit after tax Less: Cost of capital employed (refer WN)	60.00 21.60
Economic value added	38.40

Economic value added is greater than Zero. Therefore , the company qualifies for the loan.

Working Notes:

(Amount in ₹ Lakh)

Particulars	Amount
Average total assets Less: Average current liabilities	180.00 (36.00)
Capital employed	144.00
Cost of capital = Capital employed × weighted average cost of capital = ₹144 × 0.15 = ₹21.60 lakh	

6. (a) **From the following details in respect of ADHUNIK LTD., compute according to LEV and SCHWARTZ (1971) Model, the total value of Human Resource of the skilled employees with different age groups.**

Age Group	**Skilled employees**	
Age (years)	**No. of employee**	**Average annual earnings**
30 - 39	**30**	**₹ 8,00,000**
40 - 49	**15**	**₹10,00,000**
50 - 54	**5**	**₹11,00,000**

Retirement age is 55 years. Adhunik Ltd. uses 15% cost of capital for discounting purposes. The following Annuity factors of ₹1 at 15% are supplied to you:

Interest Rate	**5 years**	**10 years**	**15 years**	**20 years**	**25 years**
15%	**3.3522**	**5.0188**	**5.8474**	**6.2593**	**6.4641**

8

(b) **Anu Mooyi of Mumbai sold goods to Bearson of New York USA on 24th January, 2016 for an invoice price of $ 60,000, when the spot market rate was ₹ 63.20 per US $. Payment was to be received after three months on 24th April, 2016. To mitigate the risk of loss from decline in exchange rate on the date of receipt of payment, Anu Mooyi immediately acquired a forward contract to sell on 24th April, 2016 US $ 60,000 @ ₹ 62.70. Anu Mooyi closed his books of account on 31st March, 2016 when the spot rate was ₹ 62.20 per US $.**

On 24th April, 2016 , the date of receipt of Money by Anu Mooyi, the spot rate was ₹61.70 per US $.

Required:
Pass Journal entries in the books of Anu Mooyi to record the effect of all the above mentioned events. 8

Answer:

(a) **ADHUNIK LTD.**

Valuation of human resources of Skilled Employees:

(1) Age group: 30 – 39 years (Assuming that all 30 employees are just 30 years old).

Particulars	**Computation (Average Annual Earning × Annuity/Discounting Factor)**	**Present value ₹**
₹8,00,000 p. a. for next 10 years	(8,00,000 × 5.0188)	40,15,040
₹10,00,000 p. a. for 11 to 20 years	(10,00,000 × 6.2593) – (10,00,000 × 5.0188)	12,40,500
₹11,00,000 p.a. for 21 to 25 years	(11,00,000 × 6.4641) – (11,00,000 × 6.2593)	2,25,280
	Total	54,80,820

(2) Age group: 40 – 49 years (assuming that all 15 employees are just 40 years old)

Particulars	**Computation**	**Present value ₹**
₹10,00,000 p. a. for next 10 years	10,00,000 × 5.0188	50,18,800
₹11,00,000 p.a. for 11 to 15 years	(11,00,000 × 5.8474) – (11,00,000 × 5.0188)	9,11,460
	Total	59,30,260

(3) Age Group 50 – 54 (Assuming that all 5 employees are just 50 years old)

Particulars	**Computation**	**Present value ₹**
₹11,00,000 p.a. for next 5 years	11,00,000 × 3.3522	36,87,420

Total value of Human resources

Age Group	**No. of employee**	**PV of future earnings (₹)**
30 – 39	30	54,80,820 × 30 = 16,44,24,600
40 – 49	15	59,30,260 × 15 = 8,89,53,900
50 – 54	5	36,87,420 × 5 = 1,84,37,100
Total	**50**	**27,18,15,600**

(b)

Journal Entries in Books of ANU MOOYI

Date 2016	**Particulars**		**Debt (₹)**	**Credit (₹)**
Jan 24	Bearson A/c	Dr.	37,92,000	
	To Sales A/c			37,92,000
	(Credit sales made to Bearson, USA for $60,000 recorded at spot market rate of ₹ 63.20 per US $)			
	Forward Contract Receivable A/c	Dr.	37,62,000	
	Deferred Discount A/c	Dr.	30,000	

	To Forward(s) Contract Payable A/c (Forward contract acquired to sell on 24th April, US $ 60,000 @ ₹ 62.70)		37,92,000
March 31	Exchange Loss A/c Dr. To Bearson A/c (Record of exchange loss ₹1 per $ due to market rate becoming ₹ 62.20 per US $ rather than ₹ 63.20 per US$)	60,000	 60,000
	Forward ($) Contract Payable A/c Dr. To Exchange Gain A/c (Decrease in liability on forward contract due to fall in exchange rate)	60,000	 60,000
	Discount A/c Dr. To Deferred Discount A/c (Record of proportionate discount expense for 66 days out of 90 days)	22,000	 22,000
April 24	Bank A/c Dr. Exchange Loss A/c Dr. To Bearson's A/c (Receipt of $ 60,000 from Bearson, USA customer @ ₹61.70 per US $; exchange loss being ₹30,000)	37,02,000 30,000	 37,32,000
	Forward (S) Contract Payable A/c Dr. To Exchange Gain A/c To Bank A/c (Settlement of forward contract by payment of $ 60,000)	37,32,000	 30,000 37,02,000
	Bank A/c Dr. To Forward (₹) Contract Receivable A/c (Receipt of cash in settlement of forward contract receivable)	37,62,000	 37,62,000
	Discount A/c Dr. To Deferred Discount A/c Recoding of discount expenses for 24 days: ₹ $\frac{30{,}000 \times 24 \text{ days}}{90 \text{ days}}$ = ₹8,000	8,000	 8,000

7. (a) PARASHI LTD. granted ₹ 15 lakh loan to its employees on April 1, 2015 at a concessional interest rate 4% per annum. Loan is to be repaid in five equal annual installments along with interest. Market rate of interest for such loan is 10% per annum.

Required:

(i) Record the entries for the year ended 31st March, 2016 for the loan transaction.

(ii) At what value loan should be recognized initially and also calculate the amortized cost for all the subsequent five years, keeping in view provisions of AS-30 (Financial instruments: Recognition and Measurement).

Given: The present value of ₹ 1 receivable at the end of each year based on discount factor of 10% is as under:

Year ended March 31	2016	2017	2018	2019	2020
PVIF (at 10%)	0.9091	0.8264	0.7513	0.6830	0.6209

8

(b) **X Ltd. had the following summarised Balance Sheet as at 31st March, 2015:**

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Stock	3,75,000	Land	2,00,000
Retained Earnings	1,22,500	Plant and Machinery	3,37,500
Bonds Payable	1,25,000	Investments	1,00,000
Long-term loan	1,27,500	Account Receivable	1,50,000
Current Liabilities	75,000	Cash	37,500
Total	8,25,000	Total	8,25,000

During 2015-16, the following transactions took place:

(i) **A piece of land was purchased for ₹38,750 in cash.**

(ii) **Bonds payable worth ₹ 30,000 were paid in cash at face value.**

(iii) **An additional amount of ₹1,00,000 was received in cash on issue of equity shares.**

(iv) **Dividend totaling ₹ 46,875 was paid.**

(v) **Net income for 2015-16 was ₹1,42,250, after allowing depreciation of ₹ 47,500.**

(vi) **Another land was purchased through the issuance of bonds worth ₹1,12,500.**

(vii) **A part of investments portfolio was sold for ₹64,375 in cash. The transaction resulted in a gain of ₹6,875.**

(viii) **Current liabilities increased to ₹ 90,000 as on 31.03.2016.**

(ix) **Accounts receivable as on 31.03.2016 total ₹ 1,90,000.**

Prepare a statement of cash flow for 2015-16 using indirect method, as per AS-3 (Revised). 8

Answer:

(a) (i) Calculation of Initial Recognition Amount of Loan to Employees: (That will be discount P. V. of future cash flows from the repayment of the loan)

Year ended March,31	Cash inflow		Total	PV factor 10%	Present value ₹
	Principal ₹	Interest @ 4% ₹			
2016	3,00,000	60,000	3,60,000	0.9091	3,27,276
2017	3,00,000	48,000	3,48,000	0.8264	2,87,587
2018	3,00,000	36,000	3,36,000	0.7513	2,52,437
2019	3,00,000	24,000	3,24,000	0.6830	2,21,292
2020	3,00,000	12,000	3,12,000	0.6209	1,93,721
Present value or fair value					12,82,313

Entries:

	₹	₹
(1) Staff Loan A/c Dr. To Bank A/c	15,00,000	 15,00,000
(2) Staff Cost Dr.	2,17,687	

To Staff Loan A/c		2,17,687

(As the value of loan is ₹12,82,313. It will be initially recognized at this value and balance amount debited to staff cost account.)

(ii) Calculation of amortized cost of loan to employees at the end of each year:

Year ended March, 31	Balance ₹ (1)	Interest to be recognized (10%) ₹ (2)	Repayment including interest ₹ (3)	Amortized cost (Closing Balance) ₹ 4 (1+2) – 3
2016	12,82,313	1,28,231	3,60,000	10,50,544
2017	10,50,544	1,05,054	3,48,000	8,07,598
2018	8,07,598	80,760	3,36,000	5,52,358
2019	5,52,358	55,236	3,24,000	2,83,594
2020	2,83,594	28,406 (Balancing fig.)	3,12,000	Nil

(b) **Cash Flow Statement for the year ended 31.03.2016**

Cash Flows from Operating Activities	₹	₹
Net Profit	1,42,250	
Add: Depreciation	47,500	
Less: Gain on sale of investment	(6,875)	
Operating profit before working capital changes	1,82,875	
Add: increase in current liabilities	15,000	
Less: increase in account receivable	(40,000)	
Net Cash flow from operating activities		1,57,875
Cash Flows from Investing Activities		
Sale of investment	64,375	
Purchase of Land	(38,750)	
Net Cash from investing activities		25,625
Cash Flows from Financing Activities		
Issue of shares	1,00,000	
Redemption of Bonds	(30,000)	
Dividend paid	(46,875)	
Net Cash from financing activities		23,125
Net increase in cash and cash equivalents during the period		2,06,625
Add: Cash and cash equivalents in the beginning of the period		37,500
Cash and cash equivalents at the end of the period		2,44,125

Note: Significant non-cash transaction: - Purchase of land by issue of Bonds ₹1,12,500.

8. **(a) State the objective and the scope of Indian Government Accounting Standard (IGAS) 3 relating to Cash Flow Statement.** **8**

(b) Explain the functions of committee on Public Undertakings. **8**

Answer:

(a) IGAS – 3

Loans and Advances made by Governments

Introduction

1. The Government of India has been empowered under proviso (2) of Article 293 of the Constitution of India to make loans to the States, subject to such conditions as may be laid down by or under any law made by Parliament, any sums required for the purpose of making such loans being chargeable to the Consolidated Fund of India.

2. The Union Government has been providing financial assistance to the State Governments, a substantial portion of which is in the form of loans. These loans are advanced to the States both in the form of plan and non-plan assistance intended for both developmental and non-developmental purposes. Loans are also provided by the Union Government to Foreign Governments, Government companies and Corporations, Non-Government institutions and Local bodies. The Union Government also disburses recoverable advances to Government servants.

3. The State Governments disburse loans to Government Companies, Corporations, Local Bodies, Autonomous Bodies, Cooperative Institutions, Statutory Corporations, quasi-public bodies and other non-Government/private institutions. The State Governments also disburse recoverable advances to Government servants.

Objectives

4. The objective of the Standard is to lay down the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Union and the State Governments in their respective Financial Statements to ensure complete, accurate, realistic and uniform accounting practices, and to ensure adequate disclosure on Loans and Advances made by the Governments consistent with best international practices.

Scope

5. This Standard applies to Loans and Advances given by the Government for incorporation and presentation in the Financial Statements of the Government. Financial Statements shall not be described as complying with this Standard unless they comply with all the requirements contained therein. This standard shall apply only to government accounts being maintained on a cash basis.

(b) The Committee on Public Undertakings exercises the same financial control en the public sector undertakings as the Public Accounts Committee exercises over the functioning of the Government Departments. The functions of the Committee are:-

a. to examine the reports and accounts of public undertakings.
b. to examine the reports of the Comptroller & Auditor General on public undertakings.
c. to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.

The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination including evaluation of the policies, programmes and financial working of the undertaking.

The objective of the Financial Committees, in doing so, is not to focus only on the individual irregularity, but on the defects in the system which led to such irregularity, and the need for correction of such systems and procedures.