FINAL EXAMINATION

GROUP IV

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2017

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 assumptions 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 from* **Question No. 2.** *to* **Question No. 8** *(carrying 16 marks each).*

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

(a) ZF Bearings Ltd. presents the following information for the year ending 31/03/2016 and 31/03/2017 from which you are required to calculate the Deferred Tax Asset/Liability assuming tax rate of 30% and state how the same should be dealt with as per relevant accounting standard.

	31/03/2016 ₹ (lakhs)	31/03/2017 ₹(lakhs)
Depreciation	4010.10	4023.54
Unabsorbed carry forward business loss and depreciation allowance	2016.60	4110.00
Disallowance under Section 43B of Income Tax Act, 1961	518.35	611.45
Deferred Revenue Expenses	4.88	-----
Provision for Doubtful Debts	282.51	294.35

Z Ltd. had incurred a loss of ₹504 lakhs for the year ending 31/03/2017 before providing for current tax of ₹26.00 lakhs.

(b) MLG Securities Ltd. wants to reclassify its investment in accordance with AS 13. Decide on the treatment to be given in each of the following case:

(i) A portion of Current Investments purchased for ₹20 lakhs to be reclassified as Long-term Investments, as the company has decided to retain them. The market value as

on the date of Balance Sheet was ₹25 lakhs.

(ii) Another portion of Current Investments purchased for 15 lakhs has to be reclassified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was ₹ 6.5 lakhs.

(c) Kamal & Company, a partnership firm signed an agreement with workers for increase in wages with retrospective effect. The outflow on account of arrears was for 2012-13 ₹ 20.00 lakhs, for 2013-14 ₹24.00 lakhs and for 2014-15 ₹18.00 lakhs. This amount is payable in September 2016. The accountant wants to charge ₹62.00 lakhs as prior period charges in financial statement for 2016-17. Discuss.

(d) Write a note on objective and scope of IGAS-3.

(e) X Ltd. has leased equipment over its useful life that costs ₹7,46,55,100 for a three year lease period. After the lease term the asset would revert to the Lessor. You are informed that:

(i) The estimated unguaranteed residual value would be ₹ 1 lakh only.

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

(iii) Implicit interest rate is 10%.

You are required to ascertain the annual lease payment and the unearned finance income. P.V. factor @ 10% for years 1 to 3 are 0.909, 0.826 and 0.751 respectively.

Answer: 1

(a) Computation of Deferred Tax Assets/Liabilities

	31/03/2016 (₹ in lakhs)	**31/03/2017 (₹ in lakhs)**
Carried Forward Business Losses and Depreciation Allowance	2,016.60	4,110.00
Disallowance u/s 43B of the Income Tax Act	518.35	611.45
Provision for Doubtful Debts	282.51	294.35
	2,817.46	5,015.80
Less: Depreciation	4,010.10	4,023.54
	(1,192.64)	992.26
Less: Deferred Revenue Expenditure	4.88	Nil
Timing Difference	(1,197.52)	992.26
Deferred Tax Liability	359.26	
Deferred Tax Asset		297.68

When an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognized only to the extent there is virtual certainty supported by convincing evidence that future taxable income will be available against which such deferred tax assets can be realized. The existence of unabsorbed depreciation or carry forward of losses is strong evidence that future taxable income may not be available. Deferred Tax Assets of ₹ 297.68 Lakhs should not be recognized as an asset as per AS - 22. Deferred Tax Liability of ₹359.26 lakhs should be disclosed under a separate heading in the balance sheet of ZF Bearings Ltd., i.e. separately from current assets and current liabilities.

(b)

(i) The market value of the investments is ₹ 25 Lakhs, which is higher than its cost i.e., ₹ 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e., ₹ 20 lakhs.

(ii) The market value of the investment is ₹ 6.5 lakhs, which is lower than its cost i.e., ₹ 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e., ₹ 6.5 lakhs. The loss of ₹ 8.5 lakhs should be charged to Profit and Loss account.

(c) PROVISION OF AS 5

As per AS 5 the term prior period item refers only to income or expenses which arise in the current period as a result of errors or omission in the preparation of the financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods are determined in the current period.

ADVICE

The full amount of wage arrears paid to workers will be treated as an expense of current year and it will be charged to profit and loss account as current expenses and not as prior period expenses. It may be mentioned that additional wages is an expense arising from the ordinary activities of the company. Although abnormal in amount, such an expense does not qualify as an extraordinary item. However, as per Para 12 of AS 5 (Revised), when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

(d) IGAS - 3 deals with Loans and Advances made by the Government. The Objective and scope of the standard is discussed below:

Objectives:

The objectives of the standards are:

(i) To lay down norms for recognition, measurement, valuation reporting of 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

(ii) To ensure adequate disclosure on Loans and Advances made by the Governments consistent with best international practices.

Scope:

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.

(e) (I) CALCULATION OF ANNUAL LEASE PAYMENT

Cost of the equipment	7,46,55,100
Unguaranteed Residual Value	1,00,000
PV of unguaranteed residual value (₹ 1,00,000 × 0.751)	75,100
Fair value to be recovered from Lease Payment (₹ 7,46,55,100 - ₹ 75,100)	7,45,80,000
PV Factor for 3 years @ 10%	2.486
Annual Lease Payment (₹ 7,45,80,000 / PV Factor for 3 years @ 10% i.e. 2.486)	3,00,00,000

(II) CALCULATION OF UNEARNED FINANCE INCOME

	₹
Total lease payments [₹ 3,00,00,000 × 3]	9,00,00,000
Add: Residual value	1,00,000
Gross Investments	9,01,00,000
Less: Present value of Investments (₹ 7,45,80,000 + ₹ 75,100)	(7,46,55,100)
Unearned Finance Income	1,54,44,900

2. Summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March, 2017 were as under:

	A Ltd. ₹	**BLtd. ₹**
Paid up equity shares of ₹10 each	**20,00,000**	**12,00,000**
Premium Account	**4,00,000**	**—**
General Reserve	**5,20,000**	**5,00,000**
Profit and Loss Account	**3,60,000**	**3,20,000**
Debentures	**10,00,000**	**—**
Secures Loan	**6,00,000**	**6,00,000**
Sundry Creditors	**—**	**3,40,000**
Total	**48,80,000**	**29,60,000**
Land and Building	**18,00,000**	**9,00,000**
Plant and Machinery	**10,00,000**	**7,60,000**
Investments (10,000 shares in B Ltd.)	**1,60,000**	**—**
Stock	**10,40,000**	**7,00,000**
Motors	**8,20,000**	**5,20,000**
Bank	**60,000**	**80,000**
Total	**48,80,000**	**29,60,000**

Companies agree on a scheme of amalgamation on the following terms:

(a) A new Company AB Ltd. is to be formed.

(b) AB Ltd. to take over all assets and liabilities of the existing companies.

(c) For the purpose of amalgamation, the shares of the existing companies are to be valued as under:

A Ltd. – ₹18 per share

B Ltd. – ₹20 per share

(d) A contingent liability of A Ltd. of ₹1,20,000 is to be treated as real liability.

(e) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of

shares of AB Ltd.

(f) The shares of AB Ltd. are to be of ₹10 each.

Required:

(i) Show the computation the number of shares AB Ltd. will issue to the shareholders of the existing companies.

(ii) Pass the journal entries to close the books of A Ltd. and

(iii) Prepare the opening Balance Sheet of AB Ltd. as at 1.4.2017.

[Ignore liquidation and formation expenses] **16**

Answer: 2

Calculation of numbers of shares to be issued

Particulars	A Ltd.	BLtd.
Existing Shares	2,00,000	1,20,000
Less: Shares held by A Ltd. in B Ltd.		10,000
Net Shares	2,00,000	1,10,000
Agreed Valued per share	18	20
Total Agreed Valued	36,00,000	22,00,000
No. of Shares to be issued in AB Ltd. @ ₹ 10 per share	3,60,000	2,20,000
Total Number of Shares (3,60,000 + 2,20,000)		5,80,000

Journal of A Lld.

Date	Particulars		Dr. (₹)	Cr. (₹)
01/04/17	Realisation A/c	Dr.	48,80,000	
	To Land & Building A/c			18,00,000
	To Plant & Machinery A/c			10,00,000
	To Motors A/c			8,20,000
	To Investments A/c			1,60,000
	To Stock A/c			10,40,000
	To Bank A/c			60,000
	(Being Assets transferred to Realisation A/c)			
01/04/17	Profit & Loss A/c	Dr.	1,20,000	
	To Creditors			1,20,000
	(Being contingent liability treated as real liability)			
01/04/17	10% Debentures A/c	Dr.	10,00,000	
	Secured Loan A/c	Dr.	6,00,000	
	Creditors A/c	Dr.	1,20,000	
	To, Realization A/c			17,20,000
	(Being liabilities transferred to Realisation A/c)			
01/04/17	AB Ltd. A/c	Dr.	36,00,000	
	To Realisation A/c			36,00,000
	(Being Purchase Consideration accounted for)			
01/04/17	Realisation A/c	Dr.	4,40,000	
	To Shareholder A/c			4,40,000
	(Being profit on realization transferred)			

01/04/17	Share Capital A/c Dr. Premium A/c Dr. General Reserve A/c Dr. Profit & Loss A/c Dr. To Shareholders A/c (Being all capital and reserves balances transferred to Shareholders' Account)	20,00,000 4,00,000 5,20,000 2,40,000	31,60,000
01/04/17	Shares in AB Ltd. Dr. To AB Ltd. A/c (Being Shares Received)	36,00,000	36,00,000
01/04/17	Shareholders A/c Dr. To Shares in AB Ltd. (Being shares in AB Ltd. Given to shareholders)	36,00,000	36,00,000

BALANCE SHEET OF AB LTD. AS AT 01.04.2017

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	58,00,000
(b) Reserves and Surplus		
(2) Non-Current Liabilities Debentures Secured Loans (6,00,000 + 6,00,000)		10,00,000 12,00,000
(3) Current Liabilities Sundry Creditors (1,20,000 + 3,40,000)		4,60,000
Total		84,60,000
II. Assets		
(1) Non-Current Assets		
(a) Fixed Assets		
Tangible Assets	2	58,00,000
Intangible Assets	3	7,80,000
(2) Current Assets		
Stock (10,40,000+ 7,00,000)		17,40,000
Bank (60,000 + 80,000)		1,40,000
Total		84,60,000

Notes to Accounts:

1. **Share Capital**	₹
5,80,000 Shares of ₹ 10 each	58,00,000

2. **Tangible Assets**	₹
Land & Building (18,00,000 + 9,00,000)	27,00,000
Plant & Machinery (10,00,000 + 7,60,000)	17,60,000
Motors (8,20,000 + 5,20,000)	13,40,000
Total	58,00,000

3. **Intangible Assets**	₹
Goodwill	7,80,000
Total	7,80,000

Working Note:

Calculation of Goodwill/Capital Reserve

Particulars	₹
A. Assets taken over	
Land and Building (18,00,000 + 9,00,000)	27,00,000
Plant & Machinery (10,00,000 + 7,60,000)	17,60,000
Motors (8,20,000 + 5,20,000)	13,40,000
Stock (10,40,000+ 7,00,000)	17,40,000
Bank (60,000 + 80,000)	1,40,000
Total of Assets	76,80,000
B. Liabilities taken over	
Debentures	10,00,000
Secured Loans (6,00,000 + 6,00,000)	12,00,000
Sundry Creditors (1,20,000 + 3,40,000)	4,60,000
Total of Liabilities	**26,60,000**
C. Net Assets (A - B)	**50,20,000**
D. Purchase Consideration	58,00,000
E. Goodwill (D - C)	7,80,000

3. **Ganga Limited purchased 48000 shares in Yamuna Limited on 31st March 2015, at 50% premium over face value by issue of 8% debentures at 20% premium. The Balance Sheets of Ganga Limited and Yamuna Limited as on 31.03.2015, i.e., on the date of purchase were as under:**

					(in ₹)
Liabilities	**Ganga Ltd.**	**Yamuna Ltd.**	**Assets**	**Ganga Ltd.**	**Yamuna Ltd.**
Share capital of ₹10 each	**10,50,000**	**6,00,000**	**Fixed Assets**	**6,50,000**	**2,00,000**
			Inventory in Trade	**3,00,000**	**1,80,000**
General Reserve	**1,20,000**	**40,000**	**Trade receivables**	**3,40,000**	**2,10,000**
Profit and Loss A/c	**80,000**	**------**	**Cash in hand**	**60,000**	**30,000**
Trade payables	**1,00,000**	**60,000**	**Profit and Loss A/c**	**-------**	**80,000**
	13,50,000	**7,00,000**		**13,50,000**	**7,00,000**

(a) Particulars of Ganga Limited:

(i) Profits made: 2015 – 2016 ₹1,60,000

2016 – 2017 ₹2,00,000

(ii) The above profit was made after charging depreciation of ₹60,000 and ₹40,000 respectively.

(iii) Out of profit shown above, every year ₹20,000 had been transferred to General Reserve.

(iv) 10% Dividend had been paid in both years.

(v) It has been decided to write down investment to face value of shares in 10 years and to provide for share of loss to subsidiary.

(b) **Particulars of Yamuna Limited:**
The company incurred losses of ₹40,000 and ₹ 60,000 in 2015-2016 and 2016-2017 after charging depreciation of 10% p.a. on the book value of Fixed Assets as on 01-04-2015.
Prepare consolidated Balance Sheet of Ganga Limited and its subsidiary as at 31st March, 2017 as per requirements of Schedule III. **16**

Answer: 3

CONSOLIDATED BALANCE SHEET OF GANGA LTD AND ITS SUBSIDIARY YAMUNA LTD AS AT 31.03.2017

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital (of ₹ 10 each)		10,50,000
(b) Reserves and Surplus	1	3,42,000
(2) Minority Interest		92,000
(3) Non-Current Liabilities (8% Debentures)		6,00,000
(4) Current Liabilities		
Total		20,84,000
II. Assets		
(1) Non-Current Assets		
(a) Fixed Assets		
Tangible Assets	2	7,10,000
Intangible Assets [Goodwill on consolidation]	W.N. (ii)	2,24,000
(2) Current Assets (Net)	2	11,50,000
Total		20,84,000

Notes To Accounts:

Particulars	₹
1. Reserves and Surplus	
General Reserve	1,60,000
Profit & Loss Account	62,000
Capital Reserve [Debenture Premium]	1,20,000
	3,42,000

2. CONSOLIDATED BALANCES

Particulars	Tangible Fixed Assets	Net Current Assets
Ganga Ltd.	6,50,000	8,50,000
Yamuna Ltd.	2,00,000	3,00,000
Total	8,50,000	11,50,000
Less: Depreciation (1,00,000 + 40,000)	(1,40,000)	—
Consolidated Balances	7,10,000	11,50,000

Working Notes:

(i) CALCULATION OF BOOK VALUE OF INVESTMENT IN YAMUNA LTD. AS AT 31.03.2017

Particulars	₹
Face value of Shares	4,80,000

Premium @ 50%	2,40,000
Cost of Investment in shares	7,20,000
8% Debentures (Nominal value = 7,20,000/120 × 100)	6,00,000
Securities Premium @ 20%	1,20,000
Cost of Investment in Debentures	7,20,000
Writing down of Investment	(24,000)
2015 - 2016: [1/10 × 2,40,000]	(24,000)
[2016 - 2017: [1/10 × 2,40,000]	
Investment as on 31.3.2017	6,72,000

(ii) **Goodwill** = ₹6,72,000 – 80% [₹6,00,000 + ₹40,000 – ₹80,000] = ₹ 2,24,000

(iii) BALANCE OF PROFIT AND LOSS ACCOUNT ON 31ST MARCH, 2017

Particulars	Ganga Ltd. ₹	Yamuna Ltd. ₹
Balance as on 31.3.2015	80,000	(80,000)
Profit /(Loss)		
For 2015-2016	1,60,000	(40,000)
For 2016-2017	2,00,000	(60,000)
Investment written-off		
2015-2016	(24,000)	
2016-2017	(24,000)	
Provision for share of loss in Subsidiary		
2015-2016: (4/5 × 40,000)	(32,000)	
2016-2017: (4/5 × 60,000)	(48,000)	
Transfer to General Reserve		
2015-2016	(20,000)	
2016-2017	(20,000)	
Dividend		
2015-2016	(1,05,000)	
2016-2017	(1,05,000)	
	62,000	(1,80,000)

(iv) FIXED ASETS ON 31ST MARCH, 2017

Particulars	*Ganga Ltd.* ₹	*Yamuna Ltd.* ₹
Fixed Assets on 31.3.2013	6,50,000	2,00,000
Less: Depreciation		
2015-2016	(60,000)	(20,000)
2016-2017	(40,000)	(20,000)
	5,50,000	1,60,000

(v) BALANCE SHEETS AS AT 31ST MARCH, 2017

Liabilities	Ganga Ltd. ₹	Yamuna Ltd. ₹	Assets	Ganga Ltd. ₹	Yamuna Ltd. ₹
Share Capital	10,50,000	6,00,000	Fixed Assets*	5,50,000	1,60,000

Capital Reserve	1,20,000	—	Investments 6,72,000		
(Debenture premium)			Less: Provision for		
General Reserve	1,60,000	40,000	loss in subsidiary 80,000	5,92,000	—
			(32,000 + 48,000)		
Profit and Loss A/c	62,000	—	Net Current Assets		
8% Debentures	6,00,000	—	(Balancing figure)	8,50,000	3,00,000
			Profit and Loss A/c	—	1,80,000
	19,92,000	6,40,000		19,92,000	6,40,000

(vi) Minority Interest = 20% of (6,00,000 + 40,000 – 1,80,000) = 20% of 4,60,000 = ₹92,000

4. (a) From the following Profit & Loss Account of Yash Ltd. Prepare Gross value Added Statement and show the reconciliation between Gross Value Added and Profit before taxation.

Profit and Loss Account for the year 31st march, 2017

Particulars		**(₹ in '000s)**
Sales less return		**21,350**
Trading profit		**1,920**
Less: Depreciation	**302**	
Interest	**140**	**(442)**
Add: Other income		**80**
Profit before tax		**1,558**
Provision for tax		**(688)**
Profit after tax		**870**
Less: Extraordinary items		**(15)**
		855
Less: Proposed dividend		**(340)**
Retained profit		**515**

Notes:

1.	**Trading profit is arrived at after charging the following :** **Salaries, wages etc. to employees** **Director's remuneration** **Audit fees** **Hire of equipment**		**(₹ in '000s)** **3685** **360** **220** **290**
2.	**Interest figure is ascertained as below** **Interest paid on bank loans and overdrafts** **Interest received**	 **160** **(20)**	 **140**
3.	**Extraordinary items:** **Surplus on sale of properties** **Loss of Goods by fire**	 **20** **(35)**	**(15)**
4.	**The charge for taxation include a transfer of ₹1,48,000 to the credit of deferred tax account**		

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(b) Write a note Environmental reporting: **4**

Answer: 4 (a)

Gross value Added Statement of YASH Ltd. For the year ended 31st March, 2017

Particulars	₹ In '000s	₹ In '000s
Sales		21,350
Less: Cost of raw materials, stores and other services consumed		15,385
Value added by manufacturing and trading activities		5,965
Add:		
(a) Interest received	20	
(b) Other Income	80	100
Less: Extraordinary items		
(a) Surplus on Sales Transaction	(20)	
(b) Loss of goods by fire	35	15
Gross Value Added		6,050

Application of Gross Value Added

Particulars	₹ in '000s	₹ in '000s	%
To Pay Employees Wages, Salaries and bonus		3,685	60.91
To Pay Directors' Salaries and commission to Directors		360	5.95
To Pay Government Provision for tax (including charge of deferred tax)		688	11.37
To Pay providers of Capital			
Interest on Loans & Overdraft	160		
Proposed Dividend	340	500	8.27
To Provide for the maintenance and expansion of the company			
Depreciation	302		
Retained Profits	515	817	13.50
Total		6,050	100.00

Statement Showing Reconciliation between Gross Value Added with profit before Taxation

Particulars	₹ in '000s	₹ in '000s
Profit before Taxation		1,558
Add:		
Wages, Salaries and Bonus	3,685	
Salaries and commission to Directors	360	
Interest on Loans & Overdraft	160	
Depreciation	302	
Extraordinary Item	(15)	4,492
Gross Value Added		6,050

Working Note:

Calculation of Cost of bought out materials and services

Particulars	₹ in '000s
Sales	21,350
Less: Trading Profit	(1,920)
Total Cost	19,430
Less: (i) Salaries and Wages	(3,685)
(ii) Director's Remuneration	(360)
Cost of bought out materials and services	15,385

Answer: 4 (b)

Environmental Reporting can be classified into two parts, namely-

(a) Management Note / Discussion in Director's Report: Broad Environment Protection Policy adopted and pursued by the Company and material proceedings under environmental laws should be disclosed here.

(b) Accounting Treatment and Reporting: Financial effect of environmental protection measures on capital expenditures and earnings should be covered in the Notes forming part of Financial Statements.

Reporting Requirements of Environmental Accounting. Under a comprehensive Corporate Accounting Framework on environmental issues the Board of Directors in their Report or Management Discussions should disclose the following -

(i) Type of environmental issues that are pertinent to the enterprise and its industry;

(ii) Policy and programmes that have been adopted by the Company with respect to Environmental Protection Measures; or where there is no policy or programmes, such fact should be disclosed;

(iii) Improvements made by the Company in key areas, since the introduction of the policy, or over the past five years, whichever is shorter;

(iv) Environmental Emission Targets that the Company has set for itself, and how the Company is performing relative to those targets;

(v) Extent to which Environmental Protection Measures have been undertaken as per Government Legislation, and the extent to which Government Requirements (e.g. time table for reduction of emissions) are achieved;

(vi) Where any material proceedings under environmental laws have been taken, a disclosure of the known and potentially significant environmental problem shall be disclosed, unless it can be objectively concluded that the problem is not likely to occur, or if it does, the effect is not likely to be material;

(vii) Financial or Operational Effect of Environmental Protection Measures on the Capital Expenditure and Earnings of the Enterprise for the current period and any specific impact on future periods;

(viii) Actual Amount charged to operations in the current period, together with a description of the relative environmental measures.

(ix) Sub-classification of the above actual amounts into the following - (a) Liquid Effluent Treatment; (b) Waste Gas and Air Treatment; (c) Solid Waste Treatment; (d) Analysis

Control and Compliance; (e) Remediation; (f) Recycling; and (g) Others (e.g. accidents, safety, etc.). Where it is not possible to segregate the amount that relates to Environmental Protection Measures, disclosure of such fact is essential.

(x) When material, the actual amount capitalised during the current period, the accumulated amount capitalised to date, and the period for amortising, or writing off, such amounts, together with a description of the environmental measures to which they relate. This amount might be sub-divided into categories stated above. Where it is not possible to segregate the amount that relates to environmental measures, this fact could be stated.

The following environment- related Accounting Policies may be disclosed in the Notes to Accounts -

(i) Recording Liabilities and Provisions;
(ii) Setting up of Catastrophe Reserves (though appropriations of retained earnings);
(iii) Disclosure of Contingent Liabilities.

5. (a) Suhana Ltd. issued secured debentures of ₹ 100 Lakhs on 01.05.2016, to be utilized as under:

Particulars	Amount (₹ in lakhs)
Construction of factory building	**40**
Purchase of Machinery	**35**
Working Capital	**25**

In March 2017, construction of the factory building was completed and machinery was installed and ready for it's intended use. During the year 2016-2017, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest. The eligible borrowing cost is ₹9,00,000.
Show the treatment of interest under Accounting Standard 16 and also explain nature of assets. 8

(b) A Mutual Fund raised 100 lakhs on January 1, 2017 by issue of 10 lakhs units of ₹10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakhs. The initial expenses amounted to ₹7 lakhs. During January, 2017, the fund sold certain securities of cost ₹38 lakhs for ₹40 lakhs and purchased certain other securities for ₹28.20 lakhs. The fund received ₹1.20 lakhs as dividend and 75% of realized earnings was distributed among unit holders. The fund management expenses for the month amounted to ₹4.50 lakhs of which ₹ 0.25 lakh was not paid till month end. The market value of the portfolio on 31.01.2017 was ₹ 101.90 lakhs. Determine NAV per unit. 8

Answer: 5(a)

PROVISION OF AS 16

According to para 6 of AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.
Also para 10 of AS 16 "Borrowing Costs" states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period *less* any income on the temporary investment of those borrowings.
Decision: Eligible borrowing cost = ₹ 9,00,000

Sr. No.	Particulars	Nature of assets	Interest to be Capitalized (₹)	Interest to be charged to Profit & Loss Account (₹)
i.	Construction of factory building	Qualifying Asset	9,00,000 × 40/100 = ₹ 3,60,000	NIL
ii.	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = ₹ 3,15,000
iii.	Working Capital	Not a Qualifying Asset	NIL	9,00,000 × 25/100 = ₹ 2,25,000
	Total		₹ 3,60,000	₹ 5,40,000

Answer: 5(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	1.20	44.20	
Less: Cost of securities	28.20		
Fund management expenses (₹ 4.50 - ₹ 0.25) lakhs	4.25		
Capital gains distributed [75% of (₹ 40.00 - ₹ 38.00) lakhs]	1.50		
Dividends distributed (75% of ₹ 1.20 lakhs)	0.90	(34.85)	
Closing bank balance		9.35	
Closing market value of portfolio		101.90	
		111.25	
Less: Arrears of Expenses		(0.25)	
A. Closing Net assets		111.00	
B. Number of units			10,00,000
C. Closing Net Assets Value (NAV) [111 lakhs/10 lakh]			₹ 11.10

6. **(a) The Balance Sheet of Sick Ltd. On 31st March, 2017 is as under:**

	₹		₹
Share Capital (₹ 100)	**20,00,000**	**Goodwill**	**2,00,000**
10000, 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**	**Sundry Debtors**	**7,50,000**
		Preliminary expenses	**1,00,000**
		Cash	**1,50,000**
		Profit and Loss account	**7,00,000**
	40,00,000		**40,00,000**

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% dividend effective after reorganization in case equity shareholders' loss 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 was considered good.

(vi) Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganization.

Show:

I. Total loss to be borne by the equity and preference shareholders;

II. Share of loss to the individual classes of shareholders; and

III. New structure of share capital after reorganization.

(b) From the following information, calculate the value of a share if you want to:

(i) buy a small lot of shares;

(ii) buy a controlling interest in the company.

Year	Profit	Capital Employed	Dividend
	(₹)	(₹)	%
2011	55,00,000	3,43,75,000	12
2012	1,60,00,000	8,00,00,000	15
2013	2,20,00,000	10,00,00,000	18
2014	2,50,00,000	10,00,00,000	20

The market expectation is 12%.

Answer: 6(a)

(A) LOSS TO BE BORNE BY EQUITY AND PREFERENCE SHAREHOLDERS

Particulars	₹
Profit and Loss A/c (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	3,50,000
Amount to be written off	16,50,000
Less: 50% of Sundry Creditors	3,50,000
Loss to be borne by equity and preference shareholders	13,00,000

Note: Since preference dividend for 2 years which is in arrears is sacrificed by preference shareholders, the same may be ignored in the above calculation or alternatively may be included in the amount to be written off and then reduced there from as preference shareholders' sacrifice.

(B) SHARES OF LOSS TO PREFERENCE SHAREHOLDERS AND EQUITY SHAREHOLDERS

Total loss being more than 50% of equity share capital:	
Preference shareholders' share of loss = 20% of ₹ 10,00,000	₹2,00,000
Equity shareholders' share of loss (₹ 13,00,000 - ₹ 2,00,000)	₹11,00,000
Total	₹13,00,000

(C) NEW STRUCTURE OF CAPITAL

Equity Shares	₹
20,000 shares of ₹ 45 each fully paid	9,00,000
Preference Shares	
10,000, 9% shares of ₹ 80 each fully paid	8,00,000
	17,00,000

Answer: 6(b)

(1)To Buy a Small lot of Shares, Dividend Yield Method is most appropriate.

Since Dividend rate is rising continuously, Weighted Average Dividend Rate has been calculated.

Year	Dividend %	Weight	Dividend (%)
2011	12	1	12
2012	15	2	30
2013	18	3	54
2014	20	4	80
		10	176

Average Dividend = 176/10 = 17.16%

Value of Share = [Average Dividend Rate / Market Expectation Rate] × 100 = 17.6 /12 × 100 = ₹ 146.67 per share

(2)To Buy a Controlling Interest in the company, Earning yield Method is most appropriates. Since the profit is rising, Weighted Average Earning rate has been calculated.

Year	Yield % (Profit/Capital) (employed) × 100	Weight	Product
2011	16	1	16
2012	22	2	40

2013	22	3	66
2014	25	4	100
		10	222

Average Yield = 222/10 = 22.2%

Value per share = Average Earning Rate/ Market Expectation Rate × 100 = 22.2 12 × 100

= ₹ 185 per share.

7. (a) From the following information, prepare a Cash Flow Statement:

Particulars	Note	31.03.2017 (₹)	31.03.2016 (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(a) Share Capital		**12,50,000**	**10,00,000**
(b) Reserves and Surplus	**1**	**4,90,000**	**4,00,000**
(2) Non-Current Liabilities [Loan]		**4,00,000**	**5,00,000**
(3) Current Liabilities			
Trade Payables		**4,00,000**	**5,00,000**
Short-term Provisions	**2**	**1,85,000**	**1,50,000**
Total		**27,25,000**	**25,50,000**
II. ASSETS			
(1) Non-Current Assets			
Tangible Fixed Assets	**3**	**14,00,000**	**12,50,000**
Non-Current Investments		**50,000**	**1,00,000**
(2) Current Assets			
Inventories		**2,80,000**	**3,00,000**
Trade Receivables		**4,20,000**	**4,00,000**
Cash & Cash Equivalents		**5,75,000**	**5,00,000**
Total		**27,25,000**	**25,50,000**

Note 1 : Reserves and Surplus

Particulars	31.03.2017 (₹)	31.03.2016 (₹)
General Reserve	**3,00,000**	**2,50,000**
Profit and Loss A/c	**1,80,000**	**1,50,000**
Capital Reserve	**10,000**	
	4,90,000	**4,00,000**

Note 2 : Short-Term Provisions

Particulars	31.03.2017 (₹)	31.03.2016 ₹)
Proposed Dividend	**1,25,000**	**1,00,000**
Provision for Tax	**60,000**	**50,000**
	1,85,000	**1,50,000**

Note 3: Tangible Fixed Assets

Particulars	31.03.2017 (₹)	31.03.2016 (₹)
Land & Building	4,80,000	5,00,000
Machinery	9,20,000	7,50,000
	14,00,000	12,50,000

Additional Information:

(i) **Dividend of ₹ 1,00,000 was paid during the year.**

(ii) **Machinery during the year purchased for ₹1,25,000. Machinery of another company was purchased for a consideration of ₹1,00,000 payable in equity shares.**

(iii) **Depreciation written off on Land and Building ₹20,000.**

(iv) **Company sold some investment at a profit of ₹10,000, which was credited to Capital reserve.**

(c) Income-tax provided during the year ₹ 55,000. Required:

From the above particulars, prepare a Cash How Statement for the year ended March, 2017 as per AS 3 (indirect method). **10**

(d) The Chief Accountant of PELF FIN STOCK Ltd. Gives the following data regarding its six segments: (₹ In lakhs):

Particulars	M	N	O	P	Q	R	Total
Segment Assets	50	25	10	5	5	5	100
Segment Results	-50	-140	80	10	-10	10	-100
Segment Revenue	200	320	200	90	90	100	1000

Identify the Reportable Segments as per AS 17. **6**

Answer: 7(a)

CASH FLOW STATEMENT FOR THE YEAR ENDING 31.03.2017

Particulars	₹
I. Cash Flows from Operating Activities	
Net Profit made during the year	2,60,000
Adjustment for depreciation on Machinery	55,000
Adjustment for depreciation Land and Building	20,000
Operating profits before change in Working Capital	3,35,000
Decrease in Inventories	20,000
Increase in Trade Receivables	(20,000)
Decrease in Trade Payables	(1,00,000)
Income Tax paid	(45,000)
Net Cash from operating activities	1,90,000
II. Cash flows from Investing Activities	
Purchase on Machinery	(1,25,000)
Sale of Investments	60,000
Cash flows from Investing Activities	(65,000)
III. Cash flows from Financing Activities	
Issue of Equity Shares (2,50,000 - 1,00,000)	1,50,000

Repayment of Long term Loan	(1,00,000)
Dividend Paid	(1,00,000)
Cash flows from Financing Activities	(50,000)
Net Increase in cash and cash equivalent	75,000
Cash and cash equivalents at the beginning of the period	5,00,000
Cash and cash equivalents at the end of the period	5,75,000

Working Notes:

1. NET PROFIT BEFORE TAX

Particulars	₹
Increase in P & L A/c (Cr.) Balance	30,000
Add: Transfer to general reserve	50,000
Add: Provision for taxation made during the year	55,000
Add: Proposed Dividend during the year	1,25,000
	2,60,000

DR. 2. MACHINERY ACCOUNT CR.

Particulars	₹	**Particulars**	₹
To Balance b/d	7,50,000	By Depreciation A/c (Bal. Fig.)	55,000
To Bank A/c	1,25,000	By Balance c/d	9,20,000
To Equity Share Capital A/c	1,00,000		
	9,75,000		9,75,000

DR. 3. PROVISION FOR TAXATION ACCOUNT CR.

Particulars	₹	Particulars	₹
To Cash A/c (Bal. Fig.)	45,000	By Balance b/d	50,000
To Balance c/d	60,000	By P & L A/c	55,000
	1,05,000		1,05,000

DR. 4. PROPOSED DIVIDEND ACCOUNT CR.

Particulars	₹	Particulars	₹
To Dividend Payable A/c	1,00,000	By Balance b/d	1,00,000
To Balance c/d	1,25,000	By P & L A/c (bal. fig.)	1,25,000
	2,25,000		2,25,000

DR. 5. INVESTMENTS ACCOUNT CR.

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Bank A/c	60,000
To Capital Reserve A/c	10,000	(Bal. figure for investment sold)	
(Profit on sale of investment)		By Balance c/d	50,000
	1,10,000		1,10,000

Answer: 7(b)

As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

(ii) Its segment result whether profit or loss is 10% or more of:
The combined result of all segments in profit, (i.e. ₹100 lakhs) or The combined result of all segments in loss, whichever is greater in absolute amount (i.e. ₹ 200 lakhs); or

(iii) Its segment assets are 10% or more of the total assets of all segments.

Criteria For Reportable Segment	Reportable Segment fulfilling Criteria
1. 10% of Total Revenue (i.e., 100)	M, N, O, R
2, 10% of Total Result (i.e., 200)	M, N, O
3. 10% of Total Assets (i.e., 10)	M, N, O

Hence, Reportable Segments as per AS 17 are M,N,0,R only

8. (a) State the major steps involved in undertaking the Triple Bottom Line (TBL) Reporting process. 8

(b) State the Procedure adopted by Government Accounting Standard Board (GASAB) for formulating Accounting Standards. 8

Answer: 8(a)

Major Steps in Triple Bottom Line (TBL) reporting

1. Planning for Reporting

a. Understand the national, international and industry sector trends in TBL reporting

b. Identify key stakeholders

c. Establish the 'business case' and set high-level objectives for TBL reporting

d. Secure support from the Board and senior executives

e. Identify resource requirements and determine budget

2. Setting the Direction for TBL Reporting

a. Engage with stakeholders to understand their requirements

b. Prioritise stakeholder requirements and concerns

c. Set overall objectives for TBL reporting

d. Review current approach and assess capability to deliver on reporting objectives

e. Identify gaps and barriers associated with current approach, and prioritise risks associated with overall reporting objective

f. Review of associated legal implications

g. Develop TBL reporting strategy

h. Determine performance indicators for inclusion in report

i. Establish appropriate structure and content of the report

3. Implementation of TBL Reporting Strategy

a. Implementation of TBL reporting strategy (including required data collection and review processes)

b. Clarify relationship to statutory financial reporting

4. Publication of TBL Report

a. Prepare draft report

b. Review content and structure of report internally, and modify accordingly

c. Obtain independent assurance - external verification

d. Publish TBL report

e. Seek feedback from stakeholders and incorporate into planning for the next period's reporting.

Answer: 8(b)

Procedures adopted by Government Accounting Standard Board (GASAB) for formulating Accounting Standards

(i) The GASAB Secretariat identifies areas for Standard formulation and places them before the GASAB for selection and approval.

(ii) The GASAB Secretariat thereafter prepares the discussion paper on the selected issues for consideration of the GASAB.

(iii) While doing so, the Secretariat studies the existing rules, codes and principles as internal sources, and documents/pronouncements/Standards issued by other national and international Standard setting and regulatory bodies. The Secretariat may also hold consultation with such other persons as are considered necessary for this purpose.

(iv) On consideration of the Discussion paper and the comments received thereon, the GASAB finalizes the Exposure Draft.

(v) The GASAB may constitute Standing Committee and/or Task based Groups from amongst the Members or their representatives to consider specific areas before finalization.

(vi) The Exposure Draft, as approved for issue by the GASAB, are widely circulated in the public domain and forwarded to all stakeholders. The Exposure Draft is required to be hosted at the website of GASAB.

(vii) Based on the comments received on the Exposure Draft, the Standards are finalized by the GASAB. The Standards, as finalized, are forwarded to the Government for notification in accordance with the provisions of the Constitution of India.

(viii) The meetings are normally chaired by the Chairperson. In unforeseen circumstances when Chairperson is unable to attend, the senior-most member from the Central Government will chair the meeting. The Comptroller & Auditor General of India will be kept informed of the important developments in the meetings of GASAB.

(ix) The GASAB may meet as often as is deemed necessary but generally at least 4 times in a financial year. The decisions of the GASAB may preferably be by general consensus. In case differences persist, the decision shall be on the basis of voting favoring the recommendation. The dissenting views should also be forwarded to the Government along with the recommendations.

(x) GASAB allows an exposure period of 90 days for inviting comments on Exposure Draft.