

FINAL EXAMINATION GROUP IV (SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS JUNE 2014

Paper-18: CORPORATE FINANCIAL REPORTING

Time Allowed : 3 Hours

Full Marks : 100

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

Answer **all** the questions.

1. Answer any two of the following: 5x2=10
- (a) Lal National Ltd. is developing a new production process. During the financial year 31st March, 2013, the total expenditure incurred on this process was ₹ 75 lakhs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was ₹ 28 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2014 was ₹ 140 lakhs. As at 31st March, 2014, the recoverable amount of know-how embodied in the process is estimated to be ₹125 lakhs. This includes estimates of future cash outflows as well as inflows.
You are required to work out: (Ignoring depreciation for this purpose)
- (i) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2013?
 - (ii) What is the carrying amount of the intangible asset as at 31st march, 2013?
 - (iii) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2014?
 - (iv) What is the carrying amount of the intangible asset as at 31st march, 2014?
- (b) Calculate the actual return on plan assets from the following information available from a company's defined benefit pension plans for a particular year.
- | | |
|--|------------|
| Fair market value of plan assets (beginning of year) | ₹20,00,000 |
| Fair market value of plan assets (end of year) | ₹28,50,000 |
| Employer's contribution | ₹7,00,000 |
| Benefit paid | ₹5,00,000 |
- (c) ABC Ltd. had reported a net profit of ₹ 60,00,000 for the year ended 31st March, 2014 on which date the company is having 20,00,000 equity shares of ₹ 10 each outstanding. The average fair value of one equity share during the year 2013-14 is ₹ 25. The details of exercisable option are given below:
Weighted average number of shares under stock option scheme during the year 2013-14 = 4,00,000.
Exercise price for shares under stock option during the year ended 31st march, 2014 = ₹ 20. Calculate (i) Basic EPS and (ii) Diluted EPS.

Answer:

1. (a) (i) Expenditure incurred up to 1.12.2012 will be taken up to profit and loss account for the financial year ended 31.3.2013 - ₹ 28 lakhs.

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(ii) Carrying amount as on 31.3.2013-will be the expenditure incurred after 1.12.2012 = ₹ 47 lakhs.

(iii) Book cost of intangible asset as on 31.3.2014 is worked out as follows:

Carrying amount as on 31.3.2013	₹47 lakhs
Expenditure during 2013-14	₹140 lakhs
Total book cost	₹187 lakhs
Recoverable amount, as estimated	₹125 lakhs
Difference to be charged to profit and loss a/c as Impairment loss	₹62 lakhs

(iv) Carrying amount as on 31.3.2014 will be (cost less Impairment loss) ₹125 lakhs.

(b) The actual return on plan asset is computed as follows:

Fair market value of plan asset (end of year)	₹28,50,000
Fair market value of plan asset (beginning of year)	₹20,00,000
So, change in plan assets	₹. 8,50,000
Adjusted for:-	
Employer contribution	₹7,00,000
Less: benefit paid	₹5,00,000
Actual return on plan assets	₹6,50,000

(c) (i) Calculation of Basic EPS

Net Profit for the year ended 31.03.2014	₹60,00,000
No. of equity shares outstanding	20,00,000
Basic EPS (₹60,00,000/20,00,000)	₹3

(ii) Calculation of Diluted EPS

Net Profit for the year ended 31.03.2014	₹. 60,00,000
No. of equity shares outstanding	20,00,000
No. of shares under stock option	
Less: No. of shares that would have been issued at Fair value (4,00,000 x 20/25)	4,00,000
	<u>3,20,000</u>
	80,000
	20,80,000

Diluted EPS ₹60,00,000/20,80,000 Shares = ₹2.88 (approx)

2. (a) A Ltd. owned 80% of B Ltd, 35% of C Ltd. and 30% of D Ltd. C Ltd. is jointly controlled entity and D Ltd. is an associate. Balance Sheet of all four companies as on 31.03.2014 are:

(₹ in lakhs)				
Particulars	A Ltd.	B Ltd.	C Ltd.	D Ltd.
Liabilities				
Equity share of ₹ 1/- each fully paid-up	1,500	600	1,200	1,200
Retained Earnings	6,000	5,100	5,400	5,400
Creditors	300	450	380	375
Total	7,800	6,150	6,980	6,975
Assets				
Fixed Assets	1,500	1,200	2,100	1,500
Investment in B Ltd.	1,200			

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Investment in C Ltd.	900			
Investment in D Ltd.	900			
Current Assets	3,300	4,950	4,880	5,475
Total	7,800	6,150	6,980	6,975

A Ltd. acquired shares in

- (i) B Ltd. many years ago, when the company had retained earnings of ₹ 780 lakhs.
- (ii) C Ltd. at the beginning of the year, when the company had retained earnings of ₹ 600 lakhs.
- (iii) D Ltd. on 01.04.2013, when the company had retained earnings of ₹ 600 lakhs.

The balance of goodwill relating to B Ltd. had been written off three years ago. The value of goodwill in C Ltd. remains unchanged.

Prepare the Consolidated Balance Sheet of A Ltd. as on 31.03.2014 as per AS-21, AS-23 and AS-27. 15

OR

- (b) AB Ltd. has 2 divisions-A and B. Division A has been making constant profit, while Division B has been suffering losses. The Division wise Balance Sheet as on 31st March, 2014 are as follows:

	(₹ in lakhs)		
	Division A	Division B	Total
Fixed assets: cost (Tangible)	500	1000	1500
Less: Depreciation	450	800	1250
Written Down Value (i)	50	200	250
Current Assets:	400	1000	1400
Less: Current Liabilities	50	800	850
Net Current Assets (ii)	350	200	550
Total (i) + (ii)	400	400	800
Financed by:			
Loan	-	600	600
Capital : Equity Shares of ₹ 10 each	50	-	50
Reserves and Surplus	350	(200)	150
Total	400	400	800

Division B along with its assets and liabilities was sold for ₹ 50 lakhs to X Ltd., a new company which issued 2 lakhs equity shares of ₹ 10 each at a premium of ₹ 15 per share to the members of B Division in full settlement of the consideration in proportion to their shareholding in the company. Assuming that there are no other transactions,

You are required to:

- (i) Show journal entries in the books of AB Ltd.
- (ii) Prepare the Balance Sheet of AB Ltd. after the entries made in (i) above.
- (iii) Show journal entries in the books of X Ltd.
- (iv) Prepare the balance Sheet of X Ltd.

In both the cases, Balance Sheets to be prepared in the Revised Scheduled VI format.15

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Answer:

2. (a)

Consolidated Balance Sheet of A Ltd. as at 31st March, 2014
(as per Revised Schedule VI – Extract)

		(₹ in lakhs)
Particulars	Note No	Amount
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	1,500
(b) Reserves and Surplus	2	12,480
2. Share application money pending allotment		
3. Minority Interest		1,140
4. Non-current liabilities		
5. Current Liabilities		
(a) Trade Payables	3	883
Total (1+2+3)		16,003
II. ASSETS		
1. Non-current Assets		
(a) Fixed Assets		
(i) Tangible assets	4	3,435
(ii) Intangible assets	5	270
(b) Non-current investments	6	2,340
Total		6,045
2. Current Assets		
(a) Other current assets	7	9,958
Total (1+2)		16,003

[Relevant notes]

Note No: 1. Share Capital	(₹ in lakhs)
Share capital in equity shares	1,500
Total	1,500

Note No: 2. Reserve and Surplus.	
Retained Earnings (W.N.-2)	12,480
Total	12,480

Note No: 3. Trade Payables.	
Creditors [300+450+133(35% of 380)]	883
Total	883

Note No: 4. Tangible Assets.	
Fixed Assets [1,500+1,200+735(35% of 2,100)]	3,435
Total	3,435

Note No: 5. Intangible Assets.	
Goodwill (W.N. 2)	270
Total	270

Note No: 6. Non-current Investments.	
Investments in Associates (W.N. 4)	2,340

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Total	2,340
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Note No: 7. Other current assets

Other current assets [3,300+4,950+1,708(35% of 4,880)]	9,958
Total	9,958

Working Notes:

1. Computation of Goodwill (₹ in lakhs)

B Ltd. (subsidiary)		
Cost of investment		1,200
Less: Paid up value of shares acquired	480	
Share in pre-acquisition profits of B Ltd.(780×80%)	624	1,104
Goodwill		96
C Ltd.(Jointly Controlled Entity)		
Cost of investment		900
Less: Paid up value of shares acquired (35% of 1,200)	420	
Share in pre-acquisition profits of C Ltd.(35% of 600)	210	630
Goodwill		270
Note: Jointly controlled entity C Ltd to be consolidated on proportionate basis i.e.35% as per AS-27.		
D Ltd.(Associate as per AS-23)		
Cost of investment		900
Less: Paid up value of shares acquired (30% of 1,200)	360	
Share in pre-acquisition profits of C Ltd.(30% of 600)	180	540
Goodwill		360
Goodwill to be shown in the consolidated B/S		
Goodwill of C Ltd.		270
Goodwill of B Ltd		96
Less: Goodwill written off of B Ltd.		96
Goodwill		270

2. Consolidated Retained Earnings: (₹ in lakhs)

A Ltd.		6,000
Share in post acquisition profits of B Ltd - 80% (5,100 - 780)		3,456
Share in post acquisition profits of C Ltd - 35% (5,400 - 600)		1,680
Share in post acquisition profits of D Ltd - 30% (5,400 - 600)		1,440
Less: Goodwill written off		(96)
		12,480

3. Minority Interest-B Ltd. (₹ in lakhs)

Share Capital (20% of 600)		120
Share in Retained Earnings (20% of 5,100)		1,020
		1,140

4. Investment in Associates. (₹ in lakhs)

Cost of Investments (including goodwill ₹360 lakhs)		900
Share of post acquisition profits		1,440
Carrying amount of investment (including goodwill ₹360 lakhs)		2,340

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(b)

In the Books of AB Ltd.
Journal Entries

Sl. No.	Particulars		Dr. (₹ in lakhs)	Cr. (₹ in lakhs)
(i)	X Ltd. A/c.	Dr.	50	
	Loan A/c	Dr.	600	
	Current Liabilities A/c	Dr.	800	
	Provision for Depreciation A/c	Dr.	800	
	To Fixed Assets A/c			1000
	To Current Assets A/c			1000
	To Capital Reserve A/c (Bal. Fig.)			250
	(Being Sale of assets and liabilities to X Ltd.)			
(ii)	Equity Shares in X Ltd. A/c	Dr.	50	
	To X Ltd. A/c			50
	(Receipt of consideration)			

Note: Division B was sold to X Ltd. The consideration received for transfer was equity share of X Ltd. of ₹10 each fully paid, issued at a premium of ₹15.
The value of consideration = 2,00,000 shares × (10+15) = ₹50,00,000.

In the books of AB Ltd.

Balance Sheet of AB Ltd. (as per Revised Schedule VI – Extracts) as at 31.03.2014

Particulars	Note No.	Amount (₹ in lakhs)
I. EQUITY AND LIABILITIES		
1. Shareholders Fund		
(a) Share Capital	1	50
(b) Reserves & Surplus	2	400
2. Share application money pending allotment		
3. Non-current liabilities		
4. Current liabilities		
(a) Other current liabilities	3	50
Total		500
II. ASSETS		
1. Non-current Assets		
(a) Tangible Assets	4	50
(b) Non-current Investment	5	50
2. Current Assets		
(a) Other current assets	6	400
Total		500

[Relevant notes]

Note 1: Share Capital

Particulars	Amount (₹ in lakhs)
Authorised , issued, subscribed and paid up capital:	

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5,00,000 Equity Shares of ₹10 each fully paid	50
Total	50

Note 2: Reserves and Surplus

Particulars	Amount (₹ in lakhs)
Capital Reserve	250
Profit and Loss (existing)	150
Total	400

Note 3: Other Current Liabilities

Particulars	Amount (₹ in lakhs)
Current Liabilities	50
Total	50

Note 4: Tangible Assets

Particulars	Amount (₹ in lakhs)
Fixed Assets Less Depreciation (400 – 350)	50
Total	50

Note 5: Non-current Investments

Particulars	Amount (₹ in lakhs)
Investment in X Ltd.	50
Total	50

Note 6: Other Current Assets

Particulars	Amount (₹ in lakhs)
Current Assets	400
Total	400

In the Books of X Ltd.
Journal Entries

Sl. No.	Particulars	Dr. (₹ in lakhs)	Cr. (₹ in lakhs)
(i)	Business Purchase A/c. Dr. To AB Ltd. A/c (Being entries for business purchase.)	50	50
(ii)	Fixed Assets A/c Dr. Current Assets A/c Dr. Goodwill A/c (Bal. Fig.) Dr. To Loan A/c To Current Liabilities A/c To Business Purchase A/c (Being assets and liabilities taken over)	200 1000 250	600 800 50
(iii)	AB Ltd. A/c. Dr. To Equity Share Capital A/c To Securities Premium A/c (Being discharge of purchase consideration.)	50	20 30

Balance Sheet of X Ltd.

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as on 31.03.2014 (as per Revised Schedule VI – Extracts)

Particulars	Note No.	Amount (₹ in lakhs)
I. EQUITY AND LIABILITIES		
1. Shareholders Fund		
(a) Share Capital	1	20
(b) Reserve & Surplus	2	30
2. Share application money pending allotment		
3. Non-Current Liabilities (Loan fund)		600
4. Current liabilities		800
Total		1,450
II. ASSETS		
1. Non-current assets		
(a) Fixed Assets		
(i) Tangible assets		200
(ii) Intangible assets (Goodwill)		250
2. Current assets		1,000
Total		1,450

[Relevant notes]

Note No: 1. Share Capital	(₹ in lakhs)
Fresh issue of 2,00,000 equity shares of ₹10 each	20

Note No: 2. Reserve and Surplus.	
Securities premium (2,00,000 shares × ₹15)	30

3. (a) M Ltd. is a holding company and N Ltd. and O Ltd. are subsidiaries of M Ltd. Their Balance Sheet as on 31.12.2013 are given below:

Liabilities				Assets			
	M Ltd.	N Ltd.	O Ltd.		M Ltd.	N Ltd.	O 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 N Ltd.	5,70,000		
Sundry Creditors	42,000	30,000		Shares in O Ltd.	78,000	3,18,000	
O Ltd. Balance	18,000			Stock in Trade	72,000		
M Ltd. Balance		42,000		Sundry Debtors	1,56,000	1,26,000	1,92,000
				N Ltd. Balance	48,000		
				M Ltd. Balance			18,000
Total	10,44,000	8,04,000	4,68,000	Total	10,44,000	8,04,000	4,68,000

The following particulars are given:

- (i) The share capital of all companies is divided into shares of ₹ 10
- (ii) M Ltd. held 48,000 shares of N Ltd. and 6,000 shares of O Ltd.
- (iii) N Ltd. held 24,000 shares of O Ltd.
- (iv) All these investments were made on 30.06.2013.

- (v) On 31.12.2012, the position was as shown below:

	(Amount in ₹)	
	N Ltd.	O Ltd.

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Reserve	48,000	45,000
Profit & Loss Account	24,000	18,000
Sundry Creditors	30,000	6,000
Fixed Assets	3,60,000	2,58,000
Stock in trade	24,000	2,13,000
Sundry Debtors	2,88,000	1,98,000

(vi) The whole of stock in trade of N Ltd. as on 30.06.2013 (₹ 24,000) was later sold to M Ltd. for ₹ 26,400 and remained unsold by M Ltd. as on 31.12.2013.

(vii) Cash in transit from N Ltd. to M Ltd. was ₹ 6,000 as at the close of the year.

You are required to prepare a consolidated balance Sheet of M Ltd. and its subsidiaries N Ltd. and O Ltd. as at 31.12.2013.

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OR

(b) The following are the Balance Sheet of A Ltd. and B Ltd. as on 31st March, 2014.

	A Ltd. (₹)	B Ltd. (₹)
Liabilities		
Share capital:		
Equity Share of ₹ 10 each	4,00,000	2,00,000
10% Preference Shares of ₹ 10 each	2,00,000	1,00,000
Reserve and Surplus	2,00,000	1,00,000
12% Debentures	3,00,000	2,00,000
Sundry creditors	1,50,000	1,60,000
Total	12,50,000	7,60,000
Assets		
Fixed Assets	6,00,000	3,00,000
Stock	2,00,000	1,00,000
Debtors	3,00,000	2,00,000
Cash at bank	80,000	90,000
Investments in:		
4000 equity shares of B Ltd.	70,000	-
5000 equity shares of A Ltd.	-	70,000
Total	12,50,000	7,60,000

Fixed Assets of A Ltd. and B Ltd. are to be revalued at 15% and 10% respectively above book values. Stock and debtors of B Ltd. are to be taken over by A Ltd. at 5% less than their book values. While both the companies have already paid preference dividends, they are yet to pay 10% equity dividends.

After the above transactions are given effect to, A Ltd. will absorb B Ltd. on the following terms:

- (i) 6 equity shares of ₹ 10 each will be issued by A Ltd. at par against 4 equity shares of B Ltd.
- (ii) 10% Preference Share of B Ltd. will be paid off at 10% discount by issue of 10% Preference Shares of ₹ 100 each of A Ltd. at par.
- (iii) ₹ 20,000 to be paid by A Ltd. to B Ltd. for liquidation expenses.
- (iv) 12% debenture holders of B Ltd. are to be paid off at 4% premium by 12%

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debentures in A Ltd. issued at a discount of 20%.

Prepare: (i) a statement of Purchase consideration payable by A Ltd., and
(ii) a Balance Sheet of A Ltd. after its absorption of B Ltd.
(Schedules are not required)

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Answer:

3. (a)

Consolidated Balance Sheet of M Ltd. and its Subsidiary N Ltd. and O Ltd.
as at 31st March,2014 (as per Revised Schedule VI – Extract)

Particulars	Note No	Amount (₹)
I. EQUITY & LIABILITIES		
1. Shareholder's Fund		
(a) Share capital	1	6,00,000
(b) Reserve and surplus	2	4,21,830
2. Share application money pending allotment		
3. Minority Interest		2,26,920
4. Non-current liabilities		
5. Current Liabilities		
(a) Trade Payables	3	72,000
Total		13,20,750
II. ASSETS.		
1. Non-current assets		
(a) Fixed Assets		
(i) Tangible assets	4	7,38,000
(ii) Intangible assets	5	33,150
2. Current assets		
(a) Inventories	6	69,600
(b) Trade receivables	7	4,74,000
(c) Cash and cash equivalent	8	6,000
Total		13,20,750

[Relevant Notes]

Note No:1. Share Capital

(₹ in lakhs)	
Authorised, Issued, Subscribed and paid-up Share capital :- 60,000 Equity Shares of ₹10 each	6,00,000

Note No: 2. Reserve and Surplus

Reserves	2,95,950
Profit & Loss A/c	1,25,880
Total	4,21,830

Note No: 3. Trade Payables

Sundry Creditors	
M Ltd.	42,000
N Ltd.	30,000
Total	72,000

Note No: 4. Tangible Assets

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Fixed Assets	7,38,000
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Note No: 5. Intangible Assets

Goodwill	33,150
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Note No: 6. Inventories

Stock in trade	72,000
Less: Unrealised profit	2,400
Total	69,600

Note No: 7. Trade receivables

M Ltd.	1,56,000
N Ltd.	1,26,000
O Ltd.	1,92,000
Total	4,74,000

Note No: 8. Cash and Cash equivalent

Cash in transit.	6,000
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Working Notes:

(i) Position on 30.06.2013

(in ₹)

	N Ltd.		O Ltd.	
	Reserves	P&L A/c	Reserves	P&L A/c
Balance on 31.12.2013	60,000	72,000	54,000	54,000
Less: Balance on 31.12.2012	48,000	24,000	45,000	18,000
Increase during the year	12,000	48,000	9,000	36,000
Estimated increase for half year	6,000	24,000	4,500	18,000
Balance on 30.06.2013	54,000	48,000	49,500	36,000

(ii) Analysis of Profit of O Ltd.

(in ₹)

	Capital Profit	Revenue Reserve	Revenue Profit
Reserve on 30.06.2013	49,500		
Profit & Loss A/C on 30.06.2013	36,000		
Increase in reserves		4,500	
Increase in profit	-	-	18,000
Total	85,500	4,500	18,000
Less, Minority interest (1/6)	14,250	750	3,000
Balance	71,250	3,750	15,000
Share of M Ltd.(1/6)	14,250	750	3,000
Share of N Ltd.(4/6)	57,000	3,000	12,000

(iii) Analysis of Profit of N Ltd.

(in ₹)

	Capital Profit	Revenue Reserve	Revenue Profit
Reserve on 30.06.2013	54,000		
Profit & Loss A/C on 30.06.2013	48,000		
Increase in reserves		6,000	
Increase in profit			24,000
Share in O Ltd	-	3,000	12,000
Total	1,02,000	9,000	36,000

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Less, Minority interest (1/5)	20,400	1,800	7,200
Share of M Ltd.(4/5)	81,600	7,200	28,800

(iv) Cost of control

		₹
Investment in - N Ltd.	5,70,000	
O Ltd.	3,96,000	9,66,000
Paid up value of investment in		
N Ltd.	4,80,000	
O Ltd	3,00,000	(7,80,000)
Capital profits in		
N Ltd.	81,600	
O Ltd	71,250	(1,52,850)
Goodwill		33,150

(v) Minority Interest

Share Capital:		₹
N Ltd.	1,20,000	
O Ltd.	60,000	1,80,000
Share of profit and reserve (pre and post acquisition)		
N Ltd.	29,400	
O Ltd	18,000	47,400
Less, provision for unrealised profit (20% of ₹ 2,400)		480
		2,26,920

(vi) Reserves - M Ltd.

	₹
Balance as on 31.12.2013	2,88,000
Shares in -N Ltd	7,200
O Ltd.	750
Total	2,95,950

(vii) Profit and Loss A/C - M Ltd.

	₹
Balance as on 31.12.2013	96,000
Share in - N Ltd.	28,800
O Ltd.	3,000
Total	1,27,800
Provision for unrealised profit on stock,80% of ₹ (26,400 - 24,000)	1,920
	1,25,880

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

No. of shares of B Ltd.	20,000
Less: Held by A Ltd.	<u>4,000</u>
No. of shares held by outsiders	16,000

Exchange Ratio = 6 :4 i.e. 3: 2

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

$$16,000 \times \frac{3}{2} = 24,000$$

Less: Shares already held by B Ltd. = 5,000
19,000

It can also be calculated on equal footing as:

No. of Shares of B Ltd.	$20,000 \times \frac{3}{2} = 30,000$
(-) Held by A Ltd (assuming if it was held by other than A Ltd) $(4,000 \times \frac{3}{2})$	6,000
	24,000
(-) Held by B. Ltd. Shares to be issued	5,000
	19,000

Particulars	₹
10% Preference shares @ 10% discount by issue of 10% Preference shares of A Ltd. of ₹100 each i.e. ₹1,00,000 × $\frac{90}{100}$	90,000

Purchase consideration: 19,000 equity shares of ₹10 each	₹1,90,000
10% Preference shares of ₹100 each	₹90,000
	₹2,80,000

- (ii) Name of the Company: A Ltd. (after absorption of B Ltd.)
 Balance Sheet as at 31.03.2014

Particulars	Note No	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' funds		
(a) Share capital	1	8,80,000
(b) Reserves and surplus	2	2,34,000
2. Share application money pending allotment		
3. Non-current liabilities		
(a) Long-term borrowings	3	5,60,000
4. Current Liabilities		
(a) Trade payables	4	3,10,000
Total		19,84,000
II. ASSETS		
1. Non-current assets		
(a) Fixed assets		
(i) Tangible assets	5	10,20,000
(ii) Intangible assets	6	28,000
(e) Other non-current assets	7	52,000

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2. Current assets		
(a) Inventories	8	2,95,000
(b) Trade Receivable	9	4,90,000
(c) Cash and cash equivalent	10	99,000
Total		19,84,000

[Relevant notes]

Note 1. Share Capital	Amount (₹)
Authorised, Issued, and paid up Capital of ₹ 10 each	5,90,000
Equity Shares of ₹10 each	5,90,000
10% Preference Shares of ₹10 each	2,00,000
10% Preference Shares of ₹100 each	90,000
Total	8,80,000

RECONCILIATION OF SHARE CAPITAL		
For Equity Share of ₹10 each	As at 31st March, 2014	
	Nos	Amount (₹)
Opening Balance as on 01.04.13	40,000	4,00,000
Add: Fresh Issue (Includ Bonus shares , Right shares, split shares, shares issued other than cash)	19,000	1,90,000
	59,000	5,90,000
Less: Buy Back of shares	-	-
	59,000	5,90,000
For 10% Preference Share of ₹10 each	As at 31st March, 2014	
	Nos	Amount (₹)
Opening Balance as on 01.04.13	20,000	2,00,000
Add: Fresh Issue (Includ Bonus shares , Right shares, split shares, shares issued other than cash)	-	-
	20,000	2,00,000
Less: Buy Back of shares	-	-
	20,000	2,00,000

For 10% Preference Share of ₹100 each	As at 31st March, 2014	
	Nos	Amount (₹)
Opening Balance as on 01.04.13	-	-
Add: Fresh Issue (Includ Bonus shares , Right shares, split shares, shares issued	900	90,000

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other than cash)		
	900	90,000
Less: Buy Back of shares	-	-
	900	90,000

Note 2. Reserves and Surplus	Amount (₹)
Reserve	1,44,000
Revaluation Reserve	90,000
Total	2,34,000
Note 3. Long Term borrowing	Amount (₹)
12% Debentures 3,00,000+[(2,00,000×104%)/0.80]	5,60,000
Total	5,60,000
Note 4. Trade payables	Amount (₹)
Sundry Creditors [1,50,000+1,60,000]	3,10,000
Total	3,10,000

Note 5. Tangible Assets	Amount (₹)
Fixed Assets [(6,00,000×115%)+(3,00,000×110%)]	10,20,000
Total	10,20,000

Note 6. Intangible Assets	Amount (₹)
Goodwill	28,000
Total	28,000

Note 7. Other non-current Assets	Amount (₹)
Discount on Issue of Debentures [2,00,000×104%(20/80)]	52,000
Total	52,000

Note 8. Inventories	Amount (₹)
Stock (2,00,000 + 95% of 1,00,000)	2,95,000
Total	2,95,000

Note 9. Trade Receivables	Amount (₹)
Debtors (3,00,000+ 95% of 2,00,000)	4,90,000

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Total	4,90,000
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Note 10. Cash and Cash Equivalent	Amount (₹)
Cash at Bank	99,000
Total	99,000

Working Note:

1. Calculation of goodwill/capital reserve

Particulars	₹
Net asset taken over from B Ltd.	
Fixed asset (3,00,000 × 110%)	3,30,000
Stock (1,00,000 × 95%)	95,000
Debtors (2,00,000 × 95%)	1,90,000
Cash at bank	75,000
	6,90,000
Less: 12% Debenture (₹2,00,000 × 104%)	2,08,000
Sundry creditors	1,60,000
	3,22,000
Less: Investment cancelled	70,000
	2,52,000
Less: Purchase consideration	2,80,000
Goodwill	28,000

2. Computation of amount of cash at bank of B Ltd.

Particulars	₹
Balance as per Balance Sheet	90,000
Add: Dividend from A Ltd.	5,000
	95,000
Less: Dividend paid by B Ltd.	20,000
	75,000

3. Combined cash in Balance Sheet

Particulars	₹
Balance of A Ltd. as per B/S	80,000
Take over from B Ltd.	75,000
	1,55,000
Less: Dividend paid	40,000
Expenses on Liquidation	20,000
	95,000
Add: Dividend from B Ltd.	4,000
	99,000

4. Calculation of Reserves

Particulars	₹
As per Balance Sheet of A Ltd.	2,00,000
Less: Expenses on Liquidation	20,000
Less: Dividend declared	40,000
	1,40,000
Add: Dividend received from B Ltd.	4,000
	1,44,000

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Note:

- 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

4. (a) The extracts of Trial Balance of Sukh Ltd. and Sari Ltd. as on 31.03.2014 are as under:

Particulars	Sukh Ltd.		Sari Ltd.	
	Debit (₹)	Credit (₹)	Debit (₹)	Credit (₹)
Equity Share Capital (in shares of ₹ 100/- each)		24,00,000		12,00,000
8% Preference Share Capital (in shares of ₹ 100/- each)		8,00,000		
10% Preference Share Capital (in shares of ₹ 100/- each)				4,00,000
Reserves		30,00,000		24,00,000
Current Liabilities		18,00,000		10,00,000
Fixed Assets	55,00,000		27,00,000	
Current Assets	25,00,000		23,00,000	
Total	80,00,000	80,00,000	50,00,000	50,00,000

A. The following information is provided for the year 2013-14:

B.

Particulars	Sukh Ltd.(₹)	Sari Ltd.(₹)
(a) Profit before tax	10,64,000	4,80,000
(b) Taxation	4,00,000	2,00,000
(c) Preference Dividend	64,000	40,000
(d) Equity Dividend	2,88,000	1,92,000

B. The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.

C. Sukh Ltd. proposes to absorb Sari Ltd. as on 31.03.2014. The terms of absorption are as under:

- a. Preference shareholders of Sari Ltd. will receive 8% preference shares of Sukh Ltd. sufficient to increase the income of preference shareholders of Sari Ltd. by 10%.
- b. The equity shareholders of Sari Ltd. will receive equity shares of Sukh Ltd. on the following basis:
 - (i) The equity shares of Sari Ltd. will be valued by applying to the earning per share of Sari Ltd. 75% of price earnings ratio of Sukh Ltd. based on the results of 2013-14 of both the companies.
 - (ii) The market price of equity shares of Sukh Ltd. is ₹ 300/- per share.
 - (iii) The number of shares to be issued to the equity shareholders of Sari Ltd. will

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be based on the above market value.

- (iv) In addition to equity shares, 8% preference shares of Sukh Ltd. will be issued to the equity shareholders of Sari Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2013-14.

- D. For the next two years, no increase in the rate of equity dividend is expected. You are required to calculate purchase consideration. 10

OR

- (b) Gold Ltd. agreed to absorb Silver Ltd. on 31st March, 2014. whose Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
1,60,000 equity shares of ₹ 100 each fully paid up	1,60,00,000	Fixed Assets	1,40,00,000
Reserve and Surplus:		Current Assets, Loans & Advances:	
General Reserve	20,00,000	Stock in trade	20,00,000
Current Liabilities and Provisions:		Sundry Debtors	40,00,000
Sundry Creditors	20,00,000		
Total	2,00,00,000		2,00,00,000

The consideration was agreed to be paid as follows:

- (i) A payment in cash of ₹ 50 per share in Silver Ltd. and
(ii) The issue of shares of ₹ 100 each in Gold Ltd., on the basis of four equity shares (valued at ₹ 150 each) and two 9% cumulative preference shares (valued at ₹ 100 each) for every ten shares held in Silver Ltd.

It was agreed that Gold Ltd. will pay cash for fractional shares equivalent at agreed value of shares in Silver Ltd. i.e., ₹ 1,300 paid for ten shares of ₹ 1,000. The whole of Share capital consists of shareholdings in exact multiple of ten, except the following holdings:

	No. of Shares held
Anal	232
Bimal	152
Chinu	144
Debu	56
Other Individuals	16 (eight numbers holding two shares each)
	600

Prepare a statement showing the purchase consideration receivable by above shareholders in shares and cash. 10

Answer:

4. (a) Computation of Purchase Consideration.

A. Preference Shareholders

8% Preference shares of Sukh Ltd. sufficient to increase income by 10%

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Particulars	₹
Current income from Preference shares of Sari Ltd. (₹.4,00,000 x 10%)	40,000
Add: 10% increase	4,000
Income from Preference Shares of Sukh Ltd.	44,000
Value of 8% Preference shares to be issued to Sari Ltd. (44,000 x 100/8)	5,50,000

B. Equity Shareholders

(i) Consideration by way of equity shares

Valuation of shares of Sari Ltd, (12,000 x ₹180) = ₹21,60,000

No of equity share to be issued = ₹ 21,60,000 / ₹ 300 = 7,200.

a) Share capital-[7,200 x ₹ 100] = ₹7,20,000.

b) Share Premium - [7,200 x ₹200] = ₹14,40,000

(ii) Consideration by way of Preference Shares:

a) Current equity dividend from Sari Ltd.	1,92,000
b) Less: expected equity dividend (₹2,88,000/24,00,000 x 7,20,000)	86,400
c) Loss in income	1,05,600
d) Value of 8% Preference Shares to be issued (1,05,600/8%)	13,20,000

C. Total Purchase Consideration = ₹[5,50,000 + 21,60,000 + 13,20,000] = ₹40,30,000.

Working Notes:

Computation of EPS

Particulars	Sukh Ltd	Sari Ltd
Profit before Tax (PBT)	10,64,000	4,80,000
Less: Tax	4,00,000	2,00,000
Profit after tax (PAT)	6,64,000	2,80,000
Less: Preference dividend	64,000	40,000
Profit available to equity shareholders	6,00,000	2,40,000
Earning per share (profit for equity shareholders/No of shares)	25	20

P/E ratio of Sukh Ltd = Market Price/EPS = ₹300/25 = 12 times

75% of P/E ratio = (12 x 0.75) = 9 times

Value per share of Sari Ltd. = EPS x P/E ratio = ₹ (20 x 9) = ₹180.

(b) Statement of Purchase Consideration:

Particulars	₹	₹
(a) In Shares:		
(i) 63,988 equity shares @ ₹150 each.	95,98,200	
(ii) 31,994 preference shares @ ₹100 each	31,99,400	1,27,97,600
(b) In cash (W.N.-3)		80,02,400
Total		2,08,00,000

Working Note: 1

Statement of consideration paid for fraction shares

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Particulars	Anal	Bimal	Chinu	Debu	Others	Total
a. Holding of shares	232	152	144	56	16	600
b. Non-exchangeable shares (payables in cash)	2	2	4	6	16	30
c. Exchangeable shares (a-b)	230	150	140	50	-	570
d. Above shares						
(i) in equity shares (4:10)	92	60	56	20	-	228
(ii) in preference shares (2:10)	46	30	28	10	-	114

Working Note: 2

Number of shares to be issued –

- a. Exchangeable shares:
 = Total shares - Non-exchangeable shares.
 = 1,60,000 - 30
 = 1,59,970
- b. Equity shares to be issued (4 shares for every 10 shares.)
 = 1,59,970/10 x 4
 = 63,988.
- c. Preference shares to be issued (2 shares for every 10 shares)
 = 1,59,970/10 x 2
 = 31,994

Working Note: 3

Cash to be paid

Particulars	₹
a. 1,59,970 shares @ ₹50 each	79,98,500
b. Consideration for non-exchangeable [30 x 100] x 1300/1000	3,900
Total	80,02,400

5. (a) Diamond Ltd. grants 50 stock options to each of its 1,000 employees on 1.4.2011 for ₹20, depending upon the employees at the time of vesting options. The market price of the share is ₹50. These options will vest at the end of year 1, if the earning of Diamond Ltd. is 16% or it will vest at the end of the year 2, if the average earning of two years is 13%, or lastly it will vest at the end of the third year, if the average earning of 3 years will be 10%. 2,500 unvested options lapsed on 31.03.2012. 2,000 unvested options lapsed on 31.03.2013 and finally 1,750 unvested options lapsed on 31.03.2014.

Following is earning of Diamond Ltd.:

Year ended on	Earning
31.03.2012	14%
31.03.2013	10%
30.03.2014	7%

850 employees exercised their vested options within a year and remaining options were un-exercised at the end of the contractual life. Pass journal entries with proper narrations for the above transactions.

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OR

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- (b) (i) A mutual fund raised ₹ 100 lakhs on 1.04.2014, 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 April 2014, the fund sold certain securities of cost ₹38 lakhs for ₹40 lakhs and purchased certain other securities for ₹28.20 lakhs. The fund management expenses for the month amounted to ₹4.50 lakhs, of which ₹0.25 lakhs was in arrears. The dividend earned was ₹1.286 lakhs. 70% of the realized earnings was distributed. The market value of the portfolio on 30.4.2014 was ₹ 103.714 lakhs. Determine the Net Asset Value (NAV) of mutual fund. 6
- (ii) While closing its books of account on 31st March 2014, a Non-Banking Finance Company has its advances classified as follows:

Particulars	₹ in Lakhs
Standard Assets	18,400
Sub-Standard Assets	1,580
Secured portion of doubtful debts:	
- up to one year	440
- one year to three years	80
- more than three years	40
Unsecured portion of doubtful debts	103
Loss Assets	52

Calculate the amount of provision, which must be made against the advances. 4

Answer:

5. (a)

Journal Entries

Date	Particulars	Debit (₹)	Credit (₹)
31.03.12	Employees Compensation Expenses A/c Dr. To, ESOS outstanding A/c (Being compensation expenses recognised in respect of the ESOP i.e. 50 options each granted to 1,000 employees at a discount of ₹30 each, amortised on straight line basis over vesting-refer W.N.)	7,12,500	7,12,500
31.03.12	Profit and Loss A/c Dr. To, Employees Compensation Expenses A/c (Being compensation expenses charged to P&L A/c)	7,12,500	7,12,500
31.03.13	Employees Compensation Expenses A/c Dr. To, ESOS outstanding A/c (Being compensation expense recognised in respect of the ESOP-refer W.N.)	1,97,500	1,97,500
31.03.13	Profit and Loss A/c Dr. To, Employees Compensation Expenses A/c (Being compensation expenses charged to P&L A/c)	1,97,500	1,97,500
31.03.14	Employees Compensation Expenses A/c Dr. To, ESOS outstanding A/c (Being compensation expense recognised in respect of the ESOP-refer W.N.)	4,02,500	4,02,500

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31.03.14	Bank A/c (42,500 x ₹20) Dr. ESOS outstanding A/c [(13,12,500/43,750) x 42,500] Dr. To, Equity Share Capital A/c.(42,500 x 10) To, Securities Premium A/c (42,500 x 40) (Being 42,500 options exercised at an exercise price of ₹50 each)	8,50,000 12,75,000	4,25,000 17,00,000
	Profit and Loss A/c Dr. To, Employees Compensation Expenses A/c (Being compensation expenses charged to Profit and Loss A/c)	4,02,500	4,02,500
	ESOS outstanding A/c. Dr. To, General Reserve A/c (Being ESOS outstanding A/c on lapse of 1,250 options at the end of exercise of option period to General Reserve A/c)	37,500	37,500

Working Note:

Statement showing compensation expenses to be recognised:

Particulars	Year-1 (31.03.2012)	Year-2 (31.03.2013)	Year-3 (31.03.2014)
Expected vesting period (at the end of the year)	1st year	2nd year	3rd year
Number of options expected to vest	47,500	45,500	43,750
Total compensation expenses accrued @ ₹.30 (i.e. 50 - 20)	14,25,000	13,65,000	13,12,500
Compensation expenses of the year	7,12,500 (14,25,000 x 1/2)	9,10,000 (13,65,000 x 2/3)	13,12,500
Compensation expenses recognised previously	Nil	7,12,500	9,10,000
Compensation expenses to be recognised for the year.	7,12,500	1,97,500	4,02,500

(b) (i)

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)	4.25		
Capital gains distributed [(70% of (40-38)]	1.40		
Dividend 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: Arrear of expenses		0.25	
Closing net assets		113.00	
Number of units			10,00,000
Closing Net Asset Value (NAV)			₹11.30

(ii)

Calculation of provision required on advances as on 31st March, 2014:

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Nature of Advances	Amount (₹In lakhs)	Percentage of provision	Provision (₹In lakhs)
Standard assets	18,400	0.25*	46
Sub-standard assets	1,580	10	158
Secured portion of doubtful debts -			
up to one year	440	20	88
- one year to three years	80	30	24
- more than three years	40	50	20
Unsecured portion of doubtful debts	103	100	103
Loss assets	52	100	52
			491

* NBFC should make a general provision at 0.25 % of the outstanding standard assets, vide notification no. DNBS.222 and 223 CGM(US)2011.

6. (a) (i) From the following information for Sun Ltd., prepare a Value Added Statement for the financial year 2013-14.

Particulars	₹ in lakhs
Turnover	2,400
Plant and machinery (net)	1,100
Depreciation on Plant and Machinery	275
Dividends on ordinary shares	150
Sundry Debtors	195
Sundry Creditors	130
Opening stock (raw material, WIP, finished goods)	160
Closing stock (raw material, WIP, finished goods)	200
Raw material purchased	775
Cash at bank	100
Printing and Stationery	25
Auditor's remuneration	30
Retained earnings at the beginning of the year	990
Retained earnings at the closing of the year	290
Rent, Rates and Taxes	170
Other expenses	90
Ordinary share capital issued	1,800
Interest on borrowing	40
Income tax for the year	280
Wages and salaries	330
Employees State Insurance	40
PF Contribution	30

Also, calculate the value added per employee, average earning per employee and sales per employee on the basis that 105 employees work in Sun Ltd. 10

- (ii) Distinguish between Human Capital and Intellectual Capital 5

OR

- (b) (i) Batliboi Ltd. borrowed \$ 1,000 on 01.03.2009, when the spot rate per dollar was ₹ 45. The company covered its foreign exchange exposure immediately by forward purchase of \$ 1,000 at ₹ 45.30/\$ due on 30.4.2009. The exchange rate on 31.3.2009 was ₹ 45.50/\$. The spot exchange rate on 30.4.2009, when the loan was repaid was ₹ 45.60/\$.

Show the relevant Journal Entries in the books of Batliboi Ltd. 9

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(ii) Discuss in brief the concept of Triple Bottom Line Reporting (TBLR).

6

Answer:

6. (a) (i)

Gross Value Added Statement

Particulars	₹. In lakhs
A. Sales	2,400
Add, increase in stock (200-160)	40
Total (A)	2,440
B. Cost of bought in goods & services	
Raw material	775
Printing and Stationery	25
Rent, Rates and Taxes	170
Other expenses	90
Auditor's remuneration	30
Total (B)	1,090
Gross value Added (A-B)	1,350
Application towards	
Employees (30+40+330)	400
Fund provider	40
Government tax	280
Shareholder	150
Entity (275+205)	480
Profit for the year after payment of Tax & Dividend	1350

(i) Value added = $1,350/105 = 12.86$.

(ii) Average earning per employee = $205/105 = 1.95$.

(iii) Sales per employee = $2400/105 = 22.86$.

(iii) Human capital is people's competencies, capabilities and experience, and their motivations to innovate, including their –

- Alignment with and support of an organisation's governance framework and risk management approach, and ethical values such as recognition of human rights.
- Ability to understand, develop and implement an organisation's strategy.
- Loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

On the other hand, Intellectual capital is organisational, knowledge- based intangibles.

It includes:

- Intellectual property, such as patents, copyrights, software, rights and licenses
- "organisational capital" such as tacit knowledge, systems, procedures and protocols
- Intangibles associated with the brand and reputation that an organisation has developed.

(b) (i)

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Journal Entries
In the Books of Batliboi Ltd.

Date	Particulars	Amount (₹)	Amount (₹)	Workings
01.03.09	Bank A/c Dr. Forward Premium A/c Dr. To Loan A/c	45,000 300	45,300	\$ 1,000 x ₹45 \$ 1,000 x ₹0.30 \$ 1,000 x ₹45.30
31.03.09	F. C. Receivable A/c Dr. To Due to Bank A/c	45,000	45,000	\$ 1,000 x ₹45.00
31.03.09	Exchange Loss A/c Dr. To Due to Bank A/c	500	500	\$ 1,000 x ₹ (45.50 – 45.00)
31.03.09	F. C. Receivable A/c Dr. To Exchange Gain A/c	500	500	\$ 1,000 x ₹ (45.50 – 45.00)
31.03.09	Forward Premium A/c Dr. To Profit and Loss A/c	150	150	½ of ₹300
30.04.09	Loan A/c Dr. To Bank A/c	45,300	45,300	\$ 1,000 x ₹45.30
30.04.09	Exchange Loss A/c Dr. To Due to Bank A/c	100	100	\$ 1,000 x ₹ (45.60 – 45.50)
30.04.09	F. C. Receivable A/c Dr. To Exchange Gain A/c	100	100	- As Above -
30.04.09	Due to Bank A/c Dr. To F. C. Receivable A/c	45,600	45,600	\$ 1,000 x ₹45.60
31.03.10	Forward Premium A/c Dr. To Profit and Loss A/c	150	150	½ of ₹300

Note:

The Exchange Loss represents the increase in liability the company would have suffered, had there been no forward contract. The Exchange Gain shows that the company did not actually suffer the increase in liability due to forward cover taken.

- (ii) The concept of TBL (Triple Bottom Line) reporting refers to the publication to the economic, environmental and social information in an integrated manner that reflects activities and outcomes across these three dimensions of a company's performance.

Economic information goes beyond the traditional measures contained within statutory financial reporting that is directed primarily towards shareholders and management. In a TBL context, economic information is provided to illustrate the economic relationship and impacts, both direct and indirect, that the company has with its stakeholders and the communities in which it operates. The concept of TBL does not mean that the companies are required to maximise returns across three dimensions of performance - in terms of corporate performance, it is recognised that financial performance is the primary consideration in assessing its business success.

- An expanded spectrum of values and criteria for measuring organisational and societal success i.e. economic, environmental, social.
- In the private sector, a commitment to Corporate Social Responsibility (CSR) implies a commitment to some form of TBL reporting.

"People, Planet, Profit"

The trend towards greater transparency and accountability in public reporting and communication is reflected in a progression towards more comprehensive

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disclosure of corporate performance to include the environmental, social and economic dimensions of an entity's activities.

Reporting information on any or more of these three elements is referred to as TBL reporting. This trend is being largely driven by stakeholders, who are increasingly demanding information on the approach and performance of companies in managing the environmental and social impact of their activities and obtaining a broader perspective of their economic impact.

7. (a) (i) Write a short note on the Application of XBRL (Extensible Business Reporting Language) in India. 7

(ii) Ashima furnishes the following information about all options at the Balance Sheet date. Determine the amount of provision to be made in her books of account. (₹)

Securities	L	K	J
Details of Options Bought			
Premium Paid	20,000	10,000	10,000
Premium prevailing on Balance Sheet date	30,000	5,000	8,000
Details of Options Sold			
Premium received	10,000	30,000	10,000
Premium prevailing on Balance Sheet date	25,000	20,000	15,000

3

OR

(b) (i) From the following particulars of Basant Ltd., calculate EVA. 6

Equity Share Capital	₹ 10,00,000
Reserve & surplus	₹ 3,00,000
12% Preference share capital	₹ 2,00,000
10% Debenture	₹ 4,00,000
Non-trade Investment	₹ 4,00,000
Profit after tax	₹ 2,00,000
Rate of tax	40%
Risk free return	8%
Beta factor	1.2

Companies with beta factor of 1 in similar business have market rate of return of 15%.

(ii) Examine the reporting requirements of Environmental Accounting. 4

Answer:

7. (a) (i) Application of XBRL in India:

The development of XBRL technology in India started mainly around the period 2005-2007. India is probably the first among developing countries to introduce XBRL standard in its reporting systems.

XBRL India is the provisional jurisdiction of XBRL International and is facilitated by The Institute of Chartered Accountants of India, XBRL India is governed by a Steering Committee which is headed by the President, ICAI.

The relevant objectives are:

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- (a) To promote and encourage the adoption of XBRL in India as the standard for electronic business reporting in India;
- (b) To facilitate education and marketing of XBRL;
- (c) To develop and manage XBRL taxonomies;
- (d) To keep the developed XBRL taxonomies updated with regard to international standards and its developments;
- (e) To represent Indian interests within XBRL international;
- (f) To contribute to the international development of XBRL;

XBRL India has developed Draft General Purpose Financial Reporting XBRL taxonomy for commercial and industrial companies. This taxonomy covers the financial statements like Balance Sheet, Statement of Profit and Loss Account and Cash Flow Statement and related non - financial information. The draft taxonomy has been developed conforming to Indian accounting Standards and Company Law. XBRL India is currently developing XBRL taxonomy for the Banking Sector.

(ii)

Determination of Provision Required in the Books of Ashima

Particulars	L	K	J
For Options Bought			
- Premium paid on all Open Options bought	20,000	10,000	10,000
Less: Total premium prevailing on Balance Sheet date	(30,000)	(5,000)	(8,000)
Total (A)	(10,000)	5,000	2,000
For Options Sold			
-Total premium prevailing on the Balance Sheet Date	25,000	20,000	15,000
Less: Total Premium received on all Call Options sold	10,000	30,000	10,000
Total (B)	15,000	(10,000)	5,000
Prov. Reqd. = A + B	5,000	NIL	7,000
Aggregate prov. to be made		12,000	

- (b) (i) $E.V.A. = \text{Operating Profit} - \text{Taxes paid} - (\text{Capital Employed} \times WACC)$
 $= \text{NOPAT} - (\text{Capital Employed} \times WACC)$
 $= 2,24,000 - (15,00,000 \times 13.74\%)$
 $= 2,24,000 - 2,06,100$
 $= 17,900.$

Working Notes - 1

Operating Capital	₹
Equity share capital	10,00,000
Reserve & Surplus	3,00,000
12% Preference share capital	2,00,000
10% Debenture	4,00,000
Total	19,00,000
Less: Non-operating investment	4,00,000
Capital Employed	15,00,000

Working Note - 2

Calculation of NOPAT

	₹
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PBT = Profit after tax + taxes (2,00,000 x 40/60) = 2,00,000 + 1,33,333	3,33,333
Add: Interest expenses	40,000
Operating EBIT	3,73,333
Less: Economic taxes @ 40%	1,49,333
NOPAT	2,24,000

Working Note - 3

Calculation of WACC

$K_d = 10\% (1 - 0.40) \times 4,00,000 / 19,00,000$	1.26%
$K_p = 12\% \times 2,00,000 / 19,00,000$	1.26%
$K_e = 8\% + 1.2(15\% - 8\%) = 16.4\% \times 13/19$	11.22%
Total	13.74%

(ii) Reporting requirements of Environmental Accounting:

Under a comprehensive Corporate Accounting Framework on environmental issues, the Board of Directors in their report on Management Discussions should disclose the following, namely:

- (a) Type of environmental issues that are pertinent to the enterprise and its industry;
- (b) 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;
- (c) Improvements made by the company in key areas, since the introduction of the policy, or over the past 5 years, whichever is shorter;
- (d) Environmental emission targets that the company has set for itself, and how the company is performing relative to those targets;
- (e) Extent to which Environmental Protection measures have been undertaken as per Government Legislation and the extent to which Government requirements are achieved (e.g. time table for reduction of emissions);
- (f) 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;
- (g) 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;
- (h) Actual Amount charged to operations in the current period, together with a description of the relative environmental measures;
- (i) Sub-classification of the above actual amounts into the following – (i) Liquid Effluent Treatment; (ii) Waste Gas and Air Treatment; (iii) Solid Waste Treatment; (iv) Analysis Control and Compliance; (v) Remediation; (vi) Recycling; and (vii) Others (e.g. accidents, safety, etc.). Where it is not possible to segregate the

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amount that relates to Environmental Protection Measures, disclosure of such fact is essential;

- (j) 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.

[Student may mention any 8 out of the above 10 points.]

8. (a) (i) Write short note on Indian Government Accounting Standard—1 (IGAS-1) relating to guarantees given by the Government. 9
(ii) Describe the process of election of Public Accounts Committee. 6

OR

- (b) (i) Write a note on function of the Committee on Public Undertaking. 5
(ii) State the responsibilities of Government Accounting Standards Advisory Board. 5
(iii) State the sources of Government revenue. 5

Answer:

8. (a) (i) The Union Government and the State Government give Guarantees for repayment of borrowings within such limits, if any, as may be fixed upon the security of the Consolidated Fund of India or of the State, as the case may be, in terms of Articles 292 and 293 of the constitution of India.

Guarantees are also given by the Union Government:

- for payment of interest on borrowings, repayment of share capital and payment of minimum annual dividend, payment against agreements for supplies of materials and equipments on credit basis on behalf of the State Governments, Union territories, local bodies, railways, govt. Companies/corporations, joint stock companies, financial institutions, port trusts, electricity boards and co-operative institutions.
- to the Reserve Bank of India, other banks and financial institutions for repayment of principal and payment of interest, cash credit facility, financing seasonal agricultural operations and for providing working capital in respect of companies, corporations, co-operative societies and cooperative banks.
- In pursuance of agreements entered into by the Union Government with international financial institutions, foreign lending agencies, foreign governments, contractors and consultants towards repayment of principal, payment of interest and commitment charges on loans.
- Performance guarantees for fulfillment of contracts/projects awarded to Indian companies in foreign countries as well as foreign companies in foreign countries besides counter guarantees to banks in consideration of the banks having issued letters of credit to foreign suppliers for supplies /services made /rendered by them on credit basis in favour of companies/ corporations.
- To railways and electricity boards for due and punctual payment of dues and

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freight charges by the companies and corporations.

Similarly, Guarantees are also given by the State Governments.

As the statutory corporations, government companies, co-operative institutions, financial institutions, autonomous bodies and authorities are distinct legal entities, they are responsible for their debts. Their financial obligations may be guaranteed by a government and thus the Government has a commitment to see that these are fulfilled. When these entities borrow directly from the market, it reduces a government's budgetary support to them and the magnitude of a Government's borrowings. However, it adds to the level of guarantees given by the Governments. In consideration of the guarantees given by the Governments, the beneficiary entities are required to guarantee commission or fee to the Governments. The guarantee have an important economic influence and result in transactions or other economic flows when the relevant event or conditions actually occur.

Thus, guarantees normally constitute contingent liabilities of the Government.

Objective

The objective of this standard is to set out disclosure norms, guarantees given by the Union and State Governments in their respective Financial Statements to ensure uniform and complete disclosure of such guarantees.

Scope

This Standard applies to preparation of the statement of Guarantees for inclusion and presentation in the Financial Statement of the Governments. Financial Statements should not be described as complying with this standard unless these comply with all its requirements. The Authority in the government which prepare the Statement of Guarantees for inclusion and presentation in the Financial Statements shall apply this Standard. The Accounting Authority is responsible for inclusion and presentation in the Statement of Guarantees in the Financial Statements as provided by the Authority in the Government.

- (ii) 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 Undertakings).

The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajya Sabha elected by that House in like manner are associated with the Committee. The Chairman is appointed by the Speaker from amongst its members of Lok Sabha. A Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed as Minister, he ceases to be a member of the Committee from the date of such appointment.

In April each year a motion is moved in Lok Sabha by the Minister of Parliamentary 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

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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.

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

The function of the Committee are —

- to examine the reports and accounts of Public undertakings.
- to examine the reports of the Comptroller & Auditor General on public undertakings.
- 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 or evaluation of performance of the undertakings. 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 defects on the system which led to such irregularity, and the need for correction of such system and procedures.

- (ii) Following are the responsibilities of Government Accounting Standard Advisory Board:

- To establish and improve standard of Government accounting and financial reporting in order to enhance accountability mechanism.
- To formulate and propose standards that improve the usefulness of financial reports based on the needs of the user.
- 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 nature and purpose of information contained in the financial reports.

- (iii) Sources of Revenue:

- Revenue Receipt
- Tax Revenue
 - Sharable with the States
 - Non sharable
- Non Tax Revenue
 - Interest
 - Dividends

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- Receipts of Commercial Departments
- External Grants
- Capital Receipts
- Miscellaneous Capital Receipts
 - Disposal of Capital Assets
 - Divestment of State – Owned Enterprise (SOE) shares
- Repayment of Loans.