FINAL EXAMINATION
GROUP - IV
(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS
JUNE - 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 you may make suitable assumptions and
Disclose such assumptions clearly in a note.

Answer Question No. 1 ***which is compulsory (carrying 20 marks) and***
also answer any five questions (carrying 16 marks each) from **the rest.**

1. Answer any four questions from the following: **5×4=20**

(a) What are foreign currency transactions as per AS - 11?

(b) From the information given below, you are required to compute the Deferred Tax Assets and Deferred Tax Liability for Ramanujam Limited as on 31st March, 2016. The tax rate applicable is 35%.

(i) The Company has charged Depreciation of ₹ 7,42,900 in its Books of Accounts while as per Income Tax computation, the Depreciation available to the Company is ₹ 8,65,400.

(ii) The Company has made Provision for Doubtful Debts for ₹ 54,300 during the year.

(iii) The Company has debited Share Issue Expenses of ₹ 6,23,500 which will be available for deduction under the Income Tax Act from the next year.

(iv) The expenses of ₹ 7,84,500 has been charged to Profit and Loss Account which are disallowed under the Income Tax Act.

(v) The Company has made Donation of ₹ 2,00,000 which has been debited to Profit and Loss Account and only 50% thereof will be allowed as deduction as per Income Tax Law.

(c) Y LTD. gives the following estimates of cash flows relating to fixed asset on 31.03.2016. The discount is 15%.

Year ended 31st March	2017	2018	2019	2020	2021
Cash Flow (In lakhs)	4,000	6,000	6,000	8,000	4,000

Residual value at the end of 2021 = ₹ 1000 lakhs
Fixed Asset purchased on 01-04-2013 = ₹ 40,000 lakhs
Useful life = 8 years
Selling Price on 31.03.2016 = ₹ 20,100 lakhs
Disposal Cost on 31.03.2016 = ₹ 100 lakhs

Year	1	2	3	4	5
PVF @15%	0.870	0.756	0.658	0.572	0.497

Required:
State the Treatment of Impairment Loss if Upward Revaluation was done in last year by 10%.

(d) R-Kart Ltd. has taken a Transit Insurance Policy. Suddenly in the year 2016-17 the

percentage of accident has incresed upto 7% and the company wants to recognise insurance claim as revenue in 2016-17 in accordance with relevant Accounting Standards. Do you agree? Give reason.

(e) Write a note on structure of Government Accounting Standards Board (GASAB).

Answer:

1. (a) A foreign currency transaction is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when an enterprise either:

(a) buys or sells goods or services whose price is denominated in a foreign currency; or

(b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

(c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency

(b) COMPUTATION OF DTA / DTL (₹)

Adjustments	Net Amt Diff.	Nature of Diff.	Treatment	DTA at 35%	DTL at 35%
Depreciation as per Books *Less* Depreciation as per IT (7,42,900 – 8,65,400)	(1,22,500)	Timing	Difference originating in the current year. So, Create DTL.		42,875
Provision disallowed in IT	54,300	Permanent	Ignored		
Share Issue Exp. Disallowed u/s 35D	6,23,500	Timing	Difference originating in the current year. So, Create DTA.	2,18,225	
Expense Disallowed under IT (assumed to be permanent diff)	7,84,500	Permanent	Ignored		
Donation (50% of 2 Lakhs)	1,00,000	Permanent	Ignored		
Total				2,18,225	42,875

(c)

Carrying Amount in the beg. of 3rd year 40,000 – [(40,000 – 1000) × 2/8]	30,250
Add: Upward Revaluation (30,250 × 10%)	3,025
Carrying Amount at the end of 3rd year before Depreciation	33,275
Less: Depreciation [(33,275 – 1,000)/6]	5,379
Carrying Amount in the beg. of 4th year (including revaluation amount of 3,025 lakhs)	27,896

Less: Recoverable Amount [being Net Selling Price (20,100 – 100) *or* Value in use (19,025) **whichever is higher**]	20,000
Impairment Loss	7,896
Less: Impairment Loss to be charged to Revaluation Reserve	(3,025)
Impairment Loss to be charged to Profit and Loss Account	4,871

TREATMENT OF IMPAIRMENT LOSS
JOURNAL ENTRY

Profit & Loss A/c	Dr.	₹ 4,871 lakhs	
Revaluation Reserve A/c	Dr.	₹3,025 lakhs	
To Provision for Impairment Loss A/c			₹ 7,896 lakhs

Working Note:
CALCULATION OF VALUE IN USE

Year	Cash Flow ₹	Discount as per 15%	Discounted cash flow ₹
2017	4,000	0.870	3,480
2018	6,000	0.756	4,536
2019	6,000	0.658	3,948
2020	8,000	0.572	4,576
2021	4,000	0.497	1,988
2021	1,000	0.497	497
			19,025

(d) AS 9 on Revenue Recognition defines revenue as "gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of the enterprise from the sale of goods, from the rendering of services and from the use by others of enterprise resources yielding interest, royalties and dividends'.

To recognise revenue AS-9 requires that revenue arises from ordinary activities and that it is measurable and there should be no uncertainty. As per para 9.2 of the Standard, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made.

In the given case, R-Kart Ltd wants to suddenly recognise Insurance claim because it has increased over the previous year. But, there are uncertainties involved in the settlement of the claim. Also the claim does not seem to be in the course of ordinary activity of the company. Hence, R-Kart Ltd. is not advised to recognise the insurance claim as revenue.

(e) Government Accounting Standards Advisory Board (GASAB) has been constituted by Comptroller and Auditor General of India (CAG) with the support of Union Government of India through a notification dated 12.08.2002.

GASAB is a representative body and is represented by main stakeholders connected with accounting of Union Government of India and States. The board consists of the following members:

1. Deputy Comptroller and Auditor General (Accounts) as Chairperson
2. Controller General of Accounts
3. Financial Commissioner, Railways
4. Controller General of Defense Accounts
5. Additional Secretary (Budget), Ministry of Finance, Government of India
6. Deputy Governor, Reserve Bank of India or his nominee
7. Director General, National Council of Applied Economic Research (NCAER), New Delhi
8. President, Institute of Chartered Accountants of India (ICAI), or his Nominee

9-12 Principal Secretary (Finance) of four States by annual rotation

13. Principal Director (Accounts)

2. Given below are the extracts from the Balance Sheets of Big Ltd. & Small Ltd. as at 31st March, 2016:

Particulars	Big Ltd.	Small Ltd.
Equity Shares Capital of ₹ 10 each	8,00,000	3,00,000
10% Pref. Shares Capital of ₹ 100 each	—	2,00,000
General Reserve	3,00,000	1,00,000
Profit & Loss A/c	1,50,000	70,000
Trade Creditors	2,00,000	3,00,000
Land Building	2,00,000	1,00,000
Plant & Machinery	5,00,000	3,00,000
Furniture	1,00,000	60,000
Investments: 6,000 shares in Small Ltd.	60,000	—
Inventories	1,50,000	1,90,000
Trade Debtors	3,50,000	2,50,000
Cash and Bank	90,000	70,000

Big Ltd. has taken over the entire undertaking of Small Ltd. on 30.09.2016, on which date the position of current assets except Cash and Bank balances and Current Liabilities were as under:

Particulars	Big Ltd. (₹)	Small Ltd. (₹)
Inventories	1,20,000	1,50,000
Trade Debtors	3,80,000	2,50,000
Trade Creditors	1,80,000	2,10,000

Profits earned for the half year ended on 30.09.2016 after charging depreciation at 5% on building, 15% on machinery and 10% on furniture, are:

Big Ltd.	₹ 1,02,500	Small Ltd.	₹ 54,000

On 30.08.2016 both companies have declared 15% dividend for the year 2015-2016.
Goodwill of Small Ltd. has been valued at ₹ 50,000 and other Fixed assets at 10% above their book values on 31.03.2016. Preference shareholders of Small Ltd. are to be allotted 10% Preference Shares of Big Ltd. and equity shareholders of Small Ltd. are to receive requisite number of equity shares of Big Ltd. valued at ₹ 15 per share in satisfaction of their claims.
Required:
Show the Balance Sheet of Big Ltd. as of 30.09.2016 assuming absorption is through by that date. **16**

Answer:

2. **BALANCE SHEET OF BIG LTD. AS AT 30.09.2016**

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	12,96,000
(b) Reserves and Surplus	2	5,90,500
(2) Non-Current Liabilities		
(3) Current Liabilities Trade Payables [1,80,000 + 2,10,000]		3,90,000
Total		22,76,500
II. Assets		
(1) Non-Current Assets		
(a) Fixed Assets		
Tangible Assets	3	11,55,000
(2) Current Assets		
(a) Inventories [1,20,000 + 1,50,000]		2,70,000
(b) Trade Receivables [3,80,000 + 2,50,000]		6,30,000
(c) Cash and Cash Equivalents [1,56,500 + 65,000]	(iii)	2,21,500
Total		22,76,500

Notes To Accounts:

Particulars	₹
1. Share Capital	
1,09,600 Equity Shares of ₹ 10 each (Of the above 29,600 Equity Shares were issued for consideration otherwise than cash)	10,96,000
2,000, 10% Pref. Shares of ₹ 10 each	2,00,000
	12,96,000
2. Reserves and Surplus	
Securities Premium	1,48,000
General Reserve	3,00,000
Capital Reserve [(₹ 5,55,000 x 1/5) - ₹ 60,000] - ₹ 50,000 (Goodwill)]	1,000
Profit & Loss Account	1,41,500
	5,90,500
3. Tangible Assets	
Land & Building [2,00,000 - 10,000 + 1,05,000]	2,95,000
Plant & Machinery [5,00,000 - 75,000 + 2,85,000]	7,10,000
Furniture [1,00,000 - 10,000 + 60,000]	1,50,000
	11,55,000

Working Notes:

(I) Balance of Profit and Loss account on 30th September, 2016

Particulars	Big Ltd. (₹)	Small Ltd. (₹)
Net Profit (for the first half)	1,02,500	54,000
Balance brought forward	1,50,000	70,000
Less: Dividend on Equity Share Capital paid	(1,20,000)	(45,000)
Less: Dividend on Preference Share Capital paid	—	(20,000)
Add: Dividend received [45,000 × 1/5]	9,000	—
	1,41,500	59,000

(II) Fixed Assets on 30th September, 2016 (before absorption)

Particulars	Big Ltd. (₹)	Small Ltd. (₹)
(1) Building		
As on 1.4.2016	2,00,000	1,00,000
Less: Depreciation (5%)	(10,000)	(5,000)
	1,90,000	95,000
(2) Machinery		
As on 1.4.2016	5,00,000	3,00,000
Less: Depreciation (15%)	(75,000)	(45,000)
	4,25,000	2,55,000
(3) Furniture		
As on 1.4.2016	1,00,000	60,000
Less: Depreciation (10%)	(10,000)	(6,000)
	90,000	54,000

(III) Ascertainment of Cash and Bank balances as on 30th September, 2016

Balance Sheets as at 30th September, 2016

Liabilities	Big Ltd. (₹)	Small Ltd. (₹)	Assets	Big Ltd. (₹)	Small Ltd. (₹)
Equity Share Capital	8,00,000	3,00,000	Building	1,90,000	95,000
10% Preference Share Capital	__	2,00,000	Machinery	4,25,000	2,55,000
General reserve	3,00,000	1,00,000	Furniture	90,000	54,000
Profit and Loss Account*	1,41,500	59,000	Investments	60,000	—
Trade Creditors	1,80,000	2,10,000	Inventories	1,20,000	1,50,000
			Trade Debtors	3,80,000	2,50,000
			Cash and Bank (b.f.)	1,56,500	65,000
	14,21,500	8,69,000		14,21,500	8,69,000

(IV) Calculation of Shares Allotted

A	Assets taken over:	₹
	Goodwill	50,000
	Building [1,00,000 + 10,000 – 5,000]	1,05,000
	Machinery [3,00,000 + 30,000 – 45,000]	2,85,000
	Furniture [60,000 + 6,000 - 6,000]	60,000
	Inventories	1,50,000
	Trade Debtors	2,50,000
	Cash and Bank	65,000
		9,65,000
B	*Less:* Trade Creditors taken over:	(2,10,000)
C	Net assets taken over [A - B]	7,55,000
D	*Less:* Allotment of 10% Pref. Shares to preference shareholders of Small Ltd.	(2,00,000)
		5,55,000
E	*Less:* Belonging to Big Ltd. [₹5,55,000 × 1/5]	(1,11,000)
	Payable to other Equity Shareholders	4,44,000
	Number of equity shares of ₹10 each be Issued (valued at ₹15 each) [4,44,000/15]	29,600

(v) Capital Reserve on Acquisition = ₹ 1,11,000 - ₹ 60,000 = ₹ 51,000

3. AA Ltd. and BB Ltd. decide to amalgamate and form a new Company CC Ltd. The following are their Balance Sheets as on 31.3.2017:

Liabilities	AA Ltd ₹	BB Ltd ₹	Assets	AA Ltd ₹	BB Ltd ₹
Share capital ordinary shares of ₹ 100 each	5,00,000	3,00,000	Fixed Assets	3,75,000	1,20,000
General Reserve	50,000	25,000	*Investments:*		
			750 Shares of BB Ltd	1,75,000	
Investment Allowance Reserve	20,000	15,000	2000 Shares of AA Ltd		2,50,000
125 Debentures (₹100 each)	1,50,000	50,000	Current Assets	2,10,000	50,000
Sundry Creditors	40,000	30,000			
	7,60,000	4,20,000		7,60,000	4,20,000

Calculate the purchase consideration of AA Ltd and BB Ltd and draw up a Balance Sheet of CC Ltd after considering the following:

(a) Fixed Assets of AA Ltd is to be reduced by ₹ 50,000

(b) 12% Debenture Holders of the two Companies are discharged by CC Ltd by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain same amount of interest

(c) Shares of CC Ltd. are of ₹ 100 each **16**

Answer:

3. Calculation of Purchase Consideration

(i) Value of Net assets as on 31s1 March, 2017

		AA Ltd (₹)		BB Ltd (₹)
Assets taken over:				
Fixed Assets	3,25,000		1,20,000	
Current Assets	2,10,000	5,35,000	50,000	1,70,000
Less:				
Liabilities taken over:				
Debentures	1,20,000		40,000	
Sundry Creditors	40,000	1,60,000	30,000	70,000
		3,75,000		1,00,000

Calculation of Debentures

Debenture holders of AA Ltd. = ₹ 1,50,000 x $\frac{12}{100}$ x $\frac{100}{15}$ = ₹1,20,000

Debenture holders of BB Ltd. = ₹50,000 x $\frac{12}{100}$ x $\frac{100}{15}$ = ₹40,000

(ii) Value of Shares of AA Ltd and BB Ltd

The Value of Shares of AA Ltd is ₹ 3,75,000 + ¼ value of the shares of BB Ltd.
Similarly the value of Shares of BB Ltd is ₹1,00,000 plus 2/5 value of Shares of AA Ltd
Let A denote the value of shares of AA Ltd and B denote the value of BB Ltd,
Then,
A = 3,75,000+1/4 B, and
B = 1,00,000= 2/5 A

Substituting the value
A = 375,000 +1/4(1,00,000 +2/5A)
= 3,75,000 +25,000 +1/10 A

Or, 9/10 A = 4,00,000

A = 4,44,444

Similarly

B = 1,00,000 + 2/5 × 4,44,444
B = 2,77,778

(iii) Amount of Purchase Consideration:

Particulars	AA Ltd. (₹)	BB Ltd. (₹)
Total value of shares determined above	4,44,444	2,77,778
Less: Internal Investments: 2/5 for shares held by BB Ltd. ¼ for shares held by AA Ltd.	 1,77,778	 69,444
Amount of consideration for CC Ltd.	2,66,666	2,08,334
In shares	2,66,600	2,08,300
In cash	₹66	₹34

(iv) Net amount of Goodwill/Capital Reserve

Particulars	(₹)	(₹)
Total Purchase Consideration		
AA Ltd.	2,66,666	
BB Ltd.	2,08,334	4,75,000
Less:		
Net Assets taken over		
AA Ltd.	3,75,000	
Bb Ltd.	1,00,000	Nil

(i) Name of the company: CC Ltd.

Balance Sheet as on 31st March,2017

Particulars	Note	Amount (₹)
I. Equity and Liabilities		
Share Capital	1	4,74,900
Reserves and Surplus	2	35,000
Non-current Liabilities		
Long-term borrowings - 15% Debentures (1,20,000+40,000)		1,60,000
Current Liabilities		
Trade payables		70,000
Total		**7,39,900**
II. Assets		
Non-current Assets		
Fixed Assets		
Tangible assets		4,45,000
Other Non-current assets – Amalgamation Adjustment A/c		35,000
Current Assets (2,10,000+50,000-66-34)		2,59,900
Total		**7,39,900**

Notes to Accounts:

1. **Share Capital**	₹
(2,666+2,083) i.e. 4,749 Equity shares of ₹10 each	4,74,900

2. **Reserves and Surplus**	₹
Investment Allowance Reserve	35,000

4. (a) On the basis of the following Profit and Loss Account of Zenith Limited and supplementary information provided thereafter, prepare Value Added Statement of the company for the year ended 31st March, 2017. Also prepare another statement showing reconciliation of Gross Value Added with profit before taxation.

Profit and Loss Account of Zenith Limited for the year ended 31st March, 2017.

	Amount (₹ in lakhs)	Amount (₹ in lakhs)
Income		
Sales		**5,010**
Other income		**130**
		5,140
Expenditure		
Production and Operational Expenses	**3,550**	
Administrative Expenses	**185**	
Interest	**235**	
Depreciation	**370**	**4,340**
Profit before Taxation		**800**
Provision for Taxation		**280**
Profit after Taxation		**520**
Credit Balance as per last Balance Sheet		**40**
		560
Appropriations		
Transfer to General Reserve		**100**
Preference Dividend (Interim) paid		**50**
Proposed Preference Dividend (Final)		**50**
Proposed Equity Dividend		**300**
Balance Carried to Balance Sheet		**60**
		560
Supplementary information		
Production and Operational Expenses consist of:		
Raw Materials and stores consumed		**1,900**
Wages, Salaries and Bonus		**610**
Local Taxes including Cess		**220**
Other Manufacturing Expenses		**820**
		3,550
Administrative Expenses Consist of:		
Salaries and commission to Directors		**60**
Audit Fee		**24**
Provision for Bad and Doubtful Debts		**20**
Other Administrative Expenses		**81**
		185
Interest is on:		
Loan from Bank for Working Capital		**35**
Debentures		**200**
		235

(b) CAMJ Ltd. has the following Capital Structure as on 31.03.2016:

Particulars	(₹ in crores)	
(1) Equity Share Capital (Shares of ₹ 10 each fully paid)	—	330
(2) Reserves and Surplus		
General Reserve	240	—
Securities Premium Account	90	—
Profit & Loss Account	90	
Infrastructure Development Reserve	180	600
(3) Loan Funds		1,800

The Shareholders CAMJ Ltd, on the recommendation of their Board of Directors, have approved on 12.09.2016 a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% over market.

You are also informed that the Infrastructure Reserve is created to comply with Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,200 crores or ₹ 1,500 crores.

Assuming that the entire buy back is duly completed, show the accounting entries in the company's books in each situation. Narrations should form part of your answer. 6

Answer:

4. (a)

Value Added Statement of Zenith Ltd.
for the year ended 31st March, 2017

Particulars	₹ in Lakhs	₹ in Lakhs
Sales		
Less: Cost of raw materials, stores and other services Consumed	2,720	
Administrative expenses	125	
Interest on loan from bank for working capital	35	2,880
Value added by manufacturing and trading activities		2,130
Add: Other income		130
Total Value added		2,260

Application of Value Added

	₹ in Lakhs	₹ in Lakhs	%
To Pay employees (Wages, Salaries and bonus)		610	26.99
To Pay Directors (Salaries and Commission to Directors)		60	2.66
To Pay Government			
Local Taxes including cess	220		
Income Tax	280	500	22.12
To Pay Providers of capital			
Interest on debentures	200		
Preference Dividend	100		
Equity Dividend	300	600	26.55
To Provide for the maintenance and expansion of the company			
Depreciation	370		
Transfer to general reserve	100		
Retained profit ₹ (60 – 40) Lakhs	20	490	21.68
		2,260	100.00

Statement showing Reconciliation between
Value Added with profit before taxation

	₹ in Lakhs	₹ in Lakhs
Profit before Taxation		800
Add back:		
Wages, salaries and bonus	610	
Salaries and commission to Directors	60	
Local taxes including cess	220	
Interest on debentures	200	
Depreciation	370	1,460
Gross Value Added		2,260

(b)

(A) STATEMENT DETERMINING THE MAX. NUMBER OF SHARES TO BE BOUGHT BACK

Particulars *	Situation 1 (Loan 1800)	Situation 2 (Loan 1200)	Situation 3 (Loan 1500)
Shares Outstanding Test	8.25	8.25	8.25
Resources Test	6.25	6.25	6.25
Debt Equity Ratio Test	Nil	3.75	Nil
Maximum number of share that can be bought back [least of above]	Nil	3.75	Nil

Journal Entries for Buy Back (applicable only for situation 2)

₹ IN CRORES

Date	Particulars	Dr. (₹)	Cr. (₹)
1	Equity Share Buy Back A/c. Dr. To Bank A/c (Being buy back of 5.00 crores equity shares of ₹ 10 each @ ₹ 30 per share)	112.50	 112.50
2	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Equity Share Buy Back A/c (Being cancellation of shares bought back)	37.50 75.00	 112.50
3	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital redeemed through free reserves)	37.50	 37.50

Note: Under Situations 1&3 the company does not qualify for buy back of shares as per the provisions of Section 68 of The Companies Act, 2013.

Working Notes:

(i) Shares Outstanding Test:

Max. No. of Shares that can be bought back = 25% of 33 = 8.25 crores

(ii) Resources Test:

Max. Number of shares that can be bought back
= [25% of (Paid up Capitals + Free Reserves)/Buy Back Price per share]
= [25% (330 + 420)]/30 = 6.25 crores

(iii) Debt /Equity ratio Test

Particulars	Situation 1	Situation 2	Situation 3
(a)Loan Funds (₹ in crores)	1,800	1,200	1,500
(b) Minimum Equity to be maintained after buy	900	600	750

back in the ratio of 2 : 1 (₹ in crores)			
(c)Present Equity Shareholders Funds (₹ in crores)	750	750	750
(d) Future Equity Shareholder's Funds	N.A.	712.50 (750 – 37.5)	N.A.
(e)Maximum permitted buy back of Equity (in crores) [(d) - (b)]	Nil	112.50	Nil
(f) Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) [(e)/₹ 30]	Nil	3.75	Nil

Note: *Infrastructure Development Reserve and Capital Redemption Reserve are not free reserves.*

Step 2: Max No of Equity Shares that can be bought back
Least of 8.25 or 6.25 or 5.00
= Max. 3.75 crores Shares can be bought back

Notes: Let X= Amount to be t/f to CRR;
Y = Maximum permitted buyback of Equity
Y=750 – X - 600 ...Eq. I
X=(Y/30) x 10 = Y/3 ...Eq.II

by Solving both the Equations
X = ₹ 37.5 crores, Y = ₹ 150 - ₹ 37.5 = ₹ 112.50 crores

5. (a) Sun Ltd. grants 1000 options on equity shares (face value ₹ 10) to its employees on 01.04.2013 at ₹ 60. The vesting period is two and a half years. The maximum period of exercise is one year. Market price on that date is ₹ 90. All the options were exercised on 31.07.2016.
Journalize the transactions for all the concerned financial years. 8

(b) (i) A company has at end of the financial year the stock of Finished Goods meant for Local sale and for Exports in its factory warehouse. Excise duty is payable at the rate of 16%. The Company's Managing Director says that Excise Duty is payable at only on clearance of goods and hence is not a cost. Advise the Company on the proper treatment of Excise Duty. 4

(ii) A Factory started activities on 1st April. From the following data, work out the value of Closing Stock on Inventory Valuation principles (CENVAT) as on 30th April.
(I) Raw Material purchased during April = 50,000 kg @ ₹ 15 per kg inclusive of Excise Duty of ₹ 5 per kg. Stock on hand on 30th April = 2000 kg.
(II) Production during April = 12,000 units. Each unit consumes 4kg material. 10,000 units of Production has been sold during the month.
(III) 2,000 units of goods were lying as WIP on 30th April in Factory floor, Stage of completion-100% complete as to Material and 50% complete as to conversion, which is ₹ 40 for each completed unit. 4

Answer:

5. (a)

Books of Sun Ltd.
Journal Entries

Date	Particulars		Debit	Credit
			₹	₹
31.3.14	Employees Compensation Expenses A/c To Employees Stock Option Outstanding A/c	Dr	12,000	 12,000

	(Being compensation expense recognized in respect of 1,000 options granted to employees at discount of ₹ 30 each, amortized on straight line basis over 2 1/2 years)			
	Profit and Loss A/c To Employees Compensation Expense A/c (Being employees compensation expense of the year transferred to P&L A/c)	Dr	12,000	 12,000
31.3.15	Employees Compensation Expense A/c To Employees Stock Option Outstanding A/c (Being compensation expense recognized in respect of 1,000 options granted to employees at discount of ₹ 30 each, amortized on straight line basis over 2 1/2 years)	Dr	12,000	 12,000
	Profit and Loss A/c To Employees Compensation Expense A/c (Being employees compensation expense of the year transferred to P&L A/c)	Dr	12,000	 12,000
31.3.16	Employees Compensation Expense A/c To Employees Stock Option Outstanding A/c (Being balance of compensation expense amortized ₹ 30,000 less ₹ 24,000)	Dr	6,000	 6,000
31.3.16	Profit and Loss A/c To Employees Compensation Expense A/c (Being employees compensation expense of the year transferred to P&L A/c)	Dr	6,000	 6,000
31.7.16	Bank A/c (₹ 60 x 1,000) Employees Stock Option Outstanding A/c (₹ 30 x 1000) To Equity Share Capital A/c To Securities Premium A/c (Being exercise of 1,000 options at an exercise price of ₹ 60 each and an accounting value of ₹ 30 each)	Dr Dr	60,000 30,000	 10,000 80,000

Working Notes:

1. Total employees compensation expenses - 1,000 x (₹ 90 - ₹ 60) = ₹ 30,000
2. Employees compensation expense has been written off during 2 1/2 years on straight line basis as under:
   I Year = ₹ 12,000 (for full year)
   II year = ₹ 12,000 (for full year)
   III year = ₹ 6,000 (for half year)

(b) (i) Excise Duty arises on manufacture of excisable goods irrespective of the manner use/disposal of Goods thereafter i.e., sale, destruction or by captive consumption. So the contention that Excise Duty is payable only on removal is not correct. Excise Duty has to be considered as a manufacturing expense are is to be considered as an element of cost in inventory valuation.

However, Excise Duty need not be provided for goods meant for exports subject to all conditions of Excise Duty Rules are fulfilled.

(ii)

Particulars	Amount ₹
Valuation of Raw Material (net of Excise Duty) 2,000 kg × ₹10 (15-5)	20,000
WIP Valuation (net of RM input duty) (4 kg × ₹10 + ₹40 × 50%)×2,000	1,20,000
Finished Goods Valuation (including ED) (RM ₹40+ Conversion ₹40)×2,000	1,60,000

Value of Stock	3,00,000

6. (a) Metro Ltd. has three divisions P, Q and R. Details of their turnover, results and net assets are given below:

	₹ ('000)
Division P	
Sales to Q	**3,050**
Other sale (Home)	**60**
Export sales	**4,090**
	7,200
Division Q	
Sales to R	**30**
Export sales to America	**200**
	230
Division R	
Export sales to Australia	**180**

	Head Office ₹ ('000)	Divisions P ₹ ('000)	Q ₹ ('000)	R ₹ ('000)
Operating Profit or Loss before tax		**160**	**20**	**(8)**
Re-allocated cost from Head office		**48**	**24**	**24**
Interest cost		**4**	**5**	**1**
Fixed assets	**50**	**200**	**40**	**120**
Net current assets	**48**	**120**	**40**	**90**
Long-term liabilities	**38**	**20**	**10**	**120**

Prepare a Segment Report to comply with the requirements of AS-17. 10

(b) Rainbow Constructions have obtained a contract to build a Flyover and the following details are available from the records as at 31st March, 2017:

	₹ in lakhs
Total Contract Price	**3,000**
Work Certified	**2,000**
Work not Certified	**500**
Estimated further cost to complete	**700**
Progress Payments received	**1,800**
Payment to be received	**500**

How are the above information to be disclosed in the Accounts as at 31st March, 2017 as per AS 7 (revised)? 6

Answer:

6. (a)

Metro Ltd.
Segmental Report **₹ ('000)**

	Divisions			Inter Segment Eliminations	Consolidated Total
	P	Q	R		
Segment Revenue					
Sales:					
Domestic	60	_	-	---	60
Export	4,090	200	180	---	4,470
External sales	4,150	200	180	---	4,530
Inter-segment sales	3,050	30		3,080	
Total Revenue	7,200	230	180	3,080	

Segment Result (given)	160	20	(8)		172
Head office expense					(96)
Operating Profit					76
Interest expense					(10)
Profit before tax					66
Other information					
Fixed assets	200	40	120		360
Net current assets	120	40	90		250
Segment assets	320	80	210		610
Unallocated corporate assets					98
Segment liabilities	20	10	120		150
Unallocated corporate liabilities					38

Sales Revenue by Geographical Market

(₹ '000)

	Home Sales	Export Sales (by division P)	Export to America	Export to Australia	Consolidated Total
External Sales	60	4,090	200	180	4,530

(b) (a)

Amount of foreseeable loss

	₹ in Lakh
Total Cost of Construction(2000+500+700)	3200
Less: Total Contract Price	3000
Total foreseeable loss to be recognized as expense	200

When it is expected that total cost will exceed total contract revenue, the expected loss should be recognized immediately.

(b) Contract work in Progress

Work Certified	2000
Work not certified	500
	2500

Percentage of Total Cost = 2500/3200 × 100 = 78.12%

(c) Proportion of total contract value recognized as revenue 78.125% of 3,000 = 2,344

(d) Amount due from customers

Contract costs + Recognised profit - Recognised loss - [Progress payments received + Progress payments to be received]

= 2500+nil-200-[1800+500] =2,300-2,300=nil

(e) Relevant disclosures as per AS 7

	₹ in lakh
Contract Revenue	2,344
Contract Expenses	2,500
Recognised loss	200
Progress Billing(1800+500)	2,300
Retentions	500
Amount due to Customers	nil

7. (a) The Balance Sheet of X Ltd. as on 31st March, 2016 and 31st March, 2017 are as follows:

Liabilities	2016 Amount (₹)	2017 Amount (₹)	Assets	2016 Amount (₹)	2017 Amount (₹)
Share Capital	5,00,000	7,00,000	Land and Buildings	80,000	1,20,000
General Reserve	50,000	70,000	Plant and Machinery	5,00,000	8,00,000
Profit and Loss A/c	1,00,000	1,60,000	Stock	1,00,000	75,000
Sundry Creditors	1,53,000	1,90,000	Sundry Debtors	1,50,000	1,60,000
Bills Payable	40,000	50,000	Cash	20,000	20,000
Outstanding Expenses	7,000	5,000			
	8,50,000	11,75,000		8,50,000	11,75,000

Additional Information:

(i) ₹ 50,000 depreciation has been charged to Plant and Machinery during the year 2016-17.

(ii) A piece of Machinery costing ₹ 12,000 (Depreciation provided there on ₹ 7,000) was sold at 60% profit on book value.

You are required to prepare Cash flow statement for the year ended 31st March, 2017 as per AS 3 (revised), using indirect method. **8**

(b) Following are the information of two companies for the year ended 31st March, 2017:

Particulars	Company X	Company Y
Equity Shares of ₹ 10 each	8,00,000	10,00,000
10% Pref. Shares of ₹ 10 each	6,00,000	4,00,000
Profit after tax	3,00,000	2,60,000

Assume that in both the cases, the Market expectation is 18% and 80% of the Profits are distributed.

(i) What is the rate you would pay for the Equity Shares of each Company

(A) If you are buying a small lot, and

(B) If you are buying controlling interest shares?

(ii) If you plan to invest only in preference shares which company's preference shares would you prefer? **8**

Answer:

7. (a)

X Ltd.

Cash Flow Statement for the year ended 31st March, 2017

Particulars	Amount (₹)	Amount (₹)
Cash Flow from Operating Activities		
Closing Balance as per Profit & Loss A/c		1,60,000
Less : Operating Balance as per Profit& Loss A/c		(1,00,000)
		60,000
Add : Transfer to General Reserve		20,000
Net Profit before taxation and extra-ordinary items		80,000
Add: Depreciation on Plant and Machinery		50,000
Less : Profit on sale of machinery (refer W.N.)		(3,000)
Operating Profit		1,27,000
Working Capital Adjustments:		
Add : Decrease in Stock	25,000	
Increase in Creditors	37,000	
Increase in Bills Payable	10,000	72,000
		1,99,000
Less increase in Debtors	(10,000)	
Decrease in Outstanding expenses	(2,000)	(12,000)

Net Cash from Operating Activities		1,87,000
Cash Flows from Investing Activities		
Purchase of Land & Building	(40,000)	
Proceeds from Sale of Machinery (Refer W.N.)	8,000	
Purchase of Plant & Machinery (refer W.N.)	(3,55,000)	
Net Cash Used in Investing Activities		(3,87,000)
Cash Flows from Financing Activities		
Proceeds from Issuance of Share Capital	2,00,000	
Net Cash from Financing Activities		2,00,000
Net Increase / Decrease in Cash & Cash Equivalents		0
Add : Cash in hand at the beginning of the year		20,000
Cash in hand at the end of the year		20,000

Working Note:

Plant and Machinery Account

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Balance b/d	5,00,000	By Bank	8,000*
To Profit and Loss A/c (Profit on sale)	3,000	By Depreciation	50,000
To Purchases (Bal. fig.)	3,55,000	By Balance c/d	8,00,000
	8,58,000		8,58,000

*₹ (12,000 – 7,000)×160%

(b) (i) (a) Buying a small lot of equity shares:

If the purpose of valuation is to provide data base to aid a decision of buying a small (non-controlling) position of the equity of the companies, dividend capitalisation method is most appropriate. Under this method, value of equity share is given by:

$$= \frac{\text{Dividend per share}}{\text{Market Capitalisation Rate}} \times 100$$

Company X : ₹ $\frac{2.4}{18} \times 100$ = ₹ 13.33

Company Y : $\frac{₹1.76}{₹18} \times 100$ = ₹ 9.78

(b) Buying controlling interest equity shares

If the purpose of valuation is to provide data base to aid a decision of buying controlling interest in the company, EPS capitalisaton method is most appropriate. Under this method, value of equity is given by:

$$= \frac{\text{Earning per share (EPS)}}{\text{Market Capitalisation Rate}} \times 100$$

Company X : ₹ $\frac{3}{18} \times 100$ = ₹ 16.67

Company Y : $\frac{₹2.2}{₹18} \times 100$ = ₹12.22

(ii) Preference Dividend coverage ratios of both companies are to be compared to make such decision.

Preference Dividend coverage ratio is given by:

$$= \frac{\text{Profit after tax}}{\text{Preference Dividend}} \times 100$$

Company A : $₹\ \frac{3,00,000}{60,000}$ = 5 times

Company B : $\frac{₹2,60,000}{₹40,000}$ = 6.5 times

If we are planning to invest only in preference shares, we would prefer shares of Y Company as there is more coverage for preference dividend.

8. (a) State the meaning and potential applications of XBRL. 8
(b) State the Objectives, Constitution and Functions of Public Accounts Committee. 8

Answer:

8. (a) XBRL stands for e**X**tensible**B**usiness **R**eporting **L**anguage. It is one of a family of "XML" languages which is becoming a standard means of communicating information between businesses and on the internet. XBRL provides major benefits in the preparation, analysis and communication of' business information and is fast becoming an accepted reporting language globally. It offers major benefits to all those who have to create, transmit, use or analyse such information.

(a) **Extensible:** means the user can extend the application of a particular business data beyond its original intended purpose and the major advantage is that the extended use can bedetermined even by the users and not just the ones who merely prepare the business data. This is achieved by adding tags which are both human and machine readable - describing what the data is. The property of extensibility is very handy in situations when list of items reported for various elements of the financial statements are not the same across firms, industries, and countries. For example, many of item constituting non-current assets in Oil and Gas Industry (items like rigs, exploratory oil and gas wells) may not be applicable to companies in general. In a situation of this kind, XBRL may prepare a taxonomy called a "Global Common Document' (GCD) for items common to all the firms, industries, and countries, and, any country specific, industry specific and firm-specific variations (extensions / limitations) can, then, be written as independent taxonomies that can be imported and incorporated with the GCD.

(b) **Business:** means relevant to the type of business transaction. XBRL focus is on describing the financial statements for both public and private companies.

(c) **Reporting:** the intention behind promoting use of XBRL is to have all companies report their financial statements in a consolidated manner using the specified formats.

(d) **Language:** XBRL is based on XML, which prescribes the manner in which the data can be "marked-up" or '"tagged"' to make it more meaningful to human readers as well as to computers-based system.

Potential applications of XBRL

1. **XBRL for Financial Statements:** Financial statements of all sorts used to exchange financial information
2. **XBRL for Taxes:** Specification for tax returns which are filed and information exchanged for items which end up on tax returns
3. **XBRL for Regulatory Filings:** Specifications for the large number of filings required by government and regulatory bodies
4. **XBRL for Accounting and Business Reports:** Management and accounting reporting such as all the reports that are created by your accounting system rendered in XML to make re-using them possible

5. **XBRL for Authoritative Literature:** A standard way for describing accounting related authoritative literature published by the AICPA, FASB, ASB, and others to make using these resources easier, "drill downs" into literature from financials possible

(b) Objectives of Public Accounts Committee

The Committee on Public Accounts is constituted by Parliament each year:

1. To examine accounts showing the appropriation of sums granted by Parliament for expenditure of Government of India.
2. To examine the annual Finance Accounts of Government of India and such other Accounts laid before Parliament as the Committee may deem fit (e.g. Accounts of autonomous and semi-autonomous bodies except those which come under the purview of die Committee on Public Undertakings).

Constitution of Public Accounts Committee

1. The Committee consists of not more than 22 members comprising 15 members elected by LokSabha 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.
2. The Chairman is appointed by the Speaker from amongst its members of Lok Sabha. The Speaker, for the first time, appointed a member of the Opposition as the Chairman of the Committee for 1967-68. This practice has been continued since then.
3. 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 a Minister, he ceases to be a member of the Committee from the date of such appointment.

Functions of Public Accounts Committee

1. To Examine the Appropriation Accounts relating to the Railways, Defence Services, P&T Department and other Civil Ministries of the Government of India and Reports of the Comptroller and Auditor-General of India thereon as also the Reports of the Comptroller and Auditor-General on Revenue Receipts mainly form the basis of the deliberation of the Committee.
2. To ascertain that money granted by Parliament has been spent by Government within the scope of the demand. It considers the justification for spending more or less than the amount originally sanctioned. If any money has been spent on a service in excess of the amount granted by the House for the purpose, the Committee examines with reference to the facts of each case, the circumstances leading to such an excess and makes such recommendations as it may deem fit.
3. To examine cases involving losses, nugatory expenditure and financial irregularities.
4. To examine various aspects of Government's tax administration.
5. To examine cases involving under-assessments, tax-evasion, non-levy of duties, misclassifications etc.
6. To identify the loopholes in the taxation laws and procedures and makes recommendations in order to check leakage of revenue.