FINAL EXAMINATION

GROUP IV

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2015

Paper-18: CORPORATE FINANCIAL REPORTING

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

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

Answer **all** *the questions.*

All workings must form part of your answer.

Assumptions, if any, must be clearly indicated.

SECTION A

1. **(a) Neel Limited is developing a new production process. During the financial year ended 31st March, 2014, the company has incurred total expenditure of ₹ 60 lakhs on the process. On 1st December, 2013 the process has met the norms to be recognised as intangible assets and the expenditure incurred till that date is ₹ 25 lakhs. During the financial year ending on 31st March, 2015, the company has further incurred ₹ 90 lakhs. The recoverable amount as on 31.3.2015 of the process is estimated to be ₹ 85 lakhs. You are required to work out as per AS-26:**

   (i) Amount to be charged to Profit and Loss Account for the financial year ending on 31st March, 2014 and 31st March, 2015 (ignore depreciation), and

   (ii) Carrying value of intangible asset as at 31.3.2014 and 31.3.2015. **5**

   (b) Zoom Limited purchased a machine four years ago for ₹ 30 lakhs and depreciates it at 10% p.a. on Straight-line Method. At the end of fourth year, it has revalued the machine at ₹ 15 lakh and has written off the loss on revaluation to Profit and Loss Account. However, on the date of revaluation, the market price is ₹ 14 lakhs and expected disposal costs are ₹ 50,000.

   (i) Compute amount of impairment loss as per AS-28, on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 12 lakh.

   (ii) What will be the accounting treatment in respect of impairment loss computed above? **5**

Answer:

1. (a) Statement showing amount to be charged to Profit and Loss Account and Carrying amount of an intangible asset. (As per AS-26)

		For year ending 31.03.2014 ₹ in Lakhs	For year ending 31.03.2015 ₹ in Lakhs
(i)	Expenditure to be charged to Profit and Loss account	25	40
(ii)	Carrying amount of intangible asset	35	85

Working Notes:

1. Carrying amount as on 31.03.2014 will be the expenditure incurred after 01.12.2013 till 31.03.2014

	₹ in Lakhs
Total expenditure incurred	60
Less: Expenditure incurred till 01.12.2013 to be expensed off	(25)
Expenditure incurred from 01.01.2014 to 31.03.2014 to be capitalised	35

2. Total cost of intangible asset till 31.03.2015

	₹ in Lakhs
Capitalised cost as on 31.03.2014	35
Add: further capitalised cost till 31.03.2015	90
Total book cost of an intangible asset till 31.03.2015	125

3. Impairment loss

Book cost as on 31.03.2015 (W.N. 2)	125
Less: Recoverable amount as estimated on 31.03.2015	(85)
Difference to be charged to Profit & Loss A/c as impairment loss	40

Therefore, carrying amount as on 31.03.2015 = ₹ 125 lacs – ₹ 40 lacs = ₹ 85 lacs

Answer:

1. (b) Calculation of impairment loss:

		(₹ In lakh)
(i)	Net selling price (14-0.50)	13.50
(ii)	Value in Use	12.00
(iii)	Recoverable amount [Higher of (i) and (ii)]	13.50
(iv)	Carrying amount	15.00
(v)	Impairment Loss (iv-iii)	1.50

Impairment loss ₹ 1.50 lakh to be debited to Profit and Loss statement.

SECTION B

Answer Question No. 2*(a)* which is Compulsory *(carrying 5 marks)*

and *answer* any two *(carrying 10 marks each) from the remaining Sub-questions*.

2. (a) State any five salient points of distinction between 'Pooling of Interest Method' and 'Purchase Method' of Accounting for Mergers and Acquisitions. 5

(b) ANKIT LTD. agreed to absorb SHRIJA LTD. on March 31, 2015 whose summarized Balance Sheet Stood as follows:

(Amount in ₹ '000)

Equity and liabilities	Amount	Assets	Amount
Share Capital:		Fixed Assets	2100
2,40,000 shares of ₹ 10 each fully paid	2400	Investments	—
Reserves & Surplus:		*Current Assets, Loans and Advances:*	
General Reserve	300	Stock in Trade	300
Secured Loan	—	Sundry Debtors	600
Unsecured Loan	—		
Current Liabilities & Provisions:			
Sundry Creditors	300		
	3000		3000

The Consideration was agreed to be paid as follows:

(i) A payment in cash of ₹ 5 per share in SHRIJA LTD. and

(ii) The issue of shares of ₹ 10 each in ANKIT LTD. on the basis of two equity shares (valued at ₹ 15) and one 10% cum-preference share (valued at ₹ 10) for every five shares held in SHRIJA LTD. The whole of the share capital consists of shareholding in exact multiple of five, except the following holdings:

A	348	
B	228	
C	216	
D	84	
Other Individuals	24	(Twenty four members holding one share each)

It was agreed that ANKIT LTD. will pay in cash for fractional shares equivalent at agreed value of share in SHRIJA LTD. i.e. ₹ 65 for five shares of ₹ 50 paid.

Required:

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

(c)

X Ltd. agreed to takeover Y Ltd. as on 1s October, 2014 No. Balance Sheet of Y Ltd. was prepared on that date

Summarised Balance Sheets of X Ltd. and Y Ltd. as at 31st March, 2014 were as follows:

Liabilities	X Ltd. ₹	Y Ltd. ₹	Assets	X Ltd. ₹	Y Ltd. ₹
Equity shares of ₹ 10 each fully paid up. *Reserves and Surplus:* Reserve Profit & Loss A/c Creditors	20,00,000 3,90,000 3,30,000 85,000	15,00,000 3,40,000 1,60,000 75,000	Fixed assets *Current Assets:* Stock Debtors Bank *Miscellaneous Expenditure:* Preliminary Expenses	15,50,000 5,35,500 3,49,500 3,40,000 30,000	12,60,000 3,81,500 2,31,000 1,80,000 22,500
Total	28,05,000	20,75,000	Total	28,05,000	20,75,000

Additional information available:

(i) **For the six months period from 1st April 2014, X Ltd. and Y Ltd. made profits of ₹ 5,40,000 and ₹ 3,60,000 respectively, after writing off depreciation @ 10% per annum on their fixed assets.**

(ii) **Both the companies paid on 1st August 2014, equity dividends of 10%. Dividend tax at 15% was paid by each of them on such payments.**

(iii) **Goodwill of Y Ltd. was valued at ₹ 1,68,900 on the date of takeover. Stock of Y Ltd., subject to an abnormal item of ₹ 8,500 to be fully written off, would be appreciated by 20% for purpose of takeover.**

(iv) **X Ltd. would issue to Y Ltd's shareholders fully paid equity shares of ₹ 10 each, on the basis of the comparative intrinsic values of the shares on the date of takeover.**

You are required to:

(1) **Calculate Purchase consideration payable by X Ltd.**

(2) **Calculate Number of shares to be issued by X Ltd to Y Ltd.**

(3) **Ascertain closing bank balance which will appear in the Balance Sheet of X Ltd.**

(After absorption of Y Ltd.). **5+2+3=10**

(d) **The summarised Balance Sheets of A Ltd. and B Ltd. as on 31st March 2015 are given below. B Ltd. was merged with A Ltd. with effect from 31st March 2015 and the merger was in the nature of purchase.**

Summarise Balance Sheets as on 31.03.2015

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Share Capital: Equity Shares of ₹10 each	8,00,000	3,00,000	Fixed assets Investments (Non-trade)	10,00,000 1,50,000	4,50,000 50,000
General Reserve	3,00,000	2,00,000	Stock	1,60,000	50,000
Profit & Loss A/c	2,50,000	80,000	Debtors	80,000	90,000

12% Debentures	**2,00,000**	**1,00,000**	**Advance Tax**	**60,000**	**30,000**
Sundry Creditors	**60,000**	**50,000**	**Cash and Bank Balance**	**2,30,000**	**1,10,000**
Provision For Taxation	**90,000**	**50,000**	**Preliminary Expenses**	**20,000**	**-**
Total	**17,00,000**	**7,80,000**	**Total**	**17,00,000**	**7,80,000**

A Ltd. would issue 12% Debentures to discharge the claims of the debenture holders of B Ltd. at par. Non-trade investments of A Ltd. fetched @ 20% while those of B Ltd. fetched @ 12%. Profit (Pre-tax) by A Ltd. and B Ltd. during 2012-13, 2013-14 and 2014-15 were as follows:

Year	**A Ltd.**	**B Ltd.**
2012-13	**6,00,000**	**2,00,000**
2013-14	**7,00,000**	**2,50,000**
2014-15	**5,00,000**	**1,50,000**

Goodwill may be calculated on the basis of capitalisation method taking 20% as the pre-tax normal rate of return. Purchase consideration is discharged by A Ltd. on the basis of intrinsic value per share.

Prepare Balance Sheet of A Ltd. after merger as per revised Schedule VI (Notes to accounts need not be given). **10**

Answer:

2. (a)

Distinction between pooling of interest method and purchase method of accounting for mergers and acquisitions.

Pooling of interest method	**Purchase method**
1. This method is adopted in the case of amalgamation in the nature of merger	This method is adopted in case of amalgamation in the nature of purchase
2. All assets, liabilities, reserves and surplus from the transferor company are incorporated in the financial statements of the transferee company at book value	Only assets and liabilities taken over of the transferor company are incorporated in the financial statements of the transferee company either at book value or at agreed value
3. This method ignores the values exchanged in an amalgamation	This method reflects the values exchanged in an amalgamation
4. This method does not record any acquired assets and liabilities that were not previously recorded in the books of the transferor company.	This method reveals all hidden assets and liabilities of the transferor company by recording them at fair value in the books of the transferee company.
5. The difference between the consideration and share capital of the transferor company is adjusted against reserves. No goodwill or capital reserve account emerges from this difference.	The difference between the purchase consideration and the net assets taken over of the transferor company is recorded as goodwill or capital, as the case may be.
6. All costs associated with amalgamation are not capitalized but are adjusted against reserve	All costs associated with amalgamation are capitalized
7. Under this method, no amalgamation	This method requires the transferee company

adjustment account is opened in the books of transferee company.	to open in its books an amalgamation adjustment Account

Answer:

2. (b)

Schedule showing determination of fractional shares:

Particulars	Holding of shares (A)	Exchangeable in nearest multiple of five (B)	Exchange in equity shares (C)=(B)/5x2	Exchange in preference shares (D)=(B)/5x1	Non-exchangeable share (E)=(A)-(B)
A	348	345	138	68	3
B	228	225	90	44	3
C	216	215	86	42	1
D	84	80	32	16	4
Other individuals	24	-	-	-	24
	900	865	346	170	35

Number of Shares to be issued:

a. Exchangeable shares:

= Total Shares – Non Exchangeable shares

= 2,40,000-35

= 2,39,965

b. Equity shares to be issued:

2,39,965 × 2/5 = 95,986 shares

c. Preference shares to be issues:

2,39,965 × 1/5 = 47,993 shares

Cash to be paid:

2,39,965 shares @ ₹5 each	₹ 11,99,825
Add:- Consideration for non- exchangeable shares (35 × 10)65/50	₹ 455
	₹ 12,00,000

Statement showing calculation of purchase consideration:-

Particulars	**Amount (₹)**	**Amount (₹)**
In shares:		
95980,Equity shares @ ₹ 15 each	14,39,700	
47990, 10% cumulative preference shares @ ₹10/- each	4,79,900	**19,19,720**

In cash		**12,00,280**
Total		**31,20,000**

Answer:

2. (c) (1) Calculation of Intrinsic Value

	X Ltd. (₹)	**Y Ltd. (₹)**
Goodwill	-	1,68,900
Fixed Assets [W.N(A)]	14,72,500	11,97,000
Stock [W.N.(B)]	5,35,500	4,47,600
Debtors	3,49,500	2,31,000
Bank balance (Refer to item 3 below)	7,27,500	4,30,500
	30,85,000	24,75,000
Less: Creditors	(85000)	(75000)
Net Assets (Purchase consideration payable by X Ltd. ₹ 24,00,000)	30,00,000	24,00,000
No. of shares	2,00,000	1,50,000
Intrinsic value	15.00	16.00
Working Notes:		
A. Fixed Assets as on 01.04.2014	15,50,000	12,60,000
Depreciation at 10% for 6 months	(77500)	(63000)
Fixed Assets as on 1.10.2014	14,72,500	11,97,000

B. Stock of Y = ₹3,81,500 Less abnormal item ₹8,500 + 20% increase = i.e. ₹4,47,600

(2) Purchase consideration of Y Ltd. is ₹ 24,00,000

No. of shares to be issued to Y Ltd. = ₹24,00,000/₹ 15 = 1,60,000

Share Capital would be issued l,60,000 × ₹ 10 = ₹ 16,00,000.

Securities premium = ₹ 24,00,000 – ₹16,00,000 = ₹8,00,000

(3) Bank Balance as on 01.10.2014

	X Ltd. ₹	**Y Ltd.** ₹
Bank Balance as on 31.03.2014	3,40,000	1,80,000
Add: Net Profit	5,40,000	3,60,000
Depreciation	77,500	63,000
	9,57,500	6,03,000
Less: Dividend 10%	(2,00,000)	(1,50,000)
	7,57,500	4,53,000
Less: Dividend Tax 15%	(30,000)	(22,500)
Bank balance as on 01.10.2014	7,27,500	4,30,500

Thus total bank balance ₹ 11,58,000 (i.e., ₹ 7,27,500 + ₹ 4,30,500) will be shown in the Balance Sheet of X Ltd.

Answer:

2. (d) Balance Sheet of A Ltd. (after merger) as at 31.03.2015:

Balance Sheet of A Ltd. (after merger)

	Particulars	₹
I.	Equity and Liabilities	
	1. Shareholder's funds	
	(a) Share capital	10,72,000
	(b) Reserves and surplus (W.N.4)	12,78,000
	2. Non-current liabilities	
	Long-current liabilities	3,00,000
	3. Current liabilities	
	(a) Trade payables	1,10,000
	(b) Other current liabilities	1,40,000
	Total	**29,00,000**
II.	Assets	
	1. Non-current Assets	
	(a) Fixed assets	
	Tangible assets	14,50,000
	Intangible assets (Goodwill - W.N. 1)	4,40,000
	(b) Non-current investments (1,50,000 + 50,000)	2,00,000
	2. Current Assets	
	(a) Stock (1,60,000 + 50,000)	2,10,000
	(b) Debtors (80,000 + 90,000)	1,70,000
	(c) Cash and cash equivalent (2,30,000 + 1,10,000)	3,40,000
	(d) Other current assets (advance tax)	90,000
	Total	**29,00,000**

Working:

1. Valuation of Goodwill

(i)	Capital employed				
		A Ltd. (₹)		**B Ltd. (₹)**	
	Sundry assets as per balance sheet		17,00,000		7,80,000
	Less: Preliminary expenses	20,000		-	
	Non-trade investment	1,50,000	1,70,000	50,000	50,000
			15,30,000		7,30,000
	Less: Sundry Liabilities				
	12% Debentures	2,00,000		1,00,000	
	Sundry creditors	60,000		50,000	
	Provision for taxation	90,000	3,50,000	50,000	2,00,000
			11,80,000		**5,30,000**

		A Ltd. (₹)	B Ltd. (₹)
(ii)	Average pre-tax profit		
	2012-13	6,00,000	2,00,000
	2013-14	7,00,000	2,50,000
	2014-15	5,00,000	1,50,000
		18,00,000	6,00,000

	Simple average	6,00,000	2,00,000
	Less: Non-trading income	30,000	6,000
		5,70,000	**1,94,000**

		A Ltd. (₹)		B Ltd. (₹)
(iii)	Goodwill			
	Capitalization value of average profit (5,70,000×100/20)	28,50,000	1,94,000×100/20)	9,70,000
	Less: Capital employed	11,80,000		5,30,000
	Goodwill	16,70,000		4,40,000

2. Intrinsic value per share

	A Ltd. (₹)		B Ltd. (₹)	
Goodwill	16,70,000		4,40,000	
Sundry other assets less preliminary expenses	16,80,000	33,50,000	7,80,000	12,20,000
Less: Liabilities				
12% Debentures	2,00,000		1,00,000	
Sundry creditors	60,000		50,000	
Provision for tax	90,000	(3,50,000)	50,000	(2,00,000)
		30,00,000		10,20,000
Intrinsic value per share	30,00,000 $\frac{30,00,000}{80,000}$ = ₹ 37.50			10,20,000 $\frac{10,20,000}{30,000}$ = ₹ 34

3. Purchase consideration ₹

30,000 shares @ ₹ 34 10,20,000

To be discharge by 27,200 shares (30,000 × 34/37.50) @ ₹ 37.50 per share

Equity = 27,200 × ₹ 10 2,72,000

Securities premium 27,200 × ₹ 27.50 7,48,000

4 Calculation of Reserves and Surplus**:**

Particulars	**Amount (₹)**
General Reserves	3,00,000
Profit & Loss	2,50,000
Securities Premium	7,48,000
	12,98,000
Less:- Preliminary Expenses	20,000
Total	**12,78,000**

SECTION C

Answer Question No. 3*(a) which is Compulsory (carrying 10 marks) and also answer* any one *(carrying 15 marks each) from the remaining sub-questions.*

3. (a) Tom Ltd. holds 45% of the paid up share capital of Bee Ltd. The shares were acquired at market price of ₹ 18 per share. The balance 55% shares of Bee Ltd. are held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

(i) The shares held by foreign company will be sold to Tom Ltd. The price per share will be calculated by capitalising the yield at 20%. Yield, for this purpose, would mean 50% of the average of pre-tax profits for last 3 years, which were ₹ 35 lakhs, ₹ 40 lakhs and ₹ 45 lakhs.

(ii) The actual cost of the shares to the foreign company was ₹ 6,00,000. The profit that would accrue to them would be taxable at an average rate of 25%. The tax payable will be deducted from the proceeds and Tom Ltd. will pay it to government.

(iii) Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after three years. The above agreement was approved by all concerned for being given effect to on 01.04.2015.

The total assets of Bee Ltd. as on 31.03.2015 were ₹ 110,00,000. It was decided to write down fixed assets by ₹ 2,10,000. Current Liabilities of Bee Ltd. as on the same date were ₹ 40,00,000. The paid-up share capital of Bee Ltd. was ₹ 20,00,000 divided into 2,00,000 equity shares of ₹ 10 each.

Required:

(1) Compute purchase consideration.

(2) Prepare statement showing discharge of purchase consideration, and

(3) Find out Goodwill/Capital Reserve to Tom Ltd. on acquiring wholly the shares of Bee Ltd. **10**

(b) From the following Balance Sheets of a group of companies and the other information provided, draw up the Consolidated Balance Sheet as on 31.03.2015.

Balance Sheets as on 31.03.2015 **(₹ in Lakhs)**

Liabilities	R Ltd. ₹	S Ltd. ₹	T Ltd. ₹	Assets	R Ltd. ₹	S Ltd. ₹	T Ltd. ₹
Share Capital (in Shares of ₹100 each)	350	150	100	Fixed assets less Depreciation	140	130	120
Reserves	60	50	40	*Cost of investment:*			
Profit & Loss balance	70	60	50	in S Ltd.	170	—	—
Creditors	40	20	20	in T Ltd.	40	80	—
				Stock	60	20	30
				Debtors	70	30	40
				Cash & Bank	40	20	20
Total	**520**	**280**	**210**	**Total**	**520**	**280**	**210**

Additional Information:

(i) R Ltd. holds 1,20,000 shares in S Ltd. and 30,000 shares in T Ltd.; S Ltd. holds 60,000 shares in T Ltd. These investments were made on 01.07.2014, on which date the provision was as follows:

		₹ in lakhs
	S Ltd.	T Ltd.
Reserves	30	20
Profit & Loss A/c	40	26

(ii) December, 2014, S Ltd. invoiced goods to R Ltd. for ^ 80 lakhs at cost plus 25%. The closing stock of R Ltd. includes such goods valued at ₹ 10 lakhs.

(iii) T Ltd. sold to S Ltd. an equipment costing ₹ 24,00,000 at a profit of 25% on selling price on 01.01.2015. Depreciation at 10% per annum was provided by S Ltd. on this equipment.

(iv) R Ltd. proposes dividend at 10%. 15

(c) On 1st April, 2013 ROTEX Ltd. a new Company raised its first capital of ₹ 500 lakh from 50,00,000 Equity Shares of ₹ 10 each at par. Rotex Ltd. made the following acquisition on the same date:

ANU Ltd.—3,00,000 Equity Shares of ₹ 10 each fully paid for ₹ 35 lakh

BENTEK Ltd.—10,00,000 Equity Shares of ₹ 10 each fully paid for ₹ 72 lakh

CINY Ltd.—8,00,000 Equity Shares of ₹ 10 each fully paid for ₹ 92 lakh

Apart from these transactions and those detailed below, ROTEX LTD. neither paid not received other monies during the year 2013-2014.

The following are the summarized Balance Sheets of the three companies as on 31st March, 2014.

(Amount in ₹ lakh)

Liabilities	ANU Ltd.	BENTEK Ltd.	CINY Ltd.
Share Capital:			
Equity shares of ₹ 10 each fully paid up	40.00	120.00	100.00
Reserves and Surplus:			
Reserves (as on 1.4.2013)	3.00	—	7.50
Profit and Loss A/c	6.00	—	15.00
Current Liabilities:			
Sundry Creditors	5.00	22.00	5.00
	54.00	142.00	127.50
Assets:			
Fixed Assets:			
Goodwill	4.00	—	15.00
Freehold Property	8.00	52.00	50.00
Plant and Machinery	16.00	30.00	12.00
Investments:	—	—	—
Current Assets, Loans and Advances:			
Inventories (Stock)	11.00	32.00	21.00
Sundry Debtors	4.00	8.00	18.00
Cash at Bank	11.00	2.00	11.50
Miscellaneous Expenditure:			

Profit and Loss A/c	—	18.00	—
	54.00	142.00	127.50

The following relevant information is also available:

(i) The freehold property of CINY Ltd. is to be revalued at ₹ 65 lakh as on 01.04.2013.

(ii) Additional depreciation for the year 2013-2014 of ₹ 3 lakh on the Plant and Machinery of BENTEK Ltd. is to be provided,

(iii) The inventories (stock) of ANU Ltd. as on 31st March, 2014 has been undervalued by ₹ 2 lakh and is to be adjusted.

(iv) As on 31st March, 2014, ROTEX Ltd. owed ANU Ltd. ₹ 3.50 lakh and is owed ₹ 6 lakh by BENTEK Ltd. CINY Ltd. is owed ₹ 1 lakh by ANU Ltd. and ₹ 2 lakh by BENTEK Ltd.

(v) The balances on Profit and Loss Accounts as on 31st March, 2013 were: Anu Ltd. ₹ 2 lakh (Credit); Bentek ltd. ₹ 12 lakh (Debit); and Ciny Ltd. ₹ 4 lakh (Credit). The Credit Balances of Anu Ltd. and Ciny Ltd. were wholly distributed as dividends in June, 2013.

(vi) During the year 2013-14, Anu Ltd. and Ciny Ltd. declared and paid interim dividends of 8% and 10% respectively.

Required:

Prepare Consolidated Balance Sheet of ROTEX Ltd. and its subsidiary companies, Anu Ltd. Bentek Ltd. and Ciny Ltd. as on 31st March, 2014, as per requirements of Revised schedule-VI. Ignor Taxation. 15

(Notes/Schedules to Balance Sheet are not required).

Answer:

3. (a) Calculation of purchase consideration:

(a) Yield of Bee Ltd:

[35+40+45/3×50/100] = ₹ 20 Lakhs

(b) Price per share of Bee Ltd:

Capitalised yield [₹20,00,000 × 100/20 = ₹100 Lakhs

No. of shares = 2,00,000

Price per share = ₹ 50

(c) Purchase consideration for 55% shares in Bee Ltd., i.e.

(2,00,000 shares × 55/100 × ₹ 50) = ₹ 55 Lakhs

(d) Discharge of purchase consideration.

Tax deducted at source (₹55 Lakhs - ₹6 Lakhs) × 25/100 = ₹ 12.25 Lakhs

50% of purchase consideration (Net of tax) in cash , i.e.,

₹ (55.00 -12.25) Lakhs × 50% = ₹ 21.37 Lakhs

Balance unsecured loan = ₹ 21.38 Lakhs

Goodwill/ Capital reserve to Tom Ltd.

		₹ in Lakhs
Total assets		110.00
Less: Reduction in value of fixed assets		(2.10)
		107.90
Less: Current liabilities		(40.00)
Purchase consideration	55.00	
Investments (2,00,000 shares × 45% × ₹18)	16.20	(71.20)
Goodwill		3.30

3. (b) Consolidated Balance Sheet of R. Ltd. and its subsidiaries S. Ltd. and T. Ltd. as at 31st March, 2015

Particulars	Note No.	₹ in Lakhs
I. Equity and liabilities		
1. Shareholder's Funds		
(a) Share Capital		350.00
(b) Reserve and surplus	1	170.00
2. Minority interest (W.N. 4)		75.10
3. Current Liabilities		
Trade Payables (40+20+20)		80.00
4. Other Current Liabilities		
Proposed dividend		35.00
Total		**710.20**
II. Assets		
1. Non-current assets		
Fixed Assets		
Tangible assets	2	382.20
2. Current Assets		
(a) Inventories	3	108.00
(b) Trade receivables (70+30+40)		140.00
(c) Cash and cash equivalents (40+20+20)		80.00
Total		**710.20**

Notes on Accounts	**₹ in Lakhs**	**₹ in Lakhs**
1. Reserve and surplus		
Capital Reserve (W.N. 3)	17.40	
Other Reserves (W.N. 7)	91.60	

	Profit & Loss Account (W.N. 6)	61.10	170.10
2.	Tangible assets		
	Fixed assets		
	R Ltd.	140.00	
	S Ltd.	130.00	
	T Ltd.	120.00	
		390.00	
	Less: Unrealised profit (W.N. 5)	7.80	382.20
3.	Inventories		
	Stock		
	R Ltd.	60.00	
	S Ltd.	20.00	
	T Ltd.	30.00	
		110.00	
	Less: Unrealised profit (W.N. 4)	2.00	108.00

Working Notes: **₹ in Lakhs**

		Capital Profit	Revenue Reserve	Revenue Profit
1.	Analysis of Profits of T Ltd. Reserves on 01.07.2013 Profit & Loss A/c on 01.07.2013 Increase in Reserves Increase in Profit	 20.00 26.00 	 20.00 	 24.00
		46.00	20.00	24.00
	Less: Minority Interest (10%)	4.60	2.00	2.40
		41.40	18.00	21.60
	Share of R Ltd. (30%) Share of S Ltd. (60%)	13.80 27.60	6.00 12.00	7.20 14.40

2.	Analysis of profits of S Ltd. Reserves on 01.07.2014 Profit & loss A/c on 01.07.2014 Increase in Reserves Increase in profit	 30.00 40.00 	 20.00 	 20.00
		70.00	20.00	20.00
	Share in T Ltd.	-	12.00	14.40
		70.00	32.00	34.40
	Less: Minority interest (20%)	14.00	6.40	6.88
	Share of R Ltd.	56.00	25.60	27.52

3.	Cost of Control			
	Investments in S Ltd. Investments in T Ltd.			170 120
				290
	Less: Paid up value of investments in S Ltd. in T Ltd.	 120.00 90.00	 210.00	
	Capital Profit in S Ltd. in T Ltd.	 56.00 41.40	 97.40	 307.40
	Capital Reserve			17.40

4.	Minority interest	₹ in Lakhs	
		S Ltd.	**T Ltd.**
	Share Capital Capital Profit Revenue Reserves Revenue profit Less: Unrealised profit on Stock (20% of 2) (10×25/125 = 2) Unrealised Profit on equipment (7.80×10%)	30.00 14.00 6.40 6.88 (0.40) 	10.00 4.60 2.00 2.40 (0.78)
		56.88	18.22
	Total minority interest (56.88+18.22)	75.10	

5.	Unrealised profit on equipment sale Cost Profit	 ₹24.00 Lakhs ₹8.00 Lakhs
	Selling Price	₹ 32.00 Lakhs

Unrealised Profit 8 - (8 × 10/100 × 3/12) = 7.80 Lakhs

6.	Profit & Loss A/c - R Ltd.	₹ in Lakhs
	Balance Less: Proposed dividend	70.00 35.00
		35.00
	Share in S Ltd. Share in T Ltd.	27.52 7.20
		69.72
	Less: Unrealised profit on equipment (7.80 × 90%) Less: Unrealised profit on stock (10 × 25/125 × 80%)	(7.02) (1.60)
		61.10

7.	Reserves - R Ltd. Balance Share in S Ltd. Share in T Ltd.	 60.00 25.60 6.00
		91.60

Answer:

3. (c) Consolidated Balance Sheet of ROTEX LTD and its subsidiaries ANU LTD. BENTEK LTD. and CINY LTD as at March 31, 2014.

Ref. No.	Particulars	Note No.	As at Mar 31,14	As at Mar 31,13
I	**EQUITY AND LIABILITIES**			
1	Shareholders' Funds			
	(a) Share Capital		500.00	
	Issued, subscribed and fully paid up 50,00,000 equity shares of ₹107- each			
	(b) Reserves and surplus		46.85	
2	Minority interest (W.N-6)		56.75	
3	Share Application Money pending allotment			
4	Non-current liabilities			
	(a) Long term borrowings			
5	Current liabilities			
	(a) Short-term borrowing			
	(b) Trade payables (creditors)		23.00	
	(35.50 – inter co debt 12.50)			
	Total		**626.60**	
II	**ASSETS**			
1	Non-current Assets			
	(a) Fixed assets			
	(i) Tangible assets			
	Freehold property	125.00		
	Plant & Machinery	55.00	180.00	
	(ii) Intangible assets			
	Goodwill		19.00	
	(b) Non-current investments			
	Other non-current assets			
2	Current Assets:			
	(a) Current investments			
	(b) Inventories (Stock)		66.00	
	(c) Trade Receivables		23.50	
	(36.00- inter co. debt 12.50)			
	(d) Cash and cash equivalents		338.10	
	Total		**626.60**	

Workings:

Analysis of Profits:

(Amount in ₹ Lakh)

(1) CINY LTD.	**Capital profit**	**Revenue profit**
Profit & Loss Account on 01.04.2013	4.00	
Less: Dividend Declared	(4.00)	
Reserves on 01.04.2013	7.50	
Revaluation Reserves	15.00	
Profit for the year after interim dividend		15.00
	22.50	15.00

Less: Minority interest 20%	4.50	3.00
Share of Rotex Ltd.	18.00	12.00

(Amount in ₹ Lakh)

(2) BENTEK LTD.	**Capital profit**	**Revenue profit**
Profit and Loss Account Add: Additional Depreciation	(12.00)	(6.00) (3.00)
	(12.00)	(9.00)
Less: Minority interest (1/6) Share of Rotex Ltd.	(2.00) (10.00)	(1.50) (7.50)

(Amount in ₹ Lakh)

(3) ANU LTD.	**Capital profit**	**Revenue profit**
Profit and Loss Account Less: Dividend	2.00 (2.00)	6.00
 Inventories undervalued Reserve on 01.04.2013	 3.00	6.00 2.00 8.00
	3.00	8.00
Less: Minority interest (1/4) Share of Rotex Ltd.	0.75 2.25	2.00 6.00

(4) REVENUE PROFIT OF ROTEX LTD.	
Share of Revenue Profit in Ciny Ltd.	12.00
Share of Revenue Profit in Bentek Ltd.	(7.50)
Share of Revenue Profit in Anu Ltd.	6.00
	10.50
Add: Interim dividend received	10.40
Total	20.90

(5) COST OF CONTROL OR GOODWILL :		
Cost of investments less Pre-acquisition dividend		33.50
(35.00-1.50) of Anu Ltd.		
Cost of investments in Bentek Ltd.		72.00
Cost of investments in Ciny Ltd. less dividend (92.00-3.20)		88.80
Less: Paid up value of shares:		194.30
Anu Ltd.	30.00	
Bentek Ltd.	100.00	
Ciny Ltd.	80.00	
Capital profits in		
Anu Ltd.	2.25	
Bentek Ltd.	(10.00)	
Ciny Ltd.	18.00	220.25
Capital Reserve		25.95

(6) MINORITY INTEREST :	Anu Ltd.	Bentek Ltd.	Ciny Ltd.
Share Capital	10.00	20.00	20.00
Capital Profits	0.75	(2.00)	4.50
Revenue Profits	2.00	(1.50)	3.00
	12.75	16.50	27.50
Total		**56.75**	

(Amount in ₹ Lakh)

Particulars	Amount	Particulars	Amount
To Share Capital	500.00	By Investment in Anu Ltd.	35.00
To Investments in Anu Ltd. (Dividend)	1.50	By Investments in Bentek Ltd.	72.00
To Investments in Ciny Ltd. (Dividend)	3.20	By Investments in Ciny Ltd.	92.00
To Dividends - Anu Ltd.	2.40	By Bentek Ltd. (indebtedness)	6.00
To Dividends – Ciny Ltd.	8.00	By Balance c/d	313.60
To Anu Ltd.	3.50		
	518.60		518.60

SECTION D

Answer* Question No. 4(a) *which is Compulsory (carrying 5 marks)

and answer* any two *(carrying 10 marks each) from the remaining sub-questions.

4. (a) Explain the term Extensible Business Reporting Language (XBRL). **5**

(b) (i) From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz model.

	Skilled	Unskilled
Annual average income of an employee till the retirement age	₹ 70,000	₹ 50,000
Age of retirement	65 years	62 years
Discount rate	15%	15%
No. of employees in the group	25	35
Average age	62 years	60 years

(ii) On the basis of the following information relating to trading in Options, you are required to pass relevant journal entries (at the time of inception and at the time of final settlement) in the books of Anand (buyer) and Sahid (seller). Assume that the price on expiry is ₹ 2,100 and both Anand and Sahid follow the calendar year as accounting year.

Date of purchase	Option type	Expiry date	Premium per unit	Contract lot	Multiplier
29.03.2015	Equity Index Call	31.05.2015	₹ 10	1000 (units)	1800 p.u.

5+5=10

(c) INDIKAN Ltd. announced a 'Share Based Payment Plan' for its employees, who have completed 3 years of continuous service on 1st April, 2011. The plan is subject to a 3-year vesting period. The following relevant information is provided to year in this regard:

(i) The eligible employees can either have the option to claim the difference between the exercise price of ₹150 per share and the market price in respect of the share on vesting date in respect of 4000 shares or such employees are entitled to subscribe to 5000 shares at the exercise price.

(ii) Any shares subscribed to, by the employees shall carry a 3-year lock-in restriction. All shares carry face value of ₹ 10.

(iii) The current Fair value of the shares at (ii) above is ₹ 70 and that in respect of freely tradable shares is higher by 25%.

(iv) The Fair value of the shares not subjected to Lock-in restriction at the end of each year increases by a given % from its preceeding value as under:

	year 2011-12	year 2012-13	year 2013-14
% of Increase	4	10	14

You are required to draw up the following Accounts under both options:

(1) Employees' Compensation Account

(2) Provision for Liability Component Account

(3) ESOP outstanding Account **10**

(d) GALAXY Ltd. has provided the following Profit and Loss Account for the year ended March 31, 2015.

(Amount in ₹ lakh)

Income:		
Sales less Return	15,279	
Dividends and Interest	1	
Miscellaneous Income	5	
(A)		15,285
Expenditure:		
Production & Operational Expenses:		
Decrease in inventory of Finished Goods	261	
Consumption of Raw Materials	7,408	
Power and Lighting	1,200	
Wages, Salaries & Bonus	3,818	
Staff Welfare Expenses	262	
Excise Duty	145	
Other Manufacturing Expenses	326	
		13,420
Administrative Expenses:		

Directors' Remuneration	78	
Other Administrative Expenses	326	
		404
Interest on:		
9% Mortgage Debentures	144	
Long Term Loan from financial Institution	100	
Bank overdraft	1	
		245
Depreciation on Fixed Assets		506
(B)		14,575
Profit before Taxation (A-B)		710
Provision for Income Tax (35%)		248
Profit after Taxation		462
Balance of Account as per last Balance Sheet		63
		525
Transferred to General Reserves	185	
Proposed Dividend (20%)	200	
Tax on Distributed Profits	21	
		406
Surplus carried to Balance Sheet		119

You are required to prepare:

(1) Gross Value Added statement.

(2) Statement showing Application of Value Added and Reconciliation of Gross Value Added with Profit before Taxation. **5+3+2=10**

Answer:

4. (a) XBRL stands for extensible business reporting language. It is one of a family of "XML" languages which is becoming a standard means of communicating information between business and on the internet. XBRL provides major benefits in the preparation, analysis and communication of business information and is fast becoming on accepted reporting language globally. It offers major benefits to all those who have to create transmit, use or analyse such information. Let us take a closer look at the meaning of the term:

(a) Extensible: means the use can extend the application of a particular business data beyond its original intended purpose and the major advantage is that the extended use can be determined 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 firm, 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.

Answer:

4. (b) (i)

- Value of skilled employees:

$$\frac{70{,}000}{(1+0.15)^{65-62}}+\frac{70{,}000}{(1+0.15)^{65-63}}+\frac{70{,}000}{(1+0.15)^{65-64}}$$

$$=\frac{70{,}000}{(1+15)^{3}}+\frac{70{,}000}{(1+15)^{2}}+\frac{70{,}000}{(1+15)^{1}}$$

= ₹ (46,026.14 + 52,930.06 + 60,869.57)

= ₹ 1, 59,825.77

Total value of skilled employees is

= ₹ 1, 59,825.77 × 25 employees = ₹ 39,95,644.25

- Value of unskilled employees:

$$\frac{50{,}000}{(1+0.15)^{62-60}}+\frac{50{,}000}{(1+0.15)^{62-61}}$$

$$=\frac{50{,}000}{(1+0.15)^{2}}+\frac{50{,}000}{(1+0.15)^{1}}$$

= ₹ (37,807.18 +43,478.26) = ₹ 81,285.44

Total value of unskilled employees is

₹ 81,285.44 × 35 employees

= ₹ 28, 44,990.40

- Total value of Human resources (skilled and unskilled)

= ₹ 39,95,644.25 + 28,44,990.40 = ₹ 68,40,634.65

(ii) **In the books of Anand (buyer)**

Date	Particulars	Debit (₹)	Credit (₹)
29.03.2015	Equity Index Option Premium A/c To Bank A/c. (Being premium paid on equity stock options)	10,000	 10,000

31.05.2015	Profit & Loss A/c To Equity Index Stock Premium A/c. (Being premium on option written off on expiry)	10,000	 10,000
31.05.2015	Bank A/c To Profit & Loss A/c. (Being profit on exercise of option received = 1000 units × (₹ 2,100 - ₹ 1,800))	10,000	 10,000

In the books of Sahid (seller)

Date	Particulars	Debit (₹)	Credit (₹)
29.03.2015	Bank A/c To, Equity Index Stock Premium A/c. (Being premium on option collected)	10,000	 10,000
31.05.2015	Profit & Loss A/c To, Bank A/c. (Being loss on option paid)	3,00,000	 3,00,000
31.05.2015	Equity Index Option Premium A/c To, Profit & Loss A/c. (Being premium on option recognised as income)	10,000	 10,000

Answer:

4. (c) **INDIKAN LTD.**

Fair value under equity settlement = 5000 × ₹ 70 = ₹ 3,50,000

Less: Fair value under cash settlement = 4000 × ₹ 87.50 = ₹ 3,50,000

(Liability component)

(Equity component) Nil

Vesting period = 3 years

Expenses recognized for liability component:

2011-2012

Number of shares = 4000

Fair value = ₹ 91.00

Fair value of liability component: 4000 × ₹ 91.00 = ₹ 3,64,000

Vesting period = 3 years

Expenses recognized = 364000/3 = ₹ 1,21,333

2012-2013

Number of shares = 4000

Fair value = ₹ **100.10**

Fair value of liability component = 4000 × ₹ 100.10 = ₹ 4,00,400

Vesting period = 3 years. Number of years expired = 2 years

Cumulative expenses to be recognized upto 2012-13:

(400400/3) × 2 = ₹ 2,66,933

Expenses recognized in 2011-12 = ₹ 1,21,333

Expenses recognized in 2012-13 = ₹ (2,66,933 -1,21,333) = ₹ 1,45,600

2013-2014

Number of shares = 4000

Fair value = **₹ 114.11**

Fair value of liability component = 4000 × ₹ 114.11 = ₹ 4,56,440

Vesting period = 3 years. Number of years expired = 3 years

Cumulative expense to be recognized upto 2013-14 = ₹ 456440

Cumulative expense to be recognized upto 2012-13 = ₹ 2,66,933

Expense recognized in 2013-14 = ₹ (4,56,440 - 2,66,933) = ₹ 1,89,507

Employees' compensation Account

Year		₹	Year		₹
11-12	To provision for liability To ESOP outstanding	1,21,333 Nil	11-12	By Profit & Loss A/c	1,21,333
		1,21,333			1,21,333
					1,21,333
12-13	To Provision for liability To ESOP outstanding	1,45,600 Nil	12-13	By Profit & Loss A/c	1,45,600
		1,45,600			1,45,600
13-14	To Provision for liability To ESOP outstanding	1,89,507 Nil	13-14	By Profit & Loss A/c	1,89,507
		1,89,507			1,89,507

Provision for liability component A/c

Year		₹	Year		₹
11-12	To Balance c/d	1,21,333	11-12	By Employees' compensation A/c	1,21,333
		1,21,333			1,21,333
12-13	To Balance c/d	2,66,933	12-13	By Balance b/d By Employees' compensation A/c	1,21,333 1,45,600
		2,66,933			2,66,933
13-14	To Balance c/d	4,56,440	13-14	By Balance b/d By Employees' compensation A/c	2,66,933 1,89,507
		4,56,440			4,56,440

CASH SETTLEMENT:

Provision for liability component A/c

Year		₹	Year		₹
13-14	To Bank	4,56,440	13-14	By Balance c/d	4,56,440
		4,56,440			4,56,440

Answer:

4. (d) (1)

APPLICATION OF VALUE ADDED

(Amount in ₹ Lakh)

To	Pay employees: Wages, salaries & bonus Staff welfare expenses	 3818 262	 4080
To	Pay directors: Director's remuneration		 78
To	Pay Government: Excise duty Income tax -Tax on distributed profits	 145 248 21	 414
To	Pay providers of capital: Interest on 9% debenture Interest on long-term loan from Financial institution Dividend to shareholders	 144 100 200	 444
To	Provide for maintenance & expansion of the Company: Depreciation on fixed assets Transfer to general reserve Retained profit ₹ (119-63) lakh	 506 185 56	 747
			5763

(2) STATEMENT SHOWING RECONCILIATION OF TOTAL VALUE ADDED WITH PROFIT BEFORE TAXATION

(Amount in ₹ Lakh)

Profit before taxation		710
Add back: Wages, salaries and bonus Staff welfare expenses Excise duty	 3818 262 145	
Director's remuneration	78	
Interest on 9% mortgage debentures	144	
Interest on long term loan from financial institution	100	
Depreciation on fixed asset	506	5053
Total value Added		**5763**

Working notes:

Calculation of cost of bought in materials and services:	(Amount in ₹ Lakh)
Decrease in inventory of finished goods	261
Consumption of raw materials	7408
Power and lighting	1200
Other manufacturing expenses	326
Total	**9195**

SECTION E

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

5. (a) Discuss the structure of Indian Government Accounting Standards Advisory Board. 5

(b) State the scope of Indian Government Accounting Standard (IGAS)-3 on Cash Flow Statements of the Government. 5

(c) Briefly describe the role of Committee on Public Undertakings. 5

(d) Describe the process of election of Public Accounts Committee. 5

Answer:

5. (a)

Government Accounting Standards Advisory Board (GASAB) is a representative body and is represented by main stakeholders connected with accounting reforms 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 Defence Accounts
5. Member (Finance) Telecom Commission, Department of Telecom
6. Additional / Joint Secretary (Budget), Ministry of finance, Govt, of India
7. Secretary, Department of Post
8. Deputy Governor, Reserve Bank of India or his nominee
9. Director General, National Council of Applied Economic Research (NCAER)
10. President, Institute of Chartered Accountants of India (ICAI) or his nominee
11. President, Institute of Cost and Works Accountants of India or his nominee

12-15. Principal Secretary (Finance) of four States by rotation

16. Principal Director in GASAB as Member secretary.

Answer:

5. (b)

Scope of Government Accounting Standard 3 (Cash Flow Statements)

The cash flow statement should be presented as an integral part of Financial Statements of the Union and State Governments for each period for which such Financial Statements are presented. It should be prepared in accordance with the requirements of this Standard. The Financial Statements should not be described as complying with this Standard unless they comply with all its requirements. The transactions that do not require the use of cash or cash equivalents (non-cash transactions) should be excluded from a cash flow statement. Information about cash flows may be useful to users of the Government Financial Statements in assessing its cash flows and assessing compliance with legislation and regulations (including authorized budgets where appropriate). Accordingly this Standard requires Governments to present a cash flow statement.

Some activities undertaken by Government do not have direct impact on their current cash flows. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions include accounting for interest payable on provident fund deposits of employees, conversion of debt into equity of an entity. Summary and impact of such non-cash transactions should be disclosed in the notes to Cash Flow Statement forming part of the Financial Statements in a way that provides all the relevant information about these activities.

Answer:

5. (c)

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 functions of the Committee are:**

(i) to examine the reports and accounts of public undertakings.

(ii) to examine the reports of the Comptroller & Auditor General on public undertakings.

(iii) to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles end prudent commercial practices.

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

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

Answer:

5. (d)

The Committee on Public Accounts is constituted by Parliament each year for examination of accounts showing the appropriation of sums granted by Parliament for expenditure of

Government of India, the annual Finance Accounts of Government of India and such other Accounts laid before Parliament as the Committee may deem fit such as accounts of autonomous and semi-autonomous bodies (except those of Public Undertakings and Government Companies which come under the purview of the Committee on Public 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. 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. 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.