Solved
Scanner

# Appendix

## CMA Final Gr. IV (New Syllabus)

**(Solution of December 2014)**

## Paper - 18: Corporate Financial Reporting

**Chapter - 1: Evolution and Convergence of International Accounting Standards**

**2014 - Dec [1]** (a), (b)

**(a)** The given problem is based upon AS-28 i.e. Impairment of Assets.

(i) Calculation of "Value in Use" [ i.e. Present value of estimated cash flow by use of asset and residual value]

| Year | Future cash flow | Discount @ 10% rate | Discounted cash flow [₹ in lakhs] |
|---|---|---|---|
| 31.03.2012 | 40 | 0.909 | 36.36 |
| 31.03.2013 | 20 | 0.826 | 16.52 |
| 31.03.2014 | 20 | 0.751 | 15.02 |
| 31.03.2014 | 10 [Residual Value] | 0.751 | 7.51 |
| **"Value in use"** | | | **75.41** |

(ii) **Calculation of recoverable amount:** If net selling price of plant on 31.03.2014 is ₹ 50,00,000, the recoverable amount will be higher of ₹ 75.41 lakhs (value in use) and ₹ 50 lakhs(net selling price), hence recoverable amount is ₹ 75.41 lakhs.

**(b)** As per the question, IRR of the investment is 10% and investment in lease is ₹ 4,98,70,200. It means PV of minimum lease payment (MLP) from lesser point of view plus unguaranteed residual value is equal to ₹ 4,98,70,200.

P.V. of unguaranteed residual value = 2,00,000×0.751= ₹ 1,50,200

P.V. of MLP should be (4,98,70,200-1,50,200)= 4,97,20,000

(i) **Calculation of annual lease payment to the lessor:** 4,97,20,000/ 2.486 = ₹ 2,00,00,000

(ii) Calculation of unearned finance income

| | |
|---|---|
| Gross investment in lease[ 2,00,00,000 × 3] | ₹ 6,00,00,000 |
| Unguaranteed residual value | ₹ 2,00,000 |
| **Total** | **6,02,00,000** |
| *Less:* P.V. of Gross investment in lease | 4,98,70,200 |
| Unearned Finance Income | 1,03,29,800 |

**2014 - Dec [4]** (d)

**Cash Flow Statement for the year ended 31st March, 2014 (Direct Method)**

| **Particulars** | **Amount (₹ '000)** | **Amount (₹ '000)** |
|---|---|---|
| **Cash Flow From Operating Activities** | | |
| - Collection From Debtors | 36,202 | |
| *Less:* - Paid to Creditors | (19,346) | |
| - Operating Expenses Paid | (7,779) | |
| - Tax paid | (4,160) | |
| **Cash flow from Operating Activities Excluding Extraordinary items** | **4,917** | |
| *Add:* - Compensation Received in Law Suite | 550 | |
| **Net Cash Flow From Operating Activity** | | **5,467** |
| **Cash Flow from Investing Activity** | | |
| - Sale of Investment | 1,575 | |
| - Interest Received on Investment | 210 | |
| *Less:* - Purchase of Fixed Assets | (2,000) | |
| **Net Cash Flow From investing Activity** | | (215) |
| **Cash Flow From Financing Activity** | | |
| *Less:* - Redemption of Debentures | (1,000) | |
| - Interest paid on Debentures | (660) | |
| - Dividend Paid | (3,000) | |
| **Net Cash Flow From Financing Activity** | | (4,660) |
| **Net Cash Flow from All Activities** | | 592 |
| *Add:* Opening Cash & Cash Equivalents | | 1,342 |
| **Closing Cash & Cash Equivalents** | | **1,934** |

**Workings Notes:**

1. **Investment A/c**

| Particulars | Amount (₹ '000) | Particulars | Amount (₹ '000) |
|---|---|---|---|
| To Balance b/d | 2,500 | By Sales (balancing fig.) | 1,575 |
| To Profit & Loss A/c | 75 | By Balance c/d | 1,000 |
| **Total** | **2,575** | **Total** | **2,575** |

2. **Debtors A/c**

| Particulars | Amount (₹ '000) | Particulars | Amount (₹ '000) |
|---|---|---|---|
| To Balance b/d | 1,600 | By Cash (balancing fig.) | 36,202 |
| To Sales | 36,402 | By Balance c/d | 1,800 |
| **Total** | **38,002** | **Total** | **38,002** |

3. **Reserve A/c (retained earning)**

| Particulars | Amount (₹ '000) | Particulars | Amount (₹ '000) |
|---|---|---|---|
| To Dividend Paid (balancing fig.) | 2,500 | By Balance b/d | 8,300 |
| To Balance c/d | 9,460 | By Profit & Loss A/c | 4,160 |
| **Total** | **11,960** | **Total** | **12,460** |

4. **Trade Creditors A/c**

| Particulars | Amount (₹ '000) | Particulars | Amount (₹ '000) |
|---|---|---|---|
| To Cash (balancing fig.) | 19,346 | By Balance b/d | 1,025 |
| To Balance c/d | 1,217 | By Purchases | 19,538 |
| **Total** | **20,563** | **Total** | **20,563** |

5. **Operating Expenses A/c**

| Particulars | Amount (₹ '000) | Particulars | Amount (₹ '000) |
|---|---|---|---|
| To Cash (balancing fig.) | 7,779 | By Balance b/d | 218 |
| To Balance c/d | 274 | By Profit & Loss A/c | 7,835 |
| **Total** | **8,053** | **Total** | **8,053** |

6. **Fixed Assets A/c**

| Particulars | Amount (₹ '000) | Particulars | Amount (₹ '000) |
|---|---|---|---|
| To Balance b/d | 24,000 | | |
| To Purchase (balancing Fig.) | 2,000 | By Balance c/d | 26,000 |
| **Total** | **26,000** | **Total** | **26,000** |

**Note:** We are assuming that all the Purchase and sales were made on credit basis only.

**Chapter - 2: Accounting for Business Combinations**

**2014 - Dec [2]** (a), (b), (c), (d)

**(a) Objectives of buy-back:** Following are the objectives of buy back:

(i) To increase promoters holding
(ii) To increase earning per share
(iii) To change the capital structure of the company
(iv) To support shares value
(v) To thwart takeover bid
(vi) To pay surplus cash not required by the business.

**(b)** 1. **Computation of Net Assets excluding Inter-Company Investments**

| Particulars | BEE Ltd | DEE Ltd |
|---|---|---|
| Tangible Assets | 1,15,68,000 | 30,00,000 |
| Dividend Receivable[18,000 shares × ₹100 × 12%] | - | 2,16,000 |
| **Total Assets [A]** | **1,15,68,000** | **32,16,000** |
| Current Liabilities | 12,00,000 | 5,40,000 |
| Proposed Dividend | 10,80,000 | - |
| Dividend Tax | 1,08,000 | - |
| 14% Debentures | - | 18,00,000 |
| **Total Liabilities [B]** | **23,88,000** | **23,40,000** |
| **Net Assets [A-B]** | **91,80,000** | **8,76,000** |

2. **Intrinsic value of Equity Shares**

Let 'a' as the intrinsic value (Net Assets including Inter Company Investments) of Equity Shares of BEE Ltd and 'b' as the intrinsic value of Equity Shares of DEE Ltd.

a = ₹ 91, 80,000+ 1/5b …………….(1)
b = ₹ 8, 76,000+ 1/5a …………….(2)
or, b= ₹ 8,76,000+ 1/5(91,80,000 + 1/5b)
or, b= ₹ 8,76,000+ 18,36,000+ b/25
or, b-b/25 = 27,12,000
or, b= 27,12,000×25/24 = ₹ 28,25,000
Putting the value of b in equation (1), we get,
a = ₹ 91,80,000+ 1/5× 28,25,000 = ₹ 97,45,000
Intrinsic value of shares of BEE Ltd. = ₹ 97,45,000/90,000
= ₹ 108.278 approximately
Intrinsic value of shares of DEE Ltd. = ₹ 28,25,000/30,000
= ₹ 94.167 approximately

3. **Calculation of purchase consideration payable by BEE Ltd.**

| | |
|---|---|
| Value of Shares held by Outsiders in DEE Ltd. | = 24,000 × ₹ 94.167<br>= ₹ 22,60,008 |
| Shares to be issued by BEE Ltd. based on Intrinsic Value | = 22,60,000/108.278<br>= 20,872. 199 Shares |
| *Less:* Shares held by DEE Ltd. | = 18,000 shares |
| Number of Shares to be issued | = 2,872.199 shares |

4. **Calculation of Capital Reserve / Goodwill**

| **Particulars** | **Amount (₹)** |
|---|---|
| Additional shares in BEE Ltd. (2,872 Shares× ₹ 108.278) | 3,10,974 |
| Cash for fractional Shares(0.199 shares × 108.278) | 22 |
| Value of 6,000 shares held by BEE Ltd. (6000 Shares × ₹ 94.167) | 5,65,000 |
| *Add:* Investment in Shares of BEE Ltd. | 30,00,000 |
| **Total** | **38,76,000** |
| *Less:* Paid up Share Capital | 30,00,000 |
| General reserve | 6,00,000 |
| Profit and loss Account(₹ 60,000 + 2,16,000) | 2,76,000 |
| Balance of Reserves of DEE Ltd. | Nil |
| General Reserve of BEE Ltd as per Balance Sheet | 8,00,000 |
| *Less:* Reduction in Share Value held in DEE Ltd. (₹ 9,00,000 - ₹ 5,65,000) | 3,35,000 |
| **General Reserve of BEE Ltd.** | **4,65,000** |

**(c)** 1. **Computation of Purchase Consideration** **(₹ in lakhs)**

| **Particulars** | **X Ltd.** | **Y Ltd.** |
|---|---|---|
| Preference Share Holders<br>: 3,00,000 shares of ₹ 150 each<br>: 2,00,000 shares of ₹ 150 each | <br>450<br> | <br><br>300 |
| Equity Share Holders<br>: 5×8,00,000 shares of ₹ 30 each<br>: 4 × 7,50,000 shares of ₹ 30 each | <br>1,200<br> | <br><br>900 |
| **Total** | **1,650** | **1,200** |

2. **Computation of Securities Premium** **(₹ in lakhs)**

| **Particulars** | **Share Capital** | **Securities premium** | **Total** |
|---|---|---|---|
| Preference Share Capital = (3,00,000+2,00,000) = 5,00,000 shares | ₹ 100 each = 500 | at ₹ 50 each = 250 | 750 |
| Equity Share Capital = (40,00,000+30,00,000) = 70,00,000 shares | ₹ 10 each = 700 | at ₹ 20 each = 1,400 | 2,100 |
| **Total** | | **1,650** | |

3. **Issue of Debentures** **(₹ in lakhs)**

| **Particulars** | **X Ltd.** | **Y Ltd.** | **Total** |
|---|---|---|---|
| 15% debentures for 10% old debentures | [60×10%/15%] = 40 | [30×10%/15%] = 20 | 60 |

4. **Computation of Goodwill/ Capital Reserve** **(₹ in lakhs)**

| **Particulars** | **X Ltd.** | **Y Ltd.** |
|---|---|---|
| **Assets Taken Over:** | | |
| Land and Building | 550 | 400 |
| Plant and Machinery | 350 | 250 |
| Investments | 150 | 50 |
| Stock | 350 | 250 |
| Sundry Debtors | 250 | 300 |
| Bill Receivables | 50 | 50 |
| Cash and Bank | 300 | 200 |
| **Sub –Total [A]** | **2,000** | **1,500** |

| | | |
|---|---|---|
| **Liabilities Taken over:** | | |
| Debentures | 60 | 30 |
| Sundry Creditors | 270 | 120 |
| Bills Payable | 150 | 70 |
| **Sub –Total [B]** | **480** | **220** |
| Net Assets Taken over [A-B] | 1,520 | 1,280 |
| *Less:* Purchase consideration | 1,650 | 1,200 |
| Goodwill/ capital reserve | 130 | 80 |

**Balance Sheet of Z Ltd.**
**(As at 1st April 2014)**

| | **Particulars** | **Note No.** | **Amount (₹ in lakhs)** |
|---|---|---|---|
| I | Equity and Liabilities | | |
| | (1) Shareholder's Funds | | |
| | (a) Share Capital | 1 | 1,200 |
| | (b) Reserves and Surplus | 2 | 1,560 |
| | (2) Non-current Liabilities: Long term Borrowings | 3 | 60 |
| | (3) Current Liabilities | 4 | 610 |
| | (4) Substance Account | | 200 |
| | **Total** | | **3,630** |
| II | Assets | | |
| | (1) Non-current Assets | | |
| | (a) Fixed Assets | | |
| | (i) Tangible Assets | 5 | 1,550 |
| | (ii) Intangible Assets | | 130 |
| | (b) Non current investment | 6 | 200 |
| | (2) Current Assets | 7 | 1,750 |
| | **Total** | | **3,630** |

**[Relevant Notes]**

1. **Share Capital**

| **Particulars** | **Amount (₹ in Lakhs)** |
|---|---|
| Authorized, issued, subscribed and paid up capital: | |
| (a) 70,00,000 equity shares of ₹ 10 each | 700 |
| (b) 5,00,000 preference shares of ₹ 100 each | 500 |
| **Total** | **1,200** |

2. **Reserves and Surplus**

| **Particulars** | **Amount (₹ in Lakhs)** |
|---|---|
| Securities Premium | 650 |
| Revaluation Reserve (200+150) | 350 |
| General Reserve (170+150) | 320 |
| Profit and Loss A/c [50+30] | 80 |
| Capital Reserve | 80 |
| **Total** | **1,480** |

3. **Non Current Liabilities**

| **Particulars** | **Amount (₹ in Lakhs)** |
|---|---|
| 15% Debentures of ₹ 100 | 60 |
| **Total** | **60** |

4. **Other Current Liabilities**

| **Particulars** | **Amount (₹ in Lakhs)** |
|---|---|
| Sundry Creditors(270+120) | 390 |
| Bills payable(150+70) | 220 |
| **Total** | **610** |

5. **Tangible Fixed Assets:**

| **Particulars** | **Amount (₹ in Lakhs)** |
|---|---|
| (a) Plant and Machinery [350+250] | 600 |
| (b) Land and Building [550+400] | 950 |
| **Total** | **1,550** |

6. **Non Current Investments**

| **Particulars** | **Amount (₹ in Lakhs)** |
|---|---|
| Investment [150+50] | 200 |
| **Total** | **200** |

7. **Other Current Assets**

| **Particulars** | **Amount (₹ in Lakhs)** |
|---|---|
| (a) Stock [350+250] | 600 |
| (b) Sundry Debtors [250+300] | 550 |
| (c) Bills receivable [50+50] | 100 |
| (d) Cash and Bank [300+200] | 500 |
| **Total** | **1,750** |

**Note:** Tentative figure taken.

**(d)** 1. **Computation of Future Maintainable Profits (Operating Profits after Tax)** **[₹ in Lakhs]**

| **Particulars** | **KAY Ltd.** | **MINAT Ltd.** |
|---|---|---|
| Total profit | 78+75+90 = 243 | 27+24+33.60 = 84.6 |
| Average Annual Profit (Total profit/3 years) | 81 | 28.20 |
| *Less:* Income from Non-Trade Investment [6% of ₹ 60] | (3.6) | - |
| **Future Maintainable Profit** | **77.4** | **28.20** |

2. **Computation of Net Trading Assets (Operating Profits after Tax)**

**[₹ in Lakhs]**

| **Particulars** | **KAY Ltd.** | **MINAT Ltd.** |
|---|---|---|
| Fixed Assets(Book Value) | 240 | 60 |
| Stock(Fair Value given) | 122.40 | 85.20 |
| Debtors | 102 | 36 |
| Cash and Cash equivalent | 18 | 6 |
| **Total Assets** | **482.40** | **187.20** |
| *Less:* Liabilities-creditors | (60) | (30) |
| **Net Trading Assets** | **422.40** | **157.20** |

**Note:** Investment in 6% Tax free GP Notes are assumed to be Non-Trade Investment.

3. **Computation of Goodwill** **[₹ in Lakhs]**

| **Particulars** | **KAY Ltd.** | **MINAT Ltd.** |
|---|---|---|
| (a) Future Maintainable Profits after Tax | 77.40 | 28.20 |
| (b) Net Trading Assets | 422.40 | 157.20 |
| (c) Nominal Profits [b× Normal Rate of Return i.e.15%] | 63.36 | 23.58 |
| (d) Super Profit(a-c) | 14.04 | 4.62 |
| **Goodwill [4 years purchase of Super profits]** | **56.16** | **18.48** |

4. **Computation of purchase Consideration and Exchange ratio**

**[₹ in Lakhs]**

| **Particulars** | **KAY Ltd.** | **MINAT Ltd.** |
|---|---|---|
| Net Trading Assets (W.N.3) | 422.40 | 157.20 |
| *Add:* Non- Trading Investment | 60.00 | - |
| *Add:* Goodwill (W.N.4) | 56.16 | 18.48 |
| Purchase Consideration | 538.56 | 175.68 |
| Face Value Per Share | 10 | 10 |
| Number of shares to be issued [Purchase Consideration / Issue price per Share] | 53.856 | 17.568 |
| Number of Shares Outstanding | 30 | 12 |
| Exchange Ratio [i.e. No. of Shares of Buying Company per Share of Selling Company] | 1.7952 | 1.464 |

5. **Balance Sheet of INDUGA Ltd. as at 1st April 2014 [After Amalgamation]** **[₹ in Lakhs]**

| | Particulars | Note No. | Amount |
|---|---|---|---|
| **I** | **Equity and Liabilities** | | |
| | (1) Shareholder's Funds | | |
| | Share Capital | 1 | 714.24 |
| | (2) Current Liabilities | | |
| | Trade Payable- Creditors [₹ 60+30 ] | | 90.00 |
| | **Total** | | **804.24** |
| **II** | **Assets** | | |
| | (1) Non-current Assets | | |
| | (a) Fixed Assets | | |
| | (i) Tangible Assets [₹ 240+60 ] | | 300 |
| | (ii) Intangible Assets –Goodwill [₹ 56.16+18.48] | | 74.64 |
| | (b) Non current investment | | 60 |
| | (2) Current Assets | | |
| | (a) Inventories [122.40+85.20] | | 207.6 |
| | (b) Trade Receivables [102+36] | | 138 |
| | (c) Cash and Cash equivalent [8+6] | | 24 |
| | **Total** | | **804.24** |

**[Relevant Note]**

1. **Share Capital**

| **Particulars** | **Amount (₹ in Lakhs)** |
|---|---|
| Authorized Capital: 80,00,000 shares @10 each | 800 |
| Issued, subscribed and paid up capital:71,42,400 equity Shares of ₹ 10 each(All the above shares issued for Non-Cash Consideration pursuant to a scheme of amalgamation) | 714.24 |
| **Total** | **714.24** |

**Chapter - 3: Group Financial Statements**

**2014 - Dec [3]** (a), (b), (c)

**(a) Analysis of Reserve & Surplus of Sintex Ltd.**

**Profit & Loss A/c (Group Interest 70%, Minority Interest 30%)**

| Particulars | Pre-acquisition (Capital Profit) | Post-acquisition (Revenue Profit) | Total |
|---|---|---|---|
| Balance in Profit & loss A/c (given)<br>Timing Ratio (Pre-acquisition: Post-acquisition) =1:1 | (1,00,000) | 2,37,500 | 1,37,500 |
| Adjusted into Timing Ratio | 50,000 | (50,000) | |
| **Total** | **(50,000)** | **1,87,500** | **1,37,500** |
| Group Interest @ 70% | (35,000) | 1,31,250 | 1,37,500 |
| Minority Interest @ 30% | (15,000) | 56,250 | |

**Analysis of Reserve & Surplus of Rolex Ltd.**

**Profit & Loss A/c (Group Interest 90%, Minority Interest 10%)**

| Particulars | Pre-acquisition (Capital Profit) | Post-acquisition (Revenue Profit) | Total |
|---|---|---|---|
| Balance in Profit & loss A/c (given) | | (1,20,000) | (1,20,000) |
| Adjusted in to Timing Ratio (Pre-acquisition: Post- acquisition)=1:1 | 60,000 | (60,000) | |
| **Total** | **(60,000)** | **(60,000)** | **(1,20,000)** |
| Group Interest @ 90% | (54,000) | (54,000) | (1,20,000) |
| Minority Interest @ 10% | (6,000) | (6,000) | |

**(b)**

1. **Analysis of Reserve & Surplus of Winter Ltd.**

**(a) General Reserve**

| Particulars | Pre-acquisition | Post-acquisition | Total |
|---|---|---|---|
| Balance (given)<br>*Less:* Bonus issued | 4,00,000<br>(4,00,000) | 4,40,000 | 8,40,000 |
| **Total** | **-** | **4,40,000** | **8,40,000** |

| | | | |
|---|---|---|---|
| Group Interest @ 75% | - | 3,30,000 | |
| Minority Interest @ 25% | | 1,10,000 | |

**(b) Profit & Loss A/c**

| Particulars | Pre-acquisition | Post- acquisition | Total |
|---|---|---|---|
| Balance (given) | 6,00,000 | 6,00,000 | 12,00,000 |
| *Less:* Preference Dividend | | (76,000) | |
| *Less:* Equity Dividend | | (4,00,000) | |
| Adjustment for dividend of F/y 12-13 | (4,00,000) | 4,00,000 | |
| **Total** | **2,00,000** | **5,24,000** | **7,24,000** |
| Group Interest @ 75% | 1,50,000 | 3,93,000 | |
| Minority Interest @ 25% | 50,000 | 1,31,000 | |

**(c) Gain /Loss on Revaluation of Assets**

- loss on Revaluation of Machinery = (2,00,000) Capital Profit
- Depreciation Gain on Revaluation = 40,000 Revenue Profit

**(d) Consolidation of Balance sheet**

| Total | Total | Minority interest | Pre-acquisition | Post-acquisition | |
|---|---|---|---|---|---|
| **(Holding 75%, Minority Interest 25%)** | | | | **General Reserve** | **P&L A/c** |
| Equity Capital (4000000+Bonus 400000) | 44,00,000 | 11,00,000 | 33,00,000 | | |
| Preference Share Capital | 7,60,000 | 4,75,000 | 2,85,000 | | |
| General Reserves | 4,40,000 | 1,10,000 | | 3,30,000 | |
| Profit and Loss A/c | 7,24,000 | 1,81,000 | 1,50,000 | | 3,93,000 |
| Proposed Equity Dividend | 4,00,000 | 1,00,000 | | | 3,00,000 |
| Proposed Preference Dividend | 76,000 | 47,500 | | | 28,500 |
| Loss on revaluation of Machinery | (2,00,000) | (50,000) | (1,50,000) | | |

| | | | | | |
|---|---|---|---|---|---|
| Depreciation gain on revaluation loss | 40,000 | 10,000 | | | 30,000 |
| Stock Reserve (240000-200000)*40% | (16,000) | (4,000) | | | (12,000) |
| Minority Interest | | 19,69,500 | | | |
| Total (Cr.) | | | 35,85,000 | 3,30,000 | 7,39,500 |
| Cost of Investment (Dr.) (Note 1) | | | (39,60,000) | | |
| Parent balance (Note 1) | | | | 11,00,000 | 2,60,000 |
| For consolidated Balance Sheet | | | (3,75,000) Goodwill | 14,30,000 | 9,99,500 |

**Notes:** 1 Parents P&L and cost of Investment

| **Particulars** | | **Investment** | **P&L A/c** |
|---|---|---|---|
| Balance as per Balance Sheet | | | |
| Equity Shares (19,00,000+16,00,000) | 35,00,000 | | |
| Preference shares | 6,20,000 | 41,20,000 | 20,00,000 |
| *Less:* - Dividend out of Pre-acquisition Profit | | (1,60,000) | (1,60,000) |
| - Proposed equity Dividend | | | (14,40,000) |
| - Proposed Preference Dividend | | | (1,40,000) |
| For Consolidated Balance Sheet | | 39,60,000 | 2,60,000 |

**(e) Consolidated Balance Sheet of Summer Ltd. and its subsidiary as at 31.03.2014**

| | **Particulars as at 31st March** | **Note** | **This year** | **Prev. year** |
|---|---|---|---|---|
| I | Equity And Liabilities | | | |
| | 1. Shareholders Funds: | | | |
| | (a) Share Capital | 1 | 1,10,00,000 | |
| | (b) Reserves & Surplus | 2 | 24,29,500 | |
| | 2. Minority Interest | | 19,69,500 | |

| | | | | |
|---|---|---|---|---|
| | 3. Current Liabilities: | | | |
| | (a) Trade payable | 3 | 18,50,000 | |
| | (b) Other Current Liabilities –(Bank OD) | | 3,80,000 | |
| | (c) Short term Provisions – Proposed Dividend(1440+140) | | 15,80,000 | |
| | **Total** | | **1,92,09,000** | |
| II | Assets | | | |
| | 1. Non-Current Assets | | | |
| | (a) Fixed Assets | | | |
| | (i) Tangible Assets | 4 | 87,40,000 | |
| | (ii) Intangible Assets – Goodwill | 5 | 18,75,000 | |
| | 2. (b) Non-Current Investments | | | |
| | Current Assets | | 19,80,000 | |
| | (i) Inventories | | 23,24,000 | |
| | (ii) Trade Receivables | 6 | 34,20,000 | |
| | (iii) Cash & Cash Equivalents | | 8,70,000 | |
| | **Total** | | **1,92,09,000** | |

**Notes to the Balance Sheet**

**Note: 1. Share Capital**

Authorised: ……….Equity Shares of ₹ 10 each

Issued, Subscribed & Paid up

| | |
|---|---|
| : 9,60,000 Equity Shares of ₹ 10 each | 96,00,000 |
| : 1,40,000 10% Preference Shares of ₹ 10 each | 14,00,000 |
| **Total** | **1,10,00,000** |

**Note: 2. Reserves and Surplus**

| | | |
|---|---|---|
| General Reserve | | 14,30,000 |
| Surplus | | 9,99,500 |
| | **Total** | **24,29,500** |

**Note: 3. Trade Payables**

| | | |
|---|---|---|
| Sundry Creditors | | 18,20,000 |
| Bills Payables | | 30,000 |
| | **Total** | **18,50,000** |

**Note: 4. Tangible Assets**

| | | |
|---|---|---|
| Plant and Machinery | | 34,00,000 |
| Motor Vehicles | | 32,40,000 |
| Furniture | | 21,00,000 |
| | **Total** | **87,40,000** |

**Note: 5. Intangible Assets**

| | | |
|---|---|---|
| Goodwill on Consolidation | | 3,75,000 |
| Goodwill | | 15,00,000 |
| | **Total** | **18,75,000** |

**Note: 6. Trade Receivables**

| | | |
|---|---|---|
| Debtors | | 34,20,000 |
| Bills Receivable | | Nil |
| | **Total** | **34,20,000** |

**(c)**

**1. Analysis of Reserve & Surplus of B Ltd.**

**(a) Capital reserve**

| | | |
|---|---|---|
| Balance as on date of consolidation | 55,00,000 | |
| *Less:* Bonus issue | 50,00,000 | |
| **Corrected balance** | **5,00,000** | (whole amount is Capital Profit) |

**(b) Revaluation of Assets:**

Loss(5,00,000) = Capital Profit

**(c) General Reserve** = 5,00,000 (whole amount is Capital Profit)

**(d) Profit & loss A/c**

| | | |
|---|---|---|
| Balance as on date of consolidation | 18,00,000 | |
| *Add:* Interest on loan | 10,000 | |
| **Corrected balance** | **18,10,000** | |
| Balance as on 01.04.2013 | 2,10,000 | (Capital Profit) |
| Up to date of acquisition | 16,00,000*6/12 = 8,00,000 | (Capital Profit) |
| Acquisition to Consolidation | 16,00,000*6/12 = 8,00,000 | (Revenue Profit) |

Total Capital profit 2,10,000 + 8,00,000 = 10,10,000

2. **Consolidation of Balances**

| **Particulars** | **Total** | **Minority interest** | **Pre-acquisition** | **Post- acquisition** | |
|---|---|---|---|---|---|
| | | | | **Gen. res.** | **P&L a/c** |
| Equity capital (1,00,00,000+bonus 50,00,000) | 1,50,00,000 | 30,00,000 | 1,20,00,000 | | |
| General reserves | 5,00,000 | 1,00,000 | 4,00,000 | | |
| Profit & loss a/c | 18,10,000 | 3,62,000 | 8,08,000 | | 6,40,000 |
| Capital reserve | 5,00,000 | 1,00,000 | 4,00,000 | | |
| Loss on revaluation of assets | (5,00,000) | (1,00,000) | (4,00,000) | | |
| Minority interest | | 34,62,000 | | | |
| Total (Cr.) | | | 1,32,08,000 | | 6,40,000 |
| Cost of investment (Dr.) | | | (1,70,00,000) | | |
| Parent's Balances | | | | 30,00,000 | 38,20,000 |
| For consolidated balance sheet | | 34,62,000 | (37,92,000) Goodwill | 30,00,000 | 44,60,000 |

3. **Consolidated Balance sheet balance sheet of A Ltd. and its subsidiary B Ltd. as 31.03.2014**

| | Particulars as at 31st March | Note | This Yr. | Prev. Yr. |
|---|---|---|---|---|
| I | Equity And Liabilities | | | |
| | 1. Shareholders Funds: | | | |
| | (a) Share Capital | 1 | 3,00,00,000 | |
| | (b) Reserves & Surplus | 2 | 74,60,000 | |
| | 2. Minority Interest | | 34,62,000 | |
| | 3. Current Liabilities: | | | |
| | Trade payable | 3 | 26,10,000 | |
| | **Total** | | **4,35,32,000** | |
| II | Assets | | | |
| | 1. Non-Current Assets | | | |
| | Fixed Assets | | | |
| | (i) Tangible Assets (1,50,00,000 +1,44,70,000 - 5,00,000) | | 2,89,70,000 | |
| | (ii) Intangible Assets – Goodwill | | 37,92,000 | |
| | 2. Current Assets | | | |
| | (i) Inventories | | 60,00,000 | |
| | (ii) Trade Receivables | 4 | 43,70,000 | |
| | (iii) Cash & Cash Equivalents | | 4,00,000 | |
| | **Total** | | **4,35,32,000** | |

Contingent liability for bills discounted 60,000

**Notes to the Balance Sheet**

1. **Share capital**

Authorised ……………..

Issued, Subscribed & paid up 3,00,000 Equity shares of ₹ 100 each 3,00,00,000

2. **Reserve & Surplus**

| | |
|---|---|
| Other Reserves | 30,00,000 |
| Surplus | 44,60,000 |
| **Total** | **74,60,000** |

3. **Trade Payables**

| | |
|---|---|
| Sundry Creditors | 24,90,000 |
| Bills payables | 1,20,000 |
| **Total** | **26,10,000** |

4. **Trade Receivables**

| | |
|---|---|
| Sundry debtors | 43,00,000 |
| Bills Receivables | 70,000 |
| **Total** | **43,70,000** |

**Note:** fixed assets have been revalued for the purpose of consolidation and the depreciation on the revaluation loss has been ignored as it specially stated in the question.

**Chapter - 6: Share Based Payments**

**2014 - Dec [4]** (c)

1. **Computation of Expenses to be recognized under Stock Appreciation Rights(SAR)**

**(a) Year 2011-12**

| | |
|---|---|
| Total Number of Employees as on 01.04.2011 | 400 |
| Number of employees expected to be eligible(400-10) × 0.98 × 0.98 | 374.556 |
| Number of SAR expected to vest= (374.556 Employees × 100 shares) | 37,456 |
| Total Fair Value of Options Expected to vest= 37,456 Shares × Fair Value of SAR ₹ 21 per shares | ₹ 7,86,576 |
| Vesting Period | 3 Years |
| **Value of SAR recognized as Expense in the Year 2011-12 = 7,86,576/3 years** | **₹ 2,62,192** |

**(b) Year 2012-13**

| | |
|---|---|
| Number of SAR expected to vest = [400-10-5] (Employees ×.97× 100 shares) | 37,345 |
| Total Fair Value of Options Expected to vest= 37,345 Shares× Fair Value of SAR ₹ 23 per shares | ₹ 8,58,935 |
| Vesting Period | 3 years |
| Number of years expired | 2 years |
| Cumulative Value of SAR to be recognized as Expenses in 2011-12 and 2012-13 [8,58,935 × 2 ÷ 3] | ₹ 5,72,623 |

| | |
|---|---|
| Value of SAR already recognized as Expense in the Year 2011-12 | ₹ 2,62,192 |
| **Value of SAR already recognized as Expense in the Year 2012-13** | **₹ 3,10,431** |

**(c) Year 2013-14**

| | |
|---|---|
| Number of SAR actually vested= [400-10-5-3] Employees × 100 shares per Employee | 38,200 |
| Total Fair Value of SAR to be recognized as Expenses= 38,200 Shares × Fair Value of SAR ₹ 24 per shares | ₹ 9,16,800 |
| *Less:* Value of SAR already recognized earlier in F.Y. 2011-12 & 2012-13 | ₹ 5,72,623 |
| **Value of SAR already recognized as Expense in the Year 2013-14** | **₹ 3,44,177** |

**(d) Year 2014-15**

| | |
|---|---|
| Cash Payment(38,200 Shares× Intrinsic Value of SAR per share ₹ 25) | 9,55,000 |
| *Less:* Value of SAR recognized as expense in books | 9,16,800 |
| **Value of SAR recognized as Expense in the Year 2014-15** | **₹ 38,200** |

2. **Provision for Stock Appreciation Right A/c**

| **Year** | **Particulars** | **₹** | **Particulars** | **₹** |
|---|---|---|---|---|
| 2011-12 | To balance c/d | 2,62,192 | By Employees' Compensation A/c | 2,62,192 |
| | **Total** | **2,62,192** | **Total** | **2,62,192** |
| 2012-13 | To Balance c/d | 5,72,623 | By Balance b/d<br>By Employees' Compensation A/c | 2,62,192<br>3,10,431 |
| | **Total** | **5,72,623** | **Total** | **5,72,623** |
| 2013-14 | To Balance c/d | 9,16,800 | By Balance c/d<br>By Employees' Compensation A/c | 5,72,623<br>3,44,177 |
| | **Total** | **9,16,800** | **Total** | **9,16,800** |
| 2014-15 | To Bank (38,200×25) | 9,55,000 | By Balance c/d<br>By Employees' Compensation A/c | 9,16,800<br>38,200 |
| | **Total** | **9,55,000** | **Total** | **9,55,000** |

**Note:** "Provision for Stock Appreciation Right by Fair value A/c" is a provision and not a liability. It should be disclosed under Current Liabilities and not under Share capital/ reserves.

**Chapter - 7: Voluntary Disclosures**

**2014 - Dec [4]** (a), (b)

(a) (i) **Records to be maintained:** Merchant Bankers are required to maintain the following books of account and records and documents:
- (a) Copy of Balance Sheet as at end of each accounting period;
- (b) Copy of Profit and Loss Account for the period noted above;
- (c) Copy of Auditor's Report on the Accounts for that period;
- (d) Statement of Financial Position.

(ii) **Period of Maintenance:** Merchant Bankers are required to preserve the books of account and other records and documents maintained for a minimum period of five years.

(iii) **Intimation of SEBI:** Merchant Bankers are required to intimate to the Board, the place of maintenance of books of accounts, records and documents.

(iv) **Furnishing of Accounts to SEBI:** After each accounting year, Merchant Bankers are required to furnish copies of the Balance Sheet, Profit and Loss Account and other documents to SEBI. The documents and financial statements may relate to any of the five preceding financial years.

**(b)** **If net is settled in cash**

| Date | | Particulars | Amt. (₹) | |
|---|---|---|---|---|
| (i) | 01-02-2013 | No entry is to be passed because fair value of derivative is zero and no cash is paid or received. | | |
| (ii) | 31.12.2013 | Forward Contract (Asset) A/c Dr.<br>To Profit and Loss A/c<br>(Gain recorded due to increase in fair value of the forward contract) | 6,300 | 6,300 |
| (iii) | 31.01.2014 | Profit and Loss A/c Dr.<br>To Forward Contract (Asset) A/c<br>(Loss recorded due to decrease in fair value of the forward contract) | 4,300 | 4,300 |

| | | | | |
|---|---|---|---|---|
| (iv) | | Cash A/c Dr.<br>To Forward Contract (Asset) A/c<br>(Being forward contract settled in cash) | 2,000 | 2,000 |

If net is settled by delivery of shares

First three entries will be same. Entry no. (iv) will change as under:

Equity A/c Dr. 2,000

To Forward Contract (Asset) A/c 2,000

(Being forward contract settled by delivery of shares)

**Chapter - 9: Government Accounting in India**

**2014 - Dec [5]** (a), (b), (c), (d)

**(a)** (i) The mass of the Government accounts being on cash basis is kept on Single Entry. There is, however, a portion of the accounts which is kept on the Double Entry System, the main purpose of which is to bring out by a more scientific method the balance of accounts in regard to which Government acts as banker or remitter, or borrower or lender. Such balances are, of course, worked out in the subsidiary accounts of single entry compilations as well but their accuracy can be guaranteed only by a periodical verification with the balance brought out in the double entry accounts.

(ii) Business and merchant accounting methods are different than government accounting system because government accounting system is ruling over the nation and keeps various departments i.e. production, service utility or entertainment industry etc. The operations of department of government some times include under talking of a commercial or quasi-commercial character and industrial factory or a store. It is still necessary that the financial results of the undertaking should be expressed in the normal commercial form so that the cost of the services or undertaking may be accurately known. In the government account there are few problems affected adversely. In the case of central and state government transaction communication procedure, bank accounts and uniformity are improper. In the paper it suggested Central and state government should adopt it fully computerized accounting system in routine procedure of all transactions and adopted accounting system should be familiar with global accounting standards. Improvement programs i.e. symposium, seminar is helpful for sustaining the accounting system. Graduate level accounting syllabus should be modified as per government accounting procedure and methods.

**(b)** (i) Government Accounting Standards Advisory Board (GASAB) has been constituted by Comptroller and Auditor General of India (CAG), with the support of Government of India through a notification dated 12th August, 2002.

(ii) The decision to set-up GASAB has been taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace with the International trends.

(iii) The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending instead of just identifying resources for public scheme funding.

(iv) The accounting systems, the world over, are being revisited with an emphasis on transition from rule to principle based standards and migration from cash to accrual based system of accounting.

(v) GASAB, as a nodal advisory body in India, is taking similar action to establish and improve standards of government accounting and financial reporting and enhance accountability mechanisms.

**(c)** Under section 10 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, the CAG shall be responsible:

(a) for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and

(b) for **keeping such accounts** in relation to any of the matters specified in clause (a) as may be necessary;

Provided that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for compiling:

(i) the said accounts of the Union (either at once or gradually by the issue of several orders); or

(ii) the accounts of any particular services or departments of the Union;

Provided further that the Governor of a State with the previous approval of the President and after consultation with Comptroller and Auditor General, by order, relieve him from the responsibility for compiling:

- the said accounts of the State (either at once or gradually by the issue of several orders); or
- the accounts of any particular services or departments of the State;

  Provided also that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for keeping the accounts of any particular class or character.

**(d)** 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 associated with the committee. This system of election ensures that each Party/Group is represented on the committee in proportion to its respective strength in the two Houses.

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.

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