

FINAL EXAMINATION

June 2018

P-17(CFR)
Syllabus 2016

Corporate Financial Reporting

Time Allowed: 3 Hours

Full Marks: 100

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

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

Both the sections are to be answered subject to instructions given against each.

[All working must form part of your answer.]

SECTION – A

Answer the following questions.

1. Choose the most appropriate answer from the four alternatives given: (1 marks for right choice & 1 mark for justification). 2×10=20

(i) A firm values goodwill under 'Capitalisation of Profits' method. Average profit of the firm for past 4 years has been determined at ₹ 1,00,000 (before tax). Capital employed in the business is ₹ 4,80,000 and its normal rate of return is 12%. Tax rate is 28% on average. Value of Goodwill based on capitalisation of average profit will be:

- (A) ₹ 1,20,000
(B) ₹ 6,00,000
(C) ₹ 5,00,000
(D) ₹ 4,80,000

(ii) Biomed International Ltd. is developing a new production process. During the financial year ending 31st March, 2017, the total expenditure incurred was ₹ 50 lakhs. This process met the criteria for recognition as an intangible asset on 1st December, 2016. Expenditure incurred till this date was ₹ 22 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2018 was ₹ 80 lakhs. As at 31st March, 2018, the recoverable amount of knowhow embodied in the process is estimated to be ₹ 72 lakhs.

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This includes estimates of future cash outflows as well as inflows. The amount of impairment loss for the year ended 31st March, 2018 is

- (A) ₹ 80 lakhs
(B) ₹ 36 lakhs
(C) ₹ 28 lakhs
(D) ₹ 72 lakhs
- (iii) AB Ltd. holds 20% share of CD Ltd. at a cost of ₹ 10 Lakh as on 31.3.2018. The Reserves and Surplus of CD Ltd. on that date was ₹ 25 Lakh. For the year ended 31.3.2018 CD Ltd. made a profit of ₹ 2,00,000 and distributed ₹ 1,00,000 as Dividend. The value of Investment of AB Ltd in CD Ltd as at 31.3.2018 will be shown as
- (A) ₹ 10 lakhs
(B) ₹ 15.40 lakhs
(C) ₹ 15.20 lakhs
(D) ₹ 15.60 lakhs
- (iv) The following data apply to 'X' Ltd.'s defined benefit pension plan for the year ended 31.03.18:

₹

• Benefits paid	2,00,000
• Employer contribution	2,80,000
• Fair market value of plan assets on 31.03.18	11,40,000
• Fair market value of plan assets as on 31.03.17	8,00,000

The amount of actual return of plan assets is

- (A) ₹ 2,80,000
(B) ₹ 2,60,000
(C) ₹ 2,00,000
(D) ₹ 4,60,000

(v) On 1st December, 2017, Gruh Construction Company Limited undertook a contract to construct a building for ₹ 108 lakhs. On 31st March, 2018 the company found that it had already spent ₹ 83.99 lakhs on the construction. A prudent estimate of additional cost for completion was ₹ 36.01 lakhs. The amount of the provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2018 based on AS 7 "Accounting for Construction Contracts" is

- (A) ₹ 13.01 lakhs
- (B) ₹ 120.00 lakhs
- (C) ₹ 12.00 lakhs
- (D) ₹ 36.01 lakhs

(vi) ABC Ltd. has equity capital of ₹ 40,00,000 consisting of fully paid equity shares of ₹10 each. The net profit for the year 2017-18 was ₹ 60,00,000. It has also issued 36,000, 10% convertible debentures of ₹ 50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. The diluted earnings of 2017-18 are

- (A) ₹ 61,80,000
- (B) ₹ 61,26,000
- (C) ₹ 60,00,000
- (D) ₹ 62,34,000

(vii) A Company takes a Machinery on lease for a term of 6 years at a lease rent of ₹ 4,00,000 p.a. payable at end of each year with guaranteed and unguaranteed residual value of ₹ 3,00,000. The gross investment will be

- (A) ₹ 24,00,000
- (B) ₹ 7,00,000
- (C) ₹ 1,00,000
- (D) ₹ 27,00,000

(viii) On 1, April, 2017 Mark Ltd. acquired Mask Ltd. by using swap ratio based on EPS of two companies. The Earnings after Tax of 2016-17 of Mark Ltd. was ₹ 2,000 lakh and that of Mask Ltd. was ₹ 800 lakh. What is the EPS after merger if shares outstanding were 200 lakhs and 100 lakhs for Mark Ltd. and Mask Ltd. respectively?

- (A) ₹ 10
- (B) ₹ 9.33
- (C) ₹ 6.67
- (D) None of the above

(ix) A factory started activities on 1st April.

- Raw materials purchased during April = 80000 kgs. at ₹ 12 (out of which Excise duty = ₹ 2 per kg.). Stock on hand as on 30th April = 5000 kgs.
- Production during April = 14000 units (of which 10000 units were sold). In addition to the production, 1000 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).
- Wages and Production Overheads = ₹ 30 per completed unit.
- Selling Price = ₹ 110 per unit (of which Excise Duty is ₹ 10 per unit)

Value of closing stock on 30th April will be

- (A) ₹ 3,60,000
- (B) ₹ 4,10,000
- (C) ₹ 4,78,000
- (D) ₹ 4,28,000

(x) Kaa Ltd. absorbs Baa Ltd. and shares are issued by Kaa Ltd. using swap ratio 3:7. The face value of each share is ₹ 10 for both the companies. The intrinsic value of each shares of Kaa Ltd. is ₹ 14. Total purchase consideration is equal to

- (A) ₹ 4,20,000
- (B) ₹ 6,82,000
- (C) ₹ 3,78,000
- (D) ₹ 2,70,000

SECTION – B

Answer any five questions out of seven questions.

2. (a) Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing Balance	500 units
	₹ per unit
Cost price including GST	200
GST (Input credit is receivable on the GST paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150
Finished Goods Y	
Closing Balance	1200 units
	₹ per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20000 units.

Calculate the value of the closing stock, when

- (i) Realizable Value of the Finished Goods Y is ₹ 440 and Realizable Expenses ₹ 40
(ii) Realizable Value of the Finished Goods Y is ₹ 330 and Realizable Expenses ₹ 30

4+4=8

Please Turn Over

- (b) The Chief Accountant of STOCK Ltd. gives the following data regarding its six segments:

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

Identify the Reportable Segments as per AS-17.

8

3. (a) From the given information, you are required to compute the Deferred Tax Assets and Deferred Tax Liability for Ramanujam Limited as on 31st March 2018. 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.

8

(b) What are the objectives and scopes of Ind AS-1–Presentation of Financial statements?

A Company made a Profit of ₹ 15 lakhs by selling a portion of vacant factory land and in the same year lost ₹ 5 lakhs due to a Fire, which destroyed a part of Factory Shed, which was not in use. The Company Accountant wanted to set off the loss of ₹ 5 lakhs against the Profit on sale of land. Advise whether it would be correct as per Ind AS-1. 8

4. The summarized Balance Sheets of R. Ltd. and P. Ltd. for the year ending on 31.03.2018 are as under:

	R. Ltd.	P. Ltd.		R. Ltd.	P. Ltd.
	₹	₹		₹	₹
Equity share Capital (in shares of ₹ 10 each)	24,00,000	12,00,000	Fixed Assets	55,00,000	27,00,000
8% Preference Share Capital (in shares of ₹ 10 each)	8,00,000		Current Assets	25,00,000	23,00,000
10% Preference Share Capital (in shares of ₹ 10 each)		4,00,000			
Reserves	30,00,000	24,00,000			
Current Liabilities	18,00,000	10,00,000			
	80,00,000	50,00,000		80,00,000	50,00,000

The following information are provided

			R. Ltd. ₹	P. Ltd. ₹
(1)	(a)	Profit before tax	10,64,000	4,80,000
	(b)	Taxation	4,00,000	2,00,000
	(c)	Preference dividend	64,000	40,000
	(d)	Equity dividend	2,88,000	1,92,000

- (2) The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.
- (3) R. Ltd. proposes to absorb P. Ltd. as on 31.03.2018. The terms of absorption are as under:
- Preference shareholders of P. Ltd. will receive 8% preference shares of R. Ltd. sufficient to increase the income of preference shareholders of P. Ltd. by 10%.
 - The equity shareholders of P. Ltd. will receive equity share of R. Ltd. on the following basis:
 - The equity shares of P. Ltd. will be valued by applying to the earnings per share of P. Ltd. 75% of price earnings ratio of R. Ltd. based on the results of 2017-18 of both the companies.
 - The market price of equity shares of R. Ltd. is ₹ 40 per share.
 - The number of shares to be issued to the equity shareholders of P. Ltd. will be based on the above market value.
 - In addition to equity shares, 8% preference shares of R. Ltd. will be issued to the equity shareholders of P. Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2017-18.

- (4) The assets and liabilities of P. Ltd. as on 31.03.2017 are revalued by professional valuer as under:

	Increased by ₹	Decreased by ₹
Fixed Assets	1,00,000	-
Current Assets	-	2,00,000
Current Liabilities	-	40,000

- (5) For the next two years, no increase in the rate of equity dividend is expected. You are required to:
- Set out in detail the purchase consideration.
 - Prepare the Balance Sheet as on 31.03.2017 as per Schedule III after absorption.

Note: Journal entries are not required.

16

5. The following are the Balance Sheets of A Ltd. and its subsidiary company B Ltd. as at 31.03.2018

Particulars	A Ltd. (₹ in Lakh)	B Ltd. (₹ in Lakh)
I EQUITY AND LIABILITIES		
1. Share holders Funds		
(a) Share Capital:		
(i) Equity Share Capital of ₹10 each	1200	400
(ii) 8% Pref. Share Capital of ₹ 100 each	—	320
(b) Reserves and Surplus:		
(i) General Reserve	200	160
(ii) Statement of Profit & Loss (01.04.17)	100	50
(iii) Surplus for the year	240	130
2. Non-Current Liabilities:		
10% Debentures of ₹ 100 each	100	80
3. Current Liabilities and Provisions		
Trade payables	150	82
Bills Payable to A Ltd.	—	50
Debenture Interest Accrued	—	8
Total	1990	1280

Particulars	A Ltd. (₹ in Lakh)	B Ltd. (₹ in Lakh)
II ASSETS		
1. Non-Current Assets		
(a) Fixed Assets:		
(i) Tangible Assets		
Land and Building	550	480
Plant and machinery	300	300
(ii) Intangible Assets	—	—
(b) Non-Current Investment		
30,00,000 Equity shares in B Ltd.	660	—
20,000; 10% Debentures in B Ltd.	20	—
2. Current Assets:		
(a) Inventories	150	240
(b) Trade receivables	130	170
(c) Bills Receivable	60	—
(d) Cash and cash Equivalents	120	90
Total	1990	1280

Additional information:

- (i) B Ltd. incurred a major expenditure of ₹ 60 Lakh on repairs of a machinery in the beginning of the current year and wrongly charged the amount to Profit and Loss Account. Rate of depreciation on plant and machinery is 15% and on Land and Building is 10%.
- (ii) No entries have been made in the books of A Ltd. for debenture interest due from B Ltd. for the year ended 31st March, 2018.
- (iii) A Ltd. acquired shares in B Ltd. on 31st March, 2018. For the purpose of acquisition of shares, Land & Building and Plant & Machinery were revalued at ₹ 600 Lakh and ₹ 280 Lakh respectively.
- (iv) Trade Payables of A Ltd. included an amount of ₹ 30 Lakh, which due to B Ltd.
- (v) Contingent liability of A Ltd. ₹ 40 Lakh in respect of bills discounted which includes bills of ₹ 20 Lakh accepted by B Ltd.
- (vi) Ignore tax aspects.

You are required to prepare Consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd. as at 31st March, 2018.

6. (a) Virtual Limited granted on 1st April, 2015, 100000 Employees Stock Option at ₹ 40, when the Market Price was ₹ 60. These options will vest at the end of Year 1, if the earning of Virtual Limited is more than 15% or it will vest at the end of the year 2, if the average earnings of two years is more than 12% or lastly it will vest at the end of third year, if the average earnings of 3 years will be 9% or more. 6000 unvested options lapsed on 31st March 2016. 5,500 unvested options lapsed on 31st March, 2017 and finally 3,000 unvested options lapsed on 31st March, 2018.

Year ended on	Earnings in %
31.03.2016	13%
31.03.2017	9%
31.03.2018	7%

Employees exercised for 85,000 Stock Options which vested in them at the first opportunity and the balance options were lapsed. Pass necessary journal entries and show the necessary working.

8

- (b) Following is the Balance Sheet of Rainbow Limited as on 31st March, 2018:

Liabilities	₹	Assets	₹
100000 equity shares of ₹ 10 each	10,00,000	Goodwill	5,00,000
10000, 12% preference shares of ₹ 100 each	10,00,000	Buildings	15,00,000
General Reserve	6,00,000	Plant	10,00,000
Profit and Loss Account	4,00,000	Investment in 10% stock	4,80,000
15% Debentures	10,00,000	Stock-in-trade	6,00,000
Creditors	8,00,000	Debtors	4,00,000
		Cash	1,00,000
		Preliminary Expenses	2,20,000
	48,00,000		48,00,000

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Additional information:

(i) Normal value of investment is ₹ 5,00,000 and its market value is ₹ 5,20,000.

(ii) Following assets are revalued:

Building	₹	32,00,000
Plant	₹	18,00,000
Stock-in-trade	₹	4,50,000
Debtors	₹	3,60,000

(iii) Average profit before tax of the company is ₹ 12,00,000 and 12.50% of the profit is transferred to general reserve, rate of taxation being 50%.

(iv) Normal dividend expected on equity shares is 8% while fair return on closing capital employed is 10%.

(v) Goodwill may be valued at three year's purchase of super profits.

Ascertain the value of each equity share under fair value method. 8

7. (a) State the Objectives, Constitution and Functions of Public Accounts Committee. 8

(b) Write a short note on Consolidated Fund of India, Contingency Fund and Public Account of India. 8

8. Write short note on *any four* of the following: 4×4=16

(a) Meaning and Potential applications of XBRL.

(b) Differences between Ind AS 21 and IAS 21 on treatment of exchange difference.

(c) Functions of Committee on Public Undertakings.

(d) Meaning and Advantages of Triple Bottom Line Reporting (TBL).

(e) Meaning and Advantages of Sustainability Reporting.