FINAL EXAMINATION

P–18(CFR)

JUNE 2014

Syllabus 2012

CORPORATE FINANCIAL REPORTING

Time Allowed: 3 Hours

Full Marks: 100

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

*Answer **all** the questions.*

1. Answer *any two* of the following: 5×2=10

(a) Lal National Ltd. is developing a new production process. During the financial year 31st March, 2013, the total expenditure incurred on this process was ₹ 75 lakhs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was ₹ 28 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2014 was ₹ 140 lakhs. As at 31st March, 2014, the recoverable amount of know-how embodied in the process is estimated to be ₹ 125 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to work out: (Ignoring depreciation for this purpose)

(i) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2013?

(ii) What is the carrying amount of the intangible asset as at 31st march, 2013?

(iii) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2014?

(iv) What is the carrying amount of the intangible asset as at 31st march, 2014?

(b) Calculate the actual return on plan assets from the following information available from a company's defined benefit pension plans for a particular year.

Fair market value of plan assets (beginning of year)	₹ 20,00,000
Fair market value of plan assets (end of year)	₹ 28,50,000
Employer's contribution	₹ 7,00,000
Benefit paid	₹ 5,00,000

(c) ABC Ltd. had reported a net profit of ₹ 60,00,000 for the year ended 31st March, 2014 on which date the company is having 20,00,000 equity shares of ₹ 10 each outstanding. The average fair value of one equity share during the year 2013-14 is ₹ 25. The details of exercisable option are given below:

Weighted average number of shares under stock option scheme during the year 2013-14 = 4,00,000.

Exercise price for shares under stock option during the year ended 31st march, 2014 = ₹ 20.

Calculate (i) Basic EPS and (ii) Diluted EPS.

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

(₹ in lakhs)

Particulars	A Ltd.	B Ltd.	C Ltd.	D Ltd.
Liabilities				
Equity share of ₹ 1/- each fully paid-up	1,500	600	1,200	1,200
Retained Earnings	6,000	5,100	5,400	5,400
Creditors	300	450	380	375
Total	**7,800**	**6,150**	**6,980**	**6,975**
Assets				
Fixed Assets	1,500	1,200	2,100	1,500
Investment in B Ltd.	1,200			
Investment in C Ltd.	900			
Investment in D Ltd.	900			
Current Assets	3,300	4,950	4,880	5,475
Total	**7,800**	**6,150**	**6,980**	**6,975**

A Ltd. acquired shares in

(i) B Ltd. many years ago, when the company had retained earnings of ₹ 780 lakhs.

(ii) C Ltd. at the beginning of the year, when the company had retained earnings of ₹ 600 lakhs.

(iii) D Ltd. on 01.04.2013, when the company had retained earnings of ₹ 600 lakhs.

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

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

OR

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

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

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

You are required to:

(i) Show journal entries in the books of AB Ltd.

(ii) Prepare the Balance Sheet of AB Ltd. after the entries made in (i) above.

(iii) Show journal entries in the books of X Ltd.

(iv) Prepare the balance Sheet of X Ltd.

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

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

(Amount in ₹)

Liabilities	M Ltd.	N Ltd.	O Ltd.	*Assets*	M Ltd.	N Ltd.	O Ltd.
Share Capital	6,00,000	6,00,000	3,60,000	Fixed Assets	1,20,000	3,60,000	2,58,000
Reserves	2,88,000	60,000	54,000	Investments:			
Profit & Loss Account	96,000	72,000	54,000	Shares in N Ltd.	5,70,000		
Sundry Creditors	42,000	30,000		Shares in O Ltd.	78,000	3,18,000	
O Ltd. Balance	18,000			Stock in Trade	72,000		
M Ltd. Balance		42,000		Sundry Debtors	1,56,000	1,26,000	1,92,000
				N Ltd. Balance	48,000		
				M Ltd. Balance			18,000
Total	**10,44,000**	**8,04,000**	**4,68,000**	**Total**	**10,44,000**	**8,04,000**	**4,68,000**

The following particulars are given:

(i) The share capital of all companies is divided into shares of ₹ 10 each.

(ii) M Ltd. held 48,000 shares of N Ltd. and 6,000 shares of O Ltd.

(iii) N Ltd. held 24,000 shares of O Ltd.

(iv) All these investments were made on 30.06.2013.

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

(Amount in ₹)

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

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

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

You are required to prepare a Consolidated balance Sheet of M Ltd. and its subsidiaries N Ltd. and O Ltd. as at 31.12.2013. 15

OR

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

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

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

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

(i) 6 equity shares of ₹ 10 each will be issued by A Ltd. at par against 4 equity shares of B Ltd.

(ii) 10% Preference Share of B Ltd. will be paid off at 10% discount by issue of 10% Preference Shares of ₹ 100 each of A Ltd. at par.

(iii) ₹ 20,000 to be paid by A Ltd. to B Ltd. for liquidation expenses.

(iv) 12% debenture holders of B Ltd. are to be paid off at 4% premium by 12% debentures in A Ltd. issued at a discount of 20%.

Prepare: (i) a statement of Purchase consideration payable by A Ltd., and

(ii) a Balance Sheet of A Ltd. after its absorption of B Ltd. (Schedules are not required) 15