



J.K. SHAH[®]
TEST SERIES
Evaluate Learn Succeed

SUGGESTED SOLUTION

FINAL EXAM

Financial Reporting

Test Code – FNJ1004

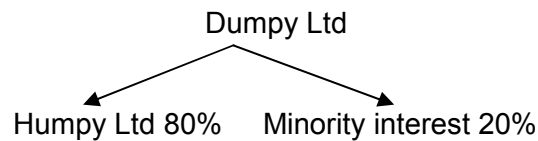
BRANCH - (MULTIPLE) (Dt.:21.05.2017)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

Answer:1

1. Group structure



2. Statement of conversion of Dumpy Ltd Balance Sheet

Liabilities	\$	Exch		Assets	\$	Exch	
Equity share capital	30000	40	1200000	Fixed Assets	20000	45	900000
Profit & Loss A/c				Stock	30000	45	1350000
Pre-acquisition	20000	40	800000	Debtors	60000	45	2700000
Post-acquisition	20000	42.5	850000	Cash	10000	45	450000
Loan	20000	45	900000				
Trade creditors	10000	45	450000				
Taxation	20000	45	900000				
Foreign currency translation reserve			300000				
Total	120000		5400000	Total	120000		5400000

3. Statement of analysis of Profit and Loss of Dumpy Ltd

Particulars	Pre-acquisition \$	Post-acquisition \$
Opening balance	23000	20000
Less: Dividend for 2008– 09	3000	
	20000	20000

4. Statement of reconciliation of foreign currency translation reserve

Particulars	Pre-acquisition \$	Post-acquisition \$
Net assets (\$)	50000*	20000
Exchange difference $(45 - 40)/(45-42.5)$	5	2.5
Total $(250000 + 50000) = 300000$	250000	50000

*(share capital 30000 + pre-acquisition profit 20000 = 50000)

5. Statement of analysis of profits and foreign currency translation reserve of Dumpy Ltd

Particulars	Pre-acquisition	Post-acquisition	Foreign currency translation reserve
Profit and Loss Account	800000	850000	300000
Share of Humpy Ltd (80%)	640000	680000	240000
Minority interest (20%)	160000	170000	60000

6. Statement of Minority Interest

Particulars	Amount
Share capital $(1200000 \times 20\%)$	240000
Add: Capital profit (W.N.6)	160000
Revenue profit (W.N.6)	170000
Foreign currency translation reserve	60000
	630000

7. Statement of Cost of control/capital reserve

Particulars	Amount `	Amount `
Cost of investment	1600000	
Less: Pre-acquisition dividend ($\$3000 \times 43 \times 80\%$)	103200	1496800(A)
A Ltd's share of Dumpy Ltd's net assets		
- Share capital ($\text{` } 1200000 \times 80\%$)	960000	
- Capital profit	640000	1600000(B)
Capital reserve (B – A)		103200

8. Statement of Reserve of Humpy Ltd

Particulars	Profit & Loss `	Foreign currency translation Reserve `
Humpy Ltd balance	2000000	
Add: Share of post-acquisition profits	680000	240000
Less: Pre-acquisition dividend	(103200)	
Reserve to Consolidated Balance Sheet	2576800	240000

Consolidated Balance Sheet of Humpy Ltd and its subsidiary Dumpy Ltd As at 31st March 2010

Particulars	Note no. `	Amount
I. Equity and Liabilities		
(1) Shareholder's funds		
(a) Share capital		3000000
(b) Reserves and surplus	1	2920000
(2) Minority Interest (W.N.7)		630000
(3) Non-current liabilities		
Long-term borrowing	2	2100000
(4) Current liabilities		
(a) Trade Payables	3	1050000
(b) Other current liabilities	4	1900000
Total		11600000
II. Assets		
(1) Non-current Assets		
(a) Fixed Assets		
(i). Tangible Assets ($1800000 + 900000$)		2700000
(ii). Intangible Assets		-
(b) Non-current Investments		-
(2) Current Assets:		
(a) Inventories ($1200000 + 1350000$)		2550000
(b) Trade Receivables ($2400000 + 2700000$)		5100000
(c) Cash and cash equivalents ($800000 + 450000$)		1250000
Total		11600000

Notes on Accounts

S/LNo.	Particulars	Amount (`)	Amount (`)
1.	Reserves and surplus		
	Capital reserve (W.N.8)	103200	
	Foreign Exchange translation reserve (W.N.9)	240000	
	Profit & Loss Account (W.N.9)	2576800	2920000
2.	Long term borrowings		

	Loan (1200000+ 900000)		2100000
3.	Trade Payables		
	Trade Creditors (600000 + 450000)		1050000
4.	Other current liabilities		
	Provision for taxation (1000000 + 900000)		1900000

(20 Marks)

Answer:2

<i>Particulars</i>	<i>Note No.</i>	<i>Amount `</i>
I. Equity and Liabilities		
(1) Shareholder's funds		
(a) Share capital	1	200000
(b) Reserves and surplus	2	171044
(2) Minority Interest (WN4)		65918
(3) Non-current liabilities		
Long-term borrowing		-
(4) Current liabilities		
(a) Trade Payables (112060 + 73130 + 78190)		263380
(b) Short-term provisions	3	52000
Other current liabilities	4	118000
Total		870342
II. Assets		
(1) Non-current Assets		
(a) Fixed Assets		
(i). Tangible Assets (135000 +60000 +70000)		265000
(ii). Intangible assets	5	49592
(b) Non-current Investments (W.N.5)		10400
(2) Current Assets:		
(a) Inventories (55240 +36840 + 61760)		153840
(b) Trade Receivables (W.N.6)		191070
(c) Cash and cash equivalents		200440
Total		870342

Notes on Accounts

<i>SL No.</i>	<i>Particulars</i>	<i>Amount (`)</i>	<i>Amount (`)</i>
1.	Share capital		
	Issued and subscribed		
	20000 Equity shares of `10 each fully paid up		200000
2.	Reserves and surplus		
	Revenue Reserve (99540 + 16064)	115604	
	Capital reserve (50000 + 5440)	55440	171044
3.	Short-term provisions		
	Provision for taxation (30000 + 22000)		52000
4.	Other current liabilities		
	Proposed dividend		
	Minority shareholders	18000	
	Holding company	100000	118000
5.	Intangible assets		49592
	Goodwill (WN3)		

Working Notes

1. Analysis of profits of Saifu Ltd

<i>Particulars</i>	<i>Capital Profit</i>	<i>Revenue Reserve</i>	<i>Revenue Profit</i>
Capital reserve in 2007	15000		
Increase in capital reserve		8000	
Revenue reserve in 2007	30500		

Increase in revenue reserve				14560
Total		45500	8000	14560
Less: Minority interest 15%		6825	1200	2184
Share of Sallu Ltd		38675	6800	12376

2. Analysis of profits of Sallu Ltd

<i>Particulars</i>		<i>Capital Profit `</i>	<i>Revenue Reserve `</i>	<i>Revenue Profit `</i>
Revenue Reserve in 2007		40000		
Increase in revenue reserve				9370
Share in Saifu Ltd			6800	12376
Total		40000	6800	21476
Less: Minority interest 20%		8000	1360	4349
Brought forward		32000	5440	17397
Less: (5000 × 4/15) for second acquisition treated as capital		+ 1333		-1333
		33333		16064

3. Statement of cost of control/goodwill

<i>Particulars</i>	<i>Amount `</i>	<i>Amount `</i>
Cost of investment in Chair		149600
Cost of investment in King		160000
		309600
Less: Paid up value of investments		
In Saifu Ltd	68000	
In Sallu Ltd	120000	
Capital profit in Saifu Ltd	38675	
Capital profit in Sallu Ltd	33333	260008
Goodwill (to consolidated Balance Sheet)		49592

4. Statement of minority interest

<i>Particulars</i>	<i>Sallu Ltd `</i>	<i>Saifu Ltd `</i>
Share capital	30000	12000
Capital reserve	1360	1200
Revenue reserve	4349	2184
Capital profit	8000	6825
To consolidated Balance Sheet (43709 + 22209) = 65918	43709	22209

5. Statement of investment

<i>Item</i>	<i>Amount `</i>
Sallu Ltd	150000
Less: Cost of Chair Limited (6800 × 22)	149600
	400
Saifu Ltd	10000
To consolidated Balance Sheet	10400

6. Statement of Debtors

<i>Item</i>	<i>Amount `</i>
Aki Ltd	110700
Less: Dividend from King Limited	48000
	62070
Sallu Ltd	69120
Less: Dividend from Chair Limited	34000
Saifu Ltd	93880
To consolidated Balance Sheet	191070

(15 Marks)

Answer:3

Journal Entries in the books of ABC Ltd

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
1-Apr-04	Employee Compensation Expense (10,000 x Rs.90) To Employee Stock Options Outstanding (Being grant of 10,000 stock options to employees at Rs.40 when market price is Rs.130)	Dr.	9,00,000	9,00,000
16-Dec-04 to 15-Mar-05	Bank account (9,500 x Rs.40) Employee stock options outstanding (9,500 x Rs.90) To Equity share capital (9,500 x Rs.10) To Securities premium [9,500 x (Rs.130 - Rs.10)] (Being allotment to employees of 9,500 equity shares of Rs.10 each at a premium of Rs.120 per share in exercise of stock options by employees)	Dr. Dr.	3,80,000 8,55,000	95,000 11,40,000
16-Mar-05	Employee stock options outstanding (500 x Rs.90) To Employee compensation expense (Being entry for lapse of stock options for 500 shares)	Dr.	45,000	45,000
31-Mar-06	Profit and Loss account To Employee compensation expense (Being transfer of employee compensation expense to profit and loss account)	Dr.	8,55,000	8,55,000

(5 Marks)

Answer:4

Computation of expenses to be recognized:

	Particulars	2009-10	2010-11	2011-12
A	Number of employees at the year end	2,500 - 5% = 2,375	2,375 - 3% (assumed actual) = 2,303	1,900
B	Annual forfeiture expected	3%	10%	-
C	Total number of options expected to vest on exercise date	11,17,318.75 (A x 500 shares x 97% x 97%)	10,36,350 (A x 500 shares x 90%)	9,50,000 (A x 500 shares)
D	Total value of options expected to vest at the end of vesting period (C x Fair Value)	Rs.1,67,59,780 (11,17,318.75 x Rs.15)	Rs.1,55,45,250 (10,36,350 x Rs.15)	Rs.1,42,50,000 (9,50,000 x Rs.15)
E	Total cumulative cost of options	Rs.1,67,59,780 x 1/3 = Rs.55,86,594	Rs.1,55,45,250 x 2/3 = Rs.1,03,63,500	Rs.1,42,50,000
F	Expenses already recognised	-	(5,586,594)	(10,363,500)
G	Expenses to be recognised for the year (D - E)	5,586,594	4,776,906	3,886,500

Note:

In the above computation, the expense to be recognised is determined from a year-end estimation perspective. An alternative approach is to estimate expected options from a year-beginning perspective, as under –

For FY 2009-10: 2,500 employees x 500 shares x 97% x 97% x 97% (for 3 years) = 11,40,841 shares.

For FY 2010-11: 2,500 employees x 500 shares x 90% x 90% x 90% (re-estimation for 3 years) = 9,11,250 shares.

In such case, the amount of expenses will be Rs.57,04,205, Rs.34,08,295 and Rs.51,37,500 for above 3 years respectively.

Journal Entries in the books of ABC Ltd

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
31.3.2010	Employees compensation expenses account To Employees stock option outstanding account (Being compensation expenses recognized in respect of the employees stock option)	Dr.	5,586,594	5,586,594
31.3.2010	Profit and loss account To Employees compensation expenses account (Being expenses transferred to profit and loss account at the end of the year)	Dr.	5,586,594	5,586,594
31.3.2011	Employees compensation expenses account To Employees stock option outstanding account (Being compensation expenses recognized in respect of the employees stock option)	Dr.	4,776,906	4,776,906
31.3.2011	Profit and loss account To Employees compensation expenses account (Being expenses transferred to profit and loss account at the end of the year)	Dr.	4,776,906	4,776,906
31.3.2012	Employees compensation expenses account To Employees stock option outstanding account (Being compensation expenses recognized in respect of the employees stock option)	Dr.	3,886,500	3,886,500
31.3.2012	Profit and loss account To Employees compensation expenses account (Being expenses transferred to profit and loss account at the end of the year)	Dr.	3,886,500	3,886,500
31.3.2014	Bank A/c (1,000 x 500 x Rs.50) Employee stock option outstanding account (1,000 x 500 x Rs.15) To Equity share capital account (1,000 x 500 x Rs.10) To Securities premium account [1,000 x 500 x (Rs.65 - Rs.10)] (Being shares issued to employees against options vested in them in pursuance of ESOP)	Dr. Dr.	25,000,000 7,500,000	5,000,000 27,500,000
31.3.2015	Bank A/c (500 x 500 x Rs.50) Employee stock option outstanding account (500 x 500 x Rs.15) To Equity share capital account (500 x 500 x Rs.10) To Securities premium account [500 x 500 x (Rs.65 - Rs.10)] (Being shares issued to employees against options vested in them in pursuance of ESOP)	Dr. Dr.	12,500,000 3,750,000	2,500,000 13,750,000
31.3.2015	Employee stock option outstanding account To General reserve account (Being Employees stock option outstanding A/c transferred to General Reserve A/c, on lapse of options at the end of exercise of option period) (400 Employees x 500 options x Rs.15 Fair Value)	Dr.	3,000,000	3,000,000

(10 Marks)