FINAL – November 2017

FINANCIAL REPORTING

Test Code – 59

Branch (MULTIPLE) (Date : 03.09.2017)

(50 Marks)

Note: All questions are compulsory.

Question 1 (16 marks)

Consolidated Balance Sheet of Vinyl Ltd. with its Subsidiary Sind Ltd. and Jointly Controlled Entity Hind Ltd. as on 31st March, 2016 (5 marks)

Particulars	Note No.	
Equity and Liabilities		
(1) Shareholder's Funds		
(a)Share Capital	1	50,00,000
(b)Reserves and Surplus	2	93,58,150
(2) Non –current Liabilities		
Long –term borrowings	3	21,00,000
(3) Current Liabilities		
(a) Trade Payables	4	10,98,175
(b) Short-term provisions	5	16,96,110
Total		1,92,52,435
II. Assets		
(1) Non –current assets		
Fixed assets		
(a) Tangibles assets	6	1,35,18,200
(b) Intangible assets (W.N.6)		29,28,120
(2) Current assets		
(a) Inventories	7	14,04,055
(b) Trade receivables	8	8,95,285
(c) Cash and cash equivalents	9	5,06,775
Total		1,92,52,435

Notes to Accounts (4 marks)

1.	Share Capital		
	Equity Capital 5,00,000 shares of '10 each		50,00,000
	(out of the above 3,00,000 shares of '10 each have been issued for consideration other than cash)		
2.	Reserves Surplus		
	Retained Earnings(w.N.4)	58,20,000	
	Capital Reserve (W.N.5)	11,38,150	
	Securities Premium (W.N.7)	24,00,000	93,58,150
3.	Long Term Borrowings		
	10% Debentures		
	Vinyl Ltd. 12,00,000		
	Add: Issued to Sind Ltd. 9,00,000		21,00,000
4.	Trade Payables		

	Vinyl Ltd.	4,26,860		
	Sind Ltd.	3,48,620		
	Hind Ltd.(50%)	3,22,695		
5.	Short –term provisions			
	Provision for taxes			
	Vinyl Ltd.	5,98,300		
	Sind Ltd.	8,36,210		
	Hind Ltd.(50%)	2,61,600		16,96,110
6.	Tangible assets			
	Fixed assets (assumed to be tangible in nature)			
	Vinyl Ltd.	47,22,400		
	Sind Ltd.	27,63,000		
	Hind Ltd.(50%)	11,45,300		
	Plant and Machinery			
	Vinyl Ltd.	28,39,860		
	Sind Ltd.	13,61,200		
	Hind Ltd.(50%)	6,86,440	48,87,500	1,35,18,200
7.	Inventories			
	Vinyl Ltd.	8,16,400		
	Sind Ltd.	4,28,350		
	Hind Ltd.(50%)	1,59,305		14,04,055
8.	Trade Receivable			
	Vinyl Ltd.	4,29,550		
	Sind Ltd.	3,15,720		
	Hind Ltd.(50%)	1,50,015		8,95,285
9.	Cash and cash equivalents			
	Vinyl Ltd.	2,76,950		
	Sind Ltd.	1,74,710		
	Hind Ltd.(50%)	55,115		5,06,775

Working Notes: (7 marks)

1. **Purchase consideration paid to Subsidiary Sind Ltd.**

   Earnings per share for the year 31st March,2015

   $=\frac{180000}{150000\ equity\ shares}$= 1.20 per share

   Marketing per share = 1.20 x10(i.e. P/E ratio) = 12 per share

   Purchase consideration = 12 x 1,50,000shares =18,00,000

   Purchase consideration to be paid as under

10% Debentures		9,00,000
Equity shares (50,000 shares of 18 each)	9,00,000	
		18,00,00

2. **Consideration paid to Jointly Controlled Entity Hind Ltd.**

Total market value (as given)	90,00,000
50%share acquired by Vinyl Ltd. (2,50,000 shares x@18 each)	45,00,000

3. **Analysis of General reserve of Sind Ltd. As on 31st March ,2016**

Retained earnings given in balance sheet on 31.3.2016	23,58,150
Less :Current profit for the year ended 31.3.2016(Post acquisition)	(9,20,000)
Pre-acquisition retained earnings	14,38,150

4. **Retained Earnings in the Consolidated Balance Sheet as per Proportionate Consolidation Method**

Balance in Vinyl Ltd. Balance sheet	48,60,000
Add: Share in post –acquisition profit of Sind Ltd.	9,20,000
Add :Share in post –acquisition profits of Hind Ltd. (5,60,000 x 50%) (joint venture)	2,80,000
	60,60,000
Less :Goodwill (written off)	(2,40,000)
	58,20,000

5. **Capital Reserve**

Amount Paid for Sind Ltd.		18,00,000
Less Paid up value of shares	15,00,000	
Pre-acquisition profit(W.N.3)	14,38,150	(29,38,150)
Capital Reserve		11,38,150

6. **Goodwill**

Amount paid for 50% shares of Hind Ltd.	45,00,000
Less: Paid up value of shares(17,00,000 x50%)	(8,50,000)
Pre-acquisition (15,23,760 -5,60,000) x 50%	(4,81,880)
Goodwill	31,68,120
Less Impairment (Written off)	(2,40,000)
	29,28,120

7. **Securities Premium**

Issued to Sind Ltd.(50,000 x8)	4,00,000
Issued to Hind Ltd.(2,50,000 x8)	20,00,000
	24,00,000

Question 2 (16 marks)

Consolidated Balance Sheet of A Ltd. and its Subsidiary B Ltd. as at 31.03.2017

4 marks

	Particulars as at 31st March	Note	`
I	EQUITY AND LIABILITIES		
(1)	Shareholders' Funds:		
	(a) Share Capital	1	11,00,000

	(b) Reserves & Surplus (W.N. 4)		4,99,546
(2)	Minority Interest (W.N. 4)		1,46,359
(3)	Non—Current Liabilities Long Term Borrowings = 15% ` 100 Non-Convertible Debentures (3,00,000 – 1,00,000)		2,00,000
(4)	Current Liabilities		
	(a) Trade Payables = (4,80,000 + 2,80,000 + Additional 60,000 - Mutual 60,000)		7,60,000
	(b) Other Current Liabilities = (1,00,000 + 40,000)		1,40,000
	(c) Short Term Provisions - Tax Provision (1,50,000+2,50,000+10,890+21,780+23,925)		4,56,595
	Total		33,02,500
II	ASSETS		
(1)	Non-Current Assets		
	Fixed Assets		
	(i) Tangible Assets (6,50,000 + 4,05,000 – 1,00,000 Destroyed)		9,55,000
	(ii) Intangible Assets - Goodwill on Consolidation		3,40,000
(2)	Current Assets		
	(a) Inventories (W.N. 6)		6,05,000
	(b) Trade Receivables (2,50,000 + 4,65,000 – 60,000)		6,55,000
	(c) Cash and Cash Equivalents (W.N. 7)		7,47,500
	Total		33,02,500

Working Notes

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = A Ltd	Acquisition: 01.01.2015	Holding Company = 80% (40,000/50,000)
Subsidiary = B Ltd	Consolidation: 31.03.2017	Minority Interest = 20%

2 marks

2. Analysis of Reserves & Surplus of B Ltd.

Balance on 31.12.2016	2,05,000
Less: Provision for Taxes	(21,780) [` 66,000 x 33%]
Corrected Profit as on 31.12.2016	1,83,220

Out of the above Pre-acquisition profit as on 01.01.2015	` 75,000
Transfer during 2015 and 2016 (Balancing Figure)	` 1,08,220

Profits for the 3 months from 1.1.2017 to 31.3.2017

Particulars		`
Profit for 2016 (before taxes)		66,000
Profit for the first three months (assuming even accrual during the period)	16,500	
Add: Incremental profits for 1.1.2017 to 31.3.2017 over the corresponding period's profit		
$\frac{\text{` 66,000}}{\text{12 months}} \times 3 \text{ months}$	56,000	
Total profit for the period 1.1.2013 to 31.3.2013		72,500
Less: Tax @ 33%		(23,925)
		48,575

3. Elimination of Debentures 1 mark

Particulars	`
Face Value of Debentures held by A Ltd. in B Ltd. (1,000 x ` 100)	1,00,000
Less: Cost of acquisition by A Ltd.	(1,50,000)
Excess paid - To be reduced from Free Reserves	(50,000)

4. Calculation of Minority Interest, Cost of Control and Consolidation of Reserves 3 marks

Particulars	*Total*	*Minority Interest*	*Group Interest*	
B Ltd. (Group 80%, Minority 20%)			Pre-acquisition	Post-acquisition
Equity Share Capital -	5,00,000	1,00,000	4,00,000	
Accumulated Reserves				
As at 31.12.2016	1,83,220	(183220 x 0.2) 36,644	(75,000 x 0.8) 60,000	(108220 x 0.8) 86,576
For 1.1.2017 to 31.03.2013	48,575	(48,575 x 0.2) 9,715		(48,575 x 0.8) 38,860
Sub Total		1,46,359	4,60,000	1,25,436

Balance from A Ltd.'s Balance Sheet				4,50,000
Cost of Investment			(8,00,000)	
Provision for Taxation for A Ltd (33,000 x 33%)				(10,890)
Adjustment on Account of Debentures				(50,000)
Unrealised gain on goods unsold by B Ltd.				(15,000)
		1,46,359	(3,40,000)	4,99,546
		Minority Interest	Goodwill	Consolidated Reserves & surplus

5. Inter Company Transactions and Profits Thereon [Ledger A in the Books of B Ltd]

Particulars	`	*Particulars*	`
To Sales to A [Balancing Figure]	1,20,000	By Purchases	1,80,000
To Balance c/d	60,000	[1,50,000x 120%]	
Total	1,80,000	Total	1,80,000

Particulars	`
Sales to A	1,20,000
Less: Cost of Goods to B (50% of ` 1,80,000)	(90,000)
Profit on such sale	30,000
Cash profits in the books of B Ltd. [Total profits for the quarter 72,500 - Profit on transactions with A Ltd. ` 30,000]	42,500

6. Inventories

Particulars	`
Balance on 31.12.2016 of B Ltd.	3,50,000
Add: Purchase of Stock from A Ltd	1,80,000
Less: Cost of Stock resold to A (50% of Purchases)	(90,000)
Less: Stock of Goods Lost by Fire	(20,000)

Balance in Closing Stock on 31.03.2017 of B Ltd.	4,20,000
Add: Stock as per A Ltd	2,00,000
Less: Stock Reserve (Unrealized Profits on downstream transaction)	(15,000)
Consolidated Balance	6,05,000

7. Cash and Bank 2 marks

B Ltd.	`	`
Balance as on 31.12.2016		3,55,000
Add: Insurance Compensation Received for Loss of Stock (75% of ` 20,000) in February, 2017		15,000
Machinery (80% of Fair Value of ` 1,50,000)		1,20,000
Add: Other Cash Profits		
Total Cash Profits (W.N.5)	42,500	
Less: Profit on Insurance Compensation on Machinery Destroyed (Compensation 1,20,000 - Book Value 1,00,000)	(20,000)	
Add: Net Stock Loss (Compensation 15,000 - Book Cost ` 20,000)	5,000	27,500
Closing Balance as at 31.03.2017		5,17,500
Add: Balance from A Ltd.		2,30,000
Consolidated Balance		7,47,500

Assumptions:

1. Additional Profits for the period 1.1.2017 to 31.03.2017 of B Ltd is assumed to be after considering Stock Loss and machinery destruction.
2. Receivables, Creditors, Liabilities and other receivables and payables are assumed to be maintained by B Ltd. as on the date of consolidation i.e. they do not vary.
3. Except for the Stock Loss and additional goods purchased from A Ltd, stock of B is assumed to be maintained on same levels.
4. Mutual Owings of ` 60,000 has been added and reduced for creditors since subsidiary's balance is as at 31.12.2016, which does not reflect such balance. However, on the asset side, it has been eliminated without adding, since Parent's Balance Sheet as at 31.03.2017, contains such balance in its books.

Question 3 (9 marks)

A. Calculation of expenses to be recognised in respect of the liability component at the end of each year

(3 marks)

Year 1	
Provisions required at the year-end 1,000 x 52.00 x 1/3=	17,333
Less provision at the beginning of the year	Nill
Expenses for the year	17,333
Year 2	
Provisions required at the year-end 1,000 x 55.00 x 2/3=	36,667
Less provision at the beginning of the year	17,333
Expenses for the year	19,334
Year 3	
Provisions required at the year-end 1,000 x 60.00 =	60,000
Less provision at the beginning of the year	36,667
Expenses for the year	23,333

B. **Journal Entries for each year**

Year	Particulars			
1. **(1 mark)**	Employee compensation expenses A/c To Provision for liability component of employee share –based payment plan (Being compensation expense recognized in respect of liability component of employee share-based payment plan with cash alternative)	Dr.	17,333	17,333
	Employee compensation expenses A/c To Stock Option Outstanding A/c (Being compensation expense recognized in respect of equity component of employee share-based payment plan with cash alternative)	Dr.	2,533	2,533
2. **(1 mark)**	Employee compensation expenses A/c To Provision for liability component of employee share –based payment plan (Being compensation expense recognized in respect of liability component of employee share-based payment plan with cash alternative)	Dr.	19,334	19,334
	Employee compensation expenses A/c To Stock Option Outstanding A/c (Being compensation expense recognized in respect of equity component of employee share-based payment plan with cash alternative)	Dr.	2,533	2,533
3. **(1 mark)**	Employee compensation expenses A/c To Provision for liability component of employee share –based payment plan (Being compensation expense recognized in respect of liability component of employee share-based payment plan with cash alternative)	Dr.	23,333	23,333
	Employee compensation expenses A/c To Stock Option Outstanding A/c (Being compensation expense recognized in respect of equity component of employee share-based payment plan with cash alternative)	Dr.	2,533	2,533

(1 mark)	**On settlement for each year** **Scenario 1:** The Cash alternative Provision for liability component of employee share based payment plan Dr. To Bank A/c (Being cash paid on exercise of cash alternative under the employee share based payment plan)	60,000	60,000
	Stock Options Outstanding A/c Dr. To General Reserve (Being the balance standing to the credit of the Stock Options Outstanding Account transferred to the general reserve upon exercise of cash alternative)	7,600	7,600
(1 mark)	**Scenario 2: The equity alternative** Stock Option Outstanding A/c Dr. Provision for liability component of employee Dr. To Share Capital A/c (1,000 shares x 10) To Securities Premium A/c (Being shares issued on exercise of equity alternative under the employee share based payment plan)	7,600 60,000	10,000 57,600

Working Note: (1 mark)

The employee share-based payment plan granted by the enterprise has two components, viz., (i) a liability component, i.e., the employees' right to demand settlement in cash, and (ii) an equity component, i.e., the employees' right to demand settlement in shares rather than in cash. The enterprise measures, on the grant date, the fair value of two components as below:

Fair value under equity settlement 1,200 shares x 48	=	57,600
Fair value under cash settlement 1,000 shares x 50	=	50,000
Fair value of the equity component (57,600-50,000)	=	7,600
Fair value of the liability component	=	50,000

The expense to be recognised in respect of the equity component at the end of each year is one third of the fair value (` 7,600) determined above.

Question 4 (9 marks)

Paragraph 19 of the Guidance Note requires, for a performance condition that is not a market condition, the enterprise to recognise the services received during the vesting period based on the best available estimate of the number of shares or stock options expected to vest and to revise that estimate, if necessary, if subsequent information indicates that the number of shares or stock options expected to vest differs from previous estimates.

On vesting date, the enterprise revises the estimate to equal the number of instruments that ultimately vested. However, paragraph 24 of the text of the Guidance Note requires, irrespective of any modifications to the terms and conditions on which the instruments were granted, or a cancellation or settlement of that grant of instruments, the enterprise to recognise, as a minimum, the services received, measured at the grant date fair value of the instruments granted, unless those instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date.

Furthermore, paragraph 26(c) of the Guidance Note specifies that, if the enterprise modifies the vesting conditions in a manner that is not beneficial to the employee, the enterprise does not take the modified vesting conditions into account when applying the requirements of paragraphs 18 to 20 of the text of the Guidance Note.

Therefore, because the modification to the performance condition made it less likely that the stock options will vest, which was not beneficial to the employee, the enterprise takes no account of the modified performance condition when recognising the services received. Instead, it continues to recognise the services received over the three-year period based on the original vesting conditions. Hence, the enterprise ultimately recognises cumulative remuneration expense of ` 1,80,000 over the three-year period (12 employees × 1,000 options × ` 15).

The same result would have occurred if, instead of modifying the performance target, the enterprise had increased the number of years of service required for the stock options to vest from three years to ten years. Because such a modification would make it less likely that the options will vest, which would not be beneficial to the employees, the enterprise would take no account of the modified service condition when recognising the services received. Instead, it would recognise the services received from the twelve employees who remained in service over the original three-year vesting period.

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