SUGGESTED SOLUTION

CA FINAL May 2017 EXAM

FINANCIAL REPORTING

Test Code - F M J 4008

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Answer-1 :

Consolidated Balance Sheet of Ram Ltd. and its subsidiaries Shyam Ltd and Tom Ltd.
as on 31.3.2015

Particulars				**Note No.**	**(Rs. in =000s)**
I.	**Equity and Liabilities**				
	(1)	**Shareholder's Funds**			
		(a)	Share Capital		8,000
		(b)	Reserves and Surplus	1	3,096
	(2)	**Minority Interest (W.N.7)**			952
	(3)	**Current Liabilities**		2	4,200
		Total			**16,248**
II.	**Assets**				
	(1)	**Non-current assets**			
		Fixed assets			
		Intangible assets		3	688
	(2)	**Current assets**		4	15,560
		Total			**16,248**

Notes to Accounts

			Rs. in =000s
1.	Reserves and Surplus		
	General Reserve	1,600	
	Profit & Loss (W.N.6)	1,496	3,096
2.	Current Liabilities		
	Ram Ltd.	1,280	
	Shyam Ltd.	3,000	
	Tom Ltd.	1,120	
		5,400	
	Less: Mutual Owings	(1,200)	4,200
3.	Intangible assets		
	Goodwill (W. N. 5)		688
4.	Current Assets		
	Ram Ltd.	7,240	
	Shyam Ltd.	7,520	
	Tom Ltd.	2,080	
		16,840	
	Less: Mutual Owings	(1,200)	
		15,640	
	Less: Unrealised Profit	(80)	15,560

(7 Marks)

Working Notes:

Shareholding Pattern

	Shyam Ltd.	**Tom Ltd.**
Total Shares	40,000 shares	16,000 shares
Held by Ram Ltd.	32,000 shares (80%)	4,000 shares (25%)
Held by Shyam Ltd.	NA	12,000 shares (75%)
Minority Interest	8,000 shares (20%)	NIL

(2 Marks)

1. General Reserve and Profit and Loss Account of Shyam Ltd.

General Reserve Account of Shyam Ltd.

		Rs.'000			Rs.'000
31.3.15	To Balance c/d 280		1.4.14	By Balance b/d	280

Draft Profit and Loss Account of Shyam Ltd.

		Rs. '000			Rs. '000
31.3.15	To Balance c/d	960	1.4.14	By Balance b/d	520
				By Profit earned during the year (Bal. Fig.)	440
		960			**960**

2. Draft Profit and Loss Account of Tom Ltd.

		Rs. '000			Rs. '000
1.4.12	To Balance b/d	160	31.3.13	By Balance c/d	160
		160			**160**
1.4.13	To Balance b/d	160	31.3.14	By Balance c/d	480
	To Loss incurred during the year (Bal. Fig.)	320			
		480			**480**
1.4.14	To Balance b/d	480	31.3.15	By Balance c/d	640
	To Loss incurred during the year (Bal. Fig.)	160			
		640			**640**

3. Analysis of Profits of Tom Ltd.

		Capital Profits Rs. '000	Revenue Profits Rs. '000
(i)	**From the viewpoint of Shyam Ltd.**		
	Debit Balance in Profit and Loss Account as on 1.4.2012	(160)	
	Loss incurred between 1.4.2012 to 31.3.2015 [(320 + 160)– Refer W.N. 2]		(480)
		(160)	(480)
	Share of Shyam Ltd.-75% [carried forward to W. N. 4]	(120)	(360)
(ii)	**From the view point of Ram Ltd.**		
	Debit Balance of Profit and Loss Account as on 1.4.14	(480)	
	Loss during the year 2014-15 [WN 2]		(160)
		(480)	(160)
	Share of Ram Ltd. (25%)	(120)	(40)

4. Analysis of Profits of Shyam Ltd. (From the viewpoint of Ram Ltd.)

	Capital Profits Rs. '000	Revenue Profits Rs. '000
General Reserve as on 1.4.14	280	
Profit and Loss Account Balance as on 1.4.14	520	
Profit earned during 2014-15 (W.N.1)		440
Brought forward Shyam Ltd.'s share of loss in Tom Ltd. [W. N. 3(i)]	(120)	(360)
Share of Shyam Ltd. in revenue loss of Tom Ltd. for the period		

1.4.12 to 31.3.14 [75% of (360- 40)] being treated as capital loss		
from view point of Ram Ltd.	(240)	240
	440	320
Less:Share of Minority Interest (20%)	(88)	(64)
Balance taken to Ram Ltd. (80%)	352	256

5. Cost of Control

		Rs. '000
Investment by Ram Ltd. in .		
Shyam Ltd.	4,800	
Tom Ltd.	200	
Investment by Shyam Ltd. in		
Tom Ltd.	720	5,720
Less: Paid up value of shares of:		
Shyam Ltd.	3,200	
Tom Ltd. (400 + 1,200)	1,600	
	4,800	
Capital loss of Ram Ltd. in Tom Ltd. [W.N. 3(ii)]	(120)	
Capital Profit of Ram Ltd. in Shyam Ltd. (W.N. 4)	352	(5,032)
Goodwill		688

6. Consolidated Profit and Loss A/c of Ram Ltd.

	Rs. '000
Profit and Loss A/c Balance	1,360
Post acquisition share of loss from Tom Ltd.	(40)
Post acquisition share of profit from Shyam Ltd.	256
	1,576
Less: Unrealised Profit on Inventory (1/6th of 480)	(80)
	1,496

7. Minority Interest

	Rs.'000
Paid up value of shares in Shyam Ltd. (20% of 4,000)	800
Share of Capital Profit (W.N.4)	88
Share of Revenue Profit (W.N.4)	64
	952

(7 x 1 = 7 Marks)

Answer-2 :

Fair value of an ESPP = Rs. 56 – Rs. 50 = Rs. 6
Number of shares issued = 400 employees x 100 shares/employee = 40,000 shares
Fair value of ESPP which will be recognized as expenses in the year 2014-15
= 40,000 shares x Rs. 6 = Rs. 2,40,000
Vesting period = 1 month
Expenses recognized in 2014-15 = Rs. 2,40,000

(2 Marks)

Journal Entry

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)

30.04.2014 Bank A/c (40,000 shares x Rs. 50) Dr.	20,00,000		
Employees compensation expense A/c Dr.	2,40,000		
To Share Capital A/c (40,000 shares x Rs. 10)			4,00,000
To Securities Premium (40,000 shares x Rs. 46)			18,40,000
(Being shares issued under ESPP @ Rs. 50)			

(2 Marks)

Answer-3 :

	Rs. in lakhs	Rs. in lakhs	
Opening bank balance [Rs. (100 – 90 - 7) lakhs]	3.00		
Add: Proceeds from sale of securities	40.00		
Dividend received	1.20	44.20	
Less: Cost of securities	28.20		
Fund management expenses [Rs. (4.50–0.25) lakhs]	4.25		
Capital gains distributed [75% of Rs. (40.00 – 38.00) lakhs]	1.50		
Dividends distributed (75% of Rs. 1.20 lakhs)	0.90	(34.85)	
Closing bank balance		9.35	
Closing market value of portfolio		101.90	
		111.25	
Less: Arrears of expenses		(0.25)	
Closing net assets		111.00	
Number of units			10,00,000
Closing Net Assets Value (NAV)			Rs. 11.10

(4 Marks)

Answer-4 :

Calculation of provision required on advances as on 31st March, 2016:

	Amount Rs. in lakhs	Percentage of provision	Provision Rs. in lakhs
Standard assets	16,800	0.30	50.40
Sub-standard assets	1,340	10	134.00
Secured portions of doubtful debts -			
- upto one year	320	20	64.00
- one year to three years	90	30	27.00
- more than three years	30	50	15.00
Unsecured portions of doubtful debts	97	100	97.00
Loss assets	48	100	48.00
			427.00

(4 Marks)

Answer-5 :

Brightex Co. Ltd

Value Added Statement

For the year ended 31st December, 2014

	(Rs. In thousands)	(Rs. In thousands)	% thousands

Sales				6,240
Less:	Cost of bought in material and services:			
	Production and operational expenses			
	Rs. (4,320 - 8 - 620)		3,692	
	Administration expenses Rs. (180 - 5)		175	
	Interest on bank overdraft		109	
	Interest on working capital loan		20	
	Excise duties (Refer to working note)		180	
	Other/miscellaneous charges Rs. (444 - 180)		264	(4,440)
Value added by manufacturing and trading activities				1,800
Add: Other income				55
Total Value Added				1,855
Application of Value Added:				
To Pay Employees :				
	Salaries to Administrative staff		620	33.42
To Pay Directors:				
	Salaries and Commission		5	0.27
To Pay Government:				
	Local Tax	8		
	Income Tax	55	63	3.40
To Pay Providers of Capital :				
	Interest on Fixed Loan	51		
	Dividend	160	211	11.37
To Provide for Maintenance and Expansion of the Company:				
	Depreciation	16		
	Fixed Assets Replacement Reserve	400		
	Retained Profit Rs. (600 - 60)	540	956	51.54
			1,855	**100.00**

(4 Marks)

Reconciliation between Total Value Added and Profit before Taxation:

	(Rs. in thousands)	**(Rs. in thousands)**
Profit before Tax		1,155
Add back:		
Depreciation	16	
Salaries to Administrative Staff	620	
Director's Remuneration	5	
Interest on Fixed Loan	51	
Local Tax	8	700
Total Value Added		1,855

(2 Marks)

Working Note:

Calculation of Excise Duty

	(Rs. in thousands)
Interest and other charges	624

Less : Interest on bank overdraft	109	
Interest on loan from ICICI	51	
Interest on loan from IFCI	20	(180)
Excise duties and other/miscellaneous charges		444

(1 Mark)

Assuming that these miscellaneous charges have to be taken for arriving at Value Added (In the first part of Value Added Statement), the excise duty will be computed as follows :

Let excise duty be x; thus miscellaneous/ other charges = Rs. 444 -x

Thus x = 1/10 x [Rs. 6,240 - {Rs. 3692+ Rs. 175+ Rs. 109+ Rs. 20+ x + (Rs.444-x)}]

= 1/10 x [Rs. 6240 - Rs. 4440] = Rs. 180

Other/ miscellaneous charges = Rs. 444 - Rs. 180 = Rs. 264

The above solution is given accordingly.

However, if other/miscellaneous charges are taken as any type of application of Value Added (i.e, to be taken in the application part), then excise duty (x) will be computed as follows:

x = 1/10 x [Rs. 6240 - Rs. (3692 + 175 + 109 + 20 + x)]

x = 1/10 x [Rs. 2244 -x]

11x = Rs. 2244

x = Rs. 204

And thus total value added will be Rs. 2040 + Rs. 55 (other income) = Rs. 2095

And accordingly, application part will be prepared, taking miscellaneous charges.

Rs. (‘000) 240 [i.e, Rs. 444 – Rs. 204] as the application of value added. **(1 Mark)**

Answer-6 :

Cost to Company in employing to Mr. X

	Rs.
Salary before tax	
Rs. 4,00,000 x 12 = $\frac{48,00,000}{0.75}$	64,00,000*
Add: Employee’s PFcontribution(50,000 x 12)	6,00,000
	70,00,000
Add: Employer’s PFcontribution(50,000 x 12)	6,00,000
	76,00,000

(3 Marks)

Capital base

	Rs.
Equity Share Capital paid up (5,00,000 shares of Rs. 75 each)	3,75,00,000
Less: Calls in arrears	(1,00,000)
	3,74,00,000
General Reserve	10,00,000
Profit & Loss A/c (balance) at the beginning of the year	(25,00,000)
Loss for the year	(1,80,000)
8% Debentures	8,000,000
Capital base	4,37,20,000
Target Profit 12.5% of capital base (4,37,20,000)	54,65,000
Profits achieved due to Mr. X 54,65,000+ 10% (54,65,000)	60,11,500

Maximum emoluments that can be paid to Mr. X = Rs. 60,11,500

Thus, the company is advised not to hire him as his CTC Rs. 76,00,000 is more than Rs. 60,11,500

(5 Marks)

Note: It is assumed that the average income tax rate of 25% given in the question is after considering the impact of Rs.3 lakhs p.a. i.e., the exemption amount.

Answer-7 :

Capital Base = Rs. 1,00,00,000

Actual Profit = Rs. 11,00,000

Target Profit @ 12.5% = Rs. 12,50,000

Expected Profit on employing the particular executive

= Rs. 12,50,000 + Rs. 2,50,000 = Rs. 15,00,000

Additional Profit = Expected Profit Actual Profit

= Rs. 15,00,000 Rs. 11,00,000 = Rs. 4,00,000

Maximum bid price = $\frac{\text{Additional Profit}}{\text{Rate of Return on Investment}} = \frac{4,00,000}{12.5}$ x 100 = Rs.32,00,000

Maximum salary that can be offered = 12.5% of Rs. 32,00,000 i.e., Rs. 4,00,000

Maximum salary can be offered to that particular executive upto the amount of additional profit i.e., Rs.4,00,000.

(6 Marks)