

FINAL EXAMINATION

December 2014

F-P16(AFA)
Syllabus 2008

Advanced Financial Accounting & Reporting

Time Allowed: 3 Hours

Full Marks: 100

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

Part A questions are compulsory. Attempt all of them.

Part B has seven questions. Attempt any five questions from the remaining seven questions.

- Please*
- (1) Write answers to all parts of a question together.*
 - (2) Open a new page for answer to a new question.*
 - (3) Attempt the required number of questions only.*
 - (4) Indicate in the front page of the answer book the questions attempted.*

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidate.

PART A : (25 Marks)

1. (a) In each of the cases given below, one out of four alternatives is correct. Indicate the correct answer (= 1 mark) and give your workings/reasons briefly in support of your answer (= 1 mark). $2 \times 8 = 16$
- (i) Paragon Ltd. is having an Asset, carrying amount of which is ₹ 50 lakh on March 31, 2014. Its balance useful life is 4 years and residual value at the end of 4 years is ₹ 4 lakh. Estimated future cash flow from using the asset will be ₹ 10 lakh per annum for 4 years. If the discount rate is 12%, 'the value in use' for the asset as per AS-28 will be
- [Given: PVIFA (12%, 4 years) = 3.0373, and PVIF (12%, 4 years) = 0.6355]
- (A) ₹ 32.638 lakh
(B) ₹ 32.915 lakh
(C) ₹ 34.416 lakh
(D) None of the above
- (ii) Shrija Ltd. finds at the end of financial year 2013-14 that there is a Law Suit outstanding. The possible outcomes as estimated by the Board of Directors are as follows:

	Probability	Amount of Loss ₹
Win	0.60	—
Lose-low damages	0.30	90,000
Lose-high damages	0.10	1,60,000

What is the amount of Contingent liability to be shown by way of a note to financial statements as per AS-29?

- (A) ₹ 43,000
(B) ₹ 37,000
(C) ₹ 27,000
(D) Insufficient information

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- (iii) From the records of DKB Construct Ltd. an Engineering Contractors, who obtained a contract for construction of a dam, the following data is available pertaining to the year ended March 31, 2014.

	(₹ in lakh)
Total Contract Price	2,400
Work Certified	1,250
Work pending Certification	250
Estimated further cost to completion	1,750
Stage-wise payment received	1,100

What will be the amount of Profit/(Loss) for the year ended March 31, 2014 as per AS-7?

- (A) ₹ 1,150 lakh
 (B) ₹ (850) lakh
 (C) ₹ (600) lakh
 (D) No effect in 2013-14
- (iv) Shrijoni Ltd. set up a new factory in a backward district and purchased certain Plant and Machinery for ₹ 250 lakh for this purpose. Purchases were entitled for CENVAT Credit of ₹ 5 lakh and State Government also agreed to extend 20% Subsidy for backward area development. What will be the depreciable value of the Plant and Machinery?
- (A) ₹ 250 lakh
 (B) ₹196 lakh
 (C) ₹188 lakh
 (D) None of (A), (B) and (C)
- (v) Abron Ltd. has five business segments with Operating Profits/(Losses) as shown below:

Segment	Operating Profit/(Loss) (₹ in lakh)
M	250
N	25
P	(175)
Q	(20)
R	(105)

What are the Reportable Segments as per AS-17?

- (A) M, P and R
 (B) M, N, P and R
 (C) M, Q and R
 (D) N, P, Q and R
- (vi) Rich Ltd. acquired 80% shares of Zoom Ltd. on October 01, 2013 at a price of ₹ 5,50,000. The Balances of Profit and Loss Account of Zoom Ltd. are as under:

As on	Balance
April 01, 2013	₹ 1,00,000 (Debit balance)
March 31, 2014	₹ 1,50,000 Credit balance

The Share of Capital Profit of Rich Ltd. at the time of consolidation as on 31.03.2014 is

- (A) ₹ 20,000
 (B) ₹ 40,000
 (C) ₹ 75,000
 (D) Insufficient Information

- (vii) Suhasi Ltd. has an asset with W.D.V. of ₹ 75 lakh as on 31.03.2014 and its recoverable amount on 31.03.2014, is determined at ₹ 50 lakh. If the Tax rate is 30% and carrying amount of the assets for the tax purpose is ₹ 55 lakh, what would be Deferred Tax Assets as per AS-22?
- (A) ₹ 2.00 lakh
(B) ₹ 1.50 lakhs
(C) ₹ 1.20 lakhs
(D) None of (A), (B) and (C)
- (viii) Parthan Ltd. purchased a Machine Costing ₹ 702 lakh on 01.04.2013 and the same was fully financed by Foreign Currency Loan (US Dollars) payable in two annual equal instalments. Exchange rates were 1 US Dollar = ₹ 58.50 and ₹ 60.70 as on 01.04.2013 and 31.03.2014 respectively. First instalment was paid on 31.03.2014. The exchange difference to be charged to Profit and Loss A/c for the year 2013-14 as per AS-11 will be
- (A) ₹ 26.40 lakh
(B) ₹ 25.60 lakh
(C) ₹ 12.50 lakh
(D) None of the above
- (b) Choose the most appropriate one from the stated options and write it down (only indicate A or B or C or D as you think correct). 1×5=5
- (i) Which one of the following is not considered while calculating cost of inventory as per AS-2?
- (A) Freight Inward
(B) Duty Drawback
(C) Rebate
(D) Storage Cost
- (ii) Which one of the following is a discontinuing operation as per AS-24?
- (A) Gradual phasing out of product line.
(B) During the year, out of two divisions, Electronic and Garments, the Electronic division was separated by de-merger and a new company was formed.
(C) Closing of facility to achieve productivity, improvements and cost savings.
(D) Selling a subsidiary whose activities are similar to other subsidiary.
- (iii) Which one of the following intangibles should not be recognised as per AS-26?
- (A) Internally generated Goodwill
(B) Licenses
(C) Patents
(D) Trade Marks
- (iv) A Ltd. purchased a machine from P Ltd. for ₹ 40 lakh in consideration of 4,00,000 equity shares of ₹ 10 each of the company. As per AS-3 (Revised), this transaction will be classified as Cash Flow from
- (A) Operating Activities
(B) Financing Activities
(C) Investing Activities
(D) None of the above
- (v) As per AS-19, which of the following situation would normally lead to a lease being classified as a finance lease?
- (A) Ownership of the asset is not transferred to the lessee.
(B) Lessee does not have option to purchase the asset.
(C) Lease term covers major part of the economic life of the asset.
(D) None of the above

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- (c) Bharat Ltd. issued ₹ 10,00,000 worth of 8% debentures of face value ₹ 100 each at par value basis on 1st January, 2012. These debentures are redeemable at 10% premium at the end of 2015 or exchangeable for ordinary shares of Bharat Ltd. on 1 : 1 basis. The interest rate for similar debentures that do not carry conversion entitlement is 12%. You are required to calculate the value of the debt portion of the above compound financial instrument. The present value of the rupee at the end of years 1 to 4 at 8% and 12% are given to you as:

YEAR	1	2	3	4
P.V. factor of ₹ 1 @ 8%	0.926	0.857	0.794	0.735
P.V. factor of ₹ 1 @ 12%	0.893	0.797	0.712	0.636

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PART B : (75 Marks)

Attempt any five questions.

2. Football Ltd. acquired 52,500 shares of Hockey Ltd. for ₹ 6,00,000 on 31st March, 2008. The Balance Sheet of Hockey Ltd. on that date was under:

Liabilities	₹	Assets	₹
75,000 equity shares of ₹ 10 each fully paid	7,50,000	Fixed Assets	5,25,000
Pre-incorporation profit	15,000	Current Assets	3,22,500
Profit and Loss Account	30,000		
Creditors	52,500		
Total	8,47,500	Total	8,47,500

Balance Sheets of both the companies as on 31st March, 2014 were as follows:

(in ₹)

Liabilities	Football Ltd.	Hockey Ltd.	Assets	Football Ltd.	Hockey Ltd.
Equity shares of ₹ 10 each fully paid (before bonus issue)	22,50,000	7,50,000	Fixed Assets	39,60,000	11,55,000
Securities Premium	4,50,000	—	Investment: 52,500 shares in Hockey Ltd. (at cost)	6,00,000	—
Pre-incorporation profit	—	15,000	Current Assets	22,05,000	8,77,500
General Reserve	30,00,000	9,52,500			
Profit and Loss Account	7,87,500	2,10,000			
Creditors	2,77,500	1,05,000			
Total	67,65,000	20,32,500	Total	67,65,000	20,32,500

Directors of Football Ltd. made bonus issue on 31.03.2014 in the ratio of one equity share of ₹ 10 each in Hockey Ltd. fully paid for every two equity shares held on that date. This bonus share issue was made out of post-acquisition profits by using General Reserve.

Calculate (i) Cost of Control/Capital Reserve (ii) Minority Interest (iii) Consolidated Profit and Loss Account (a) before issue of bonus shares (b) immediately after issue of bonus shares.

Also, prepare a Consolidated Balance Sheet of the group as per Revised Schedule VI, after the bonus issue. 15

3. The following are the Summarized Balance Sheets of Apex Ltd. and Titex Ltd. as on March 31, 2014.

	(Amount in ₹ Lakh)	
	Apex Ltd.	Titex Ltd.
<i>Liabilities:</i>		
Authorized Share Capital	3,000	1,000
Equity Share Capital of ₹ 10 each fully paid	1,600	400
General Reserve	220	90
Profit & Loss Account	84	36
Statutory Fund	32	16
Trade Payables	90	48
Provisions	190	24
	2,216	614
<i>Assets:</i>		
<i>Fixed Assets:</i>		
Goodwill	40	—
Machines and Plant	1,020	390
Other Fixed Assets	180	30
<i>Current Assets:</i>		
Inventory	370	70
Debtors	201	70
Prepaid Expenses	49	4
Cash in hand and bank	356	50
	2,216	614

The two Companies have entered into a scheme of amalgamation and a new Company Atinex Ltd. is formed. The amalgamation is to take place in the following manner:

- (a) For the purpose of Amalgamation, a new company Atinex Ltd. is formed with authorized Share Capital of 500,00,000 equity shares of ₹ 10 each.
- (b) Atinex Ltd. to issue fully paid shares (Face value ₹ 10 each) to the shareholders of Apex Ltd. and Titex Ltd. at a price of ₹ 8 and ₹ 5 above the intrinsic value of the shares respectively.
- (c) The scheme of amalgamation was not supported by 20,000 shareholders of Apex Ltd. and they had to be paid ₹ 10 per share above intrinsic value as consideration. The amount of compensation paid to the dissenting shareholders was borne by Atinex Ltd.
- (d) Fixed Assets of Apex Ltd. are to be appreciated by 15% in the values. The current assets of Titex Ltd. include Debtors of ₹ 40 lakh, which are considered bad.
- (e) Stock-in-Trade of Titex Ltd. as on 31.03.2014 includes stock of ₹ 60 lakh purchased from Apex Ltd. at a profit of 20% on cost price.
- (f) The Statutory Fund of the Companies is to be maintained by Atinex Ltd. for a period of 5 years.
- (g) Apex Ltd. has declared dividend of 10% on March 31, 2014, which has still not been paid.

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- (h) Goodwill of Apex Ltd. was considered to be worthless.
(i) All the assets of the companies are taken over by Atinex Ltd. at the revalued amounts.
Liabilities have to be paid in full.

Required:

- (i) Calculate the Purchase Consideration paid by Atinex Ltd.
(ii) Prepare the Balance Sheet of Atinex Ltd. as on March 31, 2014 as per Revised Schedule VI, after amalgamation.

(Notes to Balance Sheet need not form part of the answer).

7+8=15

4. The Balance Sheet of Ice Ltd. as on 31.03.2014 is given below:

Liabilities	₹	₹	Assets	₹
1,00,000 Equity Shares of ₹ 10 each fully paid		10,00,000	Freehold property	5,50,000
4,000, 8% Cumulative preference shares of ₹ 100 each fully paid		4,00,000	Plant and Machinery	2,00,000
6% Debentures (secured by freehold property)	4,00,000		Trade investments (at cost)	2,00,000
Interest in arrears	24,000	4,24,000		
Sundry Creditors		1,01,000	Sundry Debtors	4,50,000
Directors' Loan		3,00,000	Stock in trade	3,00,000
			Deferred revenue expenditure	50,000
			Profit and Loss Account	4,75,000
Total		22,25,000	Total	22,25,000

The court approved a scheme of internal reconstruction to take effect on 1st April, 2014 as per the terms given below:

- (i) Preference shares are to be written down to ₹ 75 each and equity shares to ₹ 2 each.
- (ii) Preference dividend in arrear for 4 years to be waived by 75% and for the balance, equity shares of ₹ 2 each to be allotted.
- (iii) Arrear of debenture interest to be paid in cash.
- (iv) Debenture holders agreed to take one freehold property (book value ₹ 3,00,000) at a valuation of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.
- (v) Deferred revenue expenditure to be written off.
- (vi) Stock value to be written off by 80%.
- (vii) 40% of Sundry Debtors to be written off as bad debt.
- (viii) Remaining freehold property (after taken over by debenture holders) to be valued at ₹ 3,50,000.
- (ix) Investments are sold out for ₹ 2,50,000.
- (x) 80% of Director's Loan to be waived and for the balance, equity shares of ₹ 2 each to be issued.
- (xi) Company's contractual commitments amounting to ₹ 6,00,000 to be cancelled by paying penalty at 3% of contract value.
- (xii) Cost of re-construction scheme is ₹ 25,000.

Show the journal entries (with narration) to be passed for giving effect to the above transactions and draw Balance Sheet of the company after effecting the scheme.

5. (a) Profit and Loss Account of Omega Ltd. for the year ended 31st March, 2014 is given below. Prepare a Gross Value Added Statement of Omega Ltd. and also show the reconciliation between Gross Value Added and Profit before taxation. 10

Profit and Loss Account for the year ended 31st March, 2014

(₹ in lakhs)

	Notes	Amount	Amount
Income:			
Sales			990
Other Income			55
			1,045
Expenditure:			
Production and operational expenses	i	691	
Factory administrative expenses	ii	83	
Interest	iii	29	
Depreciation		17	820
Profit before taxes			225
Provision for taxes	iv		30
Profit after taxes			195
Balance as per last Balance Sheet			10
			205
Transferred to General Reserve			45
Dividend Paid			95
			140
Surplus carried to Balance Sheet			65
			205

Notes:

- (i) Production and operational expenses: ₹ in lakhs
- | | |
|---|-----|
| Consumption of raw material | 343 |
| Consumption of stores | 59 |
| Salaries, wages, gratuities etc. (administration) | 82 |
| Cess and local taxes | 98 |
| Other manufacturing expenses | 109 |
| | 691 |
- (ii) Administrative expenses include salaries, commission to Directors ₹ 9.00 lakhs and provision for doubtful debts ₹ 6.30 lakhs.
- ₹ in lakhs
- (iii) Interest on loan from AXIS Bank for working capital 9
- | | |
|---|----|
| Interest on loan from AXIS Bank for fixed loan | 10 |
| Interest on loan from ICICI Bank for fixed loan | 8 |
| Interest on Debenture | 2 |
| | 29 |
- (iv) The charges for taxation include a transfer of ₹ 3.00 lakhs to the credit of Deferred Tax Account.
- (v) Cess and local taxes include Excise Duty, which is equal to $\frac{1}{14}$ th of cost of bought-in material and services.

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- (b) From the following information pertaining to Sky Ltd. for the year ended March 31, 2014, calculate Basic Earning Per Share (EPS) and diluted EPS, as per AS-20. 5

Profit after Interest and Tax = ₹ 72,000
 Number of ₹ 10 equity shares outstanding = 30,000
 15% convertible debentures = ₹ 1,20,000
 Number of Equity Shares to be issued in consideration = 6,000
 Tax Rate = 40%

6. (a) The Balance Sheet of Minor Ltd. as on 31st March, 2014 is as follows:

Liabilities	₹	₹	Assets	₹
<i>Liabilities:</i>			<i>Fixed Assets:</i>	
Share Capital:			Goodwill	1,00,000
Equity shares of ₹ 10 each	10,00,000		Machinery	4,60,000
Less, call in arrear (₹ 2 on final call)	20,000	9,80,000	Factory shed	6,00,000
			Vehicles	1,20,000
			Furniture	50,000
8% preference shares of ₹ 10 each fully paid		4,00,000	10% Investments	2,00,000
Reserve and Surplus:			Stock in trade	4,20,000
General Reserve		4,00,000	Sundry Debtors	7,00,000
Profit and Loss Account		2,80,000	Cash at Bank	1,00,000
<i>Current Liabilities:</i>			Preliminary Expenses	50,000
Bank Loan		2,00,000		
Sundry Creditors		5,40,000		
Total		28,00,000	Total	28,00,000

Additional information:

- (i) Fixed assets are worth 20% above their actual book value. Depreciation on appreciated value of fixed assets to be ignored for valuation of goodwill.
- (ii) Of the investments, 80% is non-trading and the balance is trading.
- (iii) For the purpose of valuation of shares, Goodwill is to be considered on the basis of 4 years' purchase of the super-profits based on simple average profit of the last 3 years. Profits after tax are as follows:

Year	₹
2011-12	3,80,000
2012-13	4,00,000
2013-14	4,20,000

- (iv) In a similar business, return on capital employed is 15%. In 2011-12 new furniture costing ₹ 20,000 was purchased, but wrongly charged to revenue, no effect has yet been given for rectifying the same. Depreciation is charged on furniture @ 10% on written down value basis.

Find out the value of each fully paid and partly paid equity share, assuming tax rate of 35%. 10

- (b) Beta Ltd. grants 150 shares options to each of its 580 employees, each grant containing condition on the employees working for Beta Ltd. over the next 5 years. Beta Ltd. has estimated that the fair value of the option is ₹ 25. Beta Ltd. also estimated that 40% of employees will leave during five year period and hence, forfeit their rights to the share option. If the above expectations are correct, what amount of expenses to be recognized during the vesting period? 5

7. (a) The following is the Balance Sheet of Silver Ltd. as at 31st March, 2014:

(₹ in lakhs)

Liabilities	₹	Assets	₹
Equity shares of ₹ 10 each fully paid up	8,000	Fixed assets (tangible)	12,000
10% Redeemable Preference shares of ₹ 10 each, fully paid up	2,500	Investments	4,000
Capital Redemption Reserve	1,000	Cash at Bank	1,650
Securities Premium	800	Other current assets	10,250
General Reserve	6,000		
Profit and Loss Account	300		
9% Debentures	5,000		
Sundry Creditors	2,800		
Sundry Provisions	1,500		
Total	27,900	Total	27,900

On 1st April, 2014, the company redeemed all of its preference shares at a premium of 10% and bought back 20% of its equity shares @ ₹ 25 per share. In order to make cash available, the company sold all the investments for ₹ 4,300 lakhs and raised a bank loan amounting to ₹ 2,000 lakhs on the security of the company's plant. The amount of securities premium has been utilised to the maximum extent allowed by Law.

Pass journal entries with proper narration of all the above mentioned transactions and prepare the Company's Balance Sheet immediately thereafter. 10

- (b) Notaraj Ltd. purchased a machine for ₹ 70 lakh from W Ltd. during the financial year 2013-14 and installed the same immediately. The price charged by W Ltd. included Excise Duty (CENVAT Credit available) of ₹ 7 lakh.

During the year 2013-14, the company produced Excisable goods on which Excise Duty chargeable is ₹ 5.50 lakh.

You are required to show the Journal Entries explaining the treatment of CENVAT Credit, in the books of Notaraj Ltd. 5

8. Write short notes on (any three):

5×3=15

- Corporate Social Reporting
- Role of Committee on Public Undertaking
- Significance of Environmental Accounting
- Basic Structure in the Form of Government Accounts
- Convergence of Accounting Standard with IFRS