FINAL EXAMINATION

December 2013

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 *of them.*

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 question attempted.*

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): 2×8=16

(i) In a production process, normal waste is 5% of input. 5000 MT of input were put in process resulting in a waste of 300 MT. Cost per MT of input is ₹ 500. What will be the cost per unit?

A. ₹ 500.00
B. ₹ 526.32
C. ₹ 531.91
D. ₹ 561.80

(ii) X Ltd. purchased certain plant and machinery for ₹ 80 lakhs. 20% of the cost, net of CENVAT credit is the subsidy component to be realised from a State Government for establishing industry in a backward district. Purchase price includes excise of ₹ 6 lakhs against which CENVAT credit can be claimed. What will be the depreciable amount when entire subsidy is adjusted against cost?

A. ₹ 64 lakhs
B. ₹ 74 lakhs
C. ₹ 59.20 lakhs
D. ₹ 75.20 lakhs

(iii) M Ltd. has equity capital of ₹ 20 crores consisting of fully paid equity shares of ₹ 10 each. The net profit for the year 2012-13 was ₹ 60 lakhs. It has also issued 40,000, 10% convertible debentures of ₹ 50 each. Each debenture is convertible into five equity shares. Applicable tax rate is 30%. What will be the diluted earnings?

A. ₹ 42,00,000
B. ₹ 62,00,000
C. ₹ 59,40,000
D. ₹ 61,40,000

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(iv) Northern Ltd. took a bank loan of ₹ 125 lakhs to finance the purchase of a plant of ₹ 160 lakhs at an interest of 15% per annum on 30.09.2012. The plant was ready for use on 31.01.2013; however it was put to use only on 01.04.2013. What amount of finance cost will be added to find out the original cost of the plant?

A. ₹ 6.25 lakhs
B. ₹ 9.375 lakhs
C. ₹ 18.75 lakhs
D. ₹ 8.00 lakhs

(v) Z Ltd. has provided depreciation as per accounting records ₹ 5.00 lakhs and as per tax records it is ₹ 8.00 lakhs. An unamortised preliminary expense as per tax records is ₹ 6,500. There is adequate evidence of future profits sufficiency. How much deferred tax assets/liabilities should be recognised as per AS–22 ? Tax rate is 30%.

A. ₹ 88,050 (DTL)
B. ₹ 90,000 (DTL)
C. ₹ 91,950 (DTL)
D. ₹ 88,060 (DTA)

(vi) ASILEEN LTD. purchased a plant on 01.04.2011 for ₹ 8,00,000. It provides depreciation @ 20% on WDV during the year ended on 31.03.2013. If the Company provides inpairment loss on plant for ₹ 80,000. What would be the carrying amount of Plant on 31.03.2013 as per AS–28?

A. ₹ 5,92,000
B. ₹ 5,12,000
C. ₹ 4,32,000
D. None of (A), (B) and (C)

(vii) GAYATHRI Ltd. purchased 1500 shares of SAVITHA Ltd. in December, 2011 at ₹ 100 each and paid brokerage at 1%. In September, 2012 Savitha Ltd. issued bonus shares at one share for every three held by the Shareholders. If Gayathri Ltd. sold 1,000 shares in March, 2013 at ₹ 110 per share and paid a brokerage of 1%, what would be the carrying cost of investment in Savitha Ltd. after the sale of shares as per AS–13?

A. ₹ 75,750
B. ₹ 41,500
C. ₹ 42,700
D. None of the above

(viii) VENNELA Ltd. acquired 2000 equity shares of DRAVIDAN Ltd. on April, 01,2012 for a price of ₹ 3,00,000. Dravidan Ltd. made a net profit of ₹ 80,000 during the year 2012-13. Dravidan Ltd. issued bonus shares of one share for every five shares held out of the post acquisition profits earned during the year 2012-13. The Share Capital of DRAVIDAN Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the share of Vennela Ltd. in the pre-acquisition profit of Dravidan Ltd. is ₹ 56,000, the amount of Goodwill/ Capital Reserve to be shown in the Consolidated Balance Sheet as on March 31,2013 is

A. ₹ 4,000 (Goodwill)
B. ₹ 4,000 (Capital Reserve)
C. ₹ 44,000 (Goodwill)
D. ₹ 50,000 (Goodwill)

(b) Choose the most appropriate one from the stated options and write it down (only indicate A, B, C, D as you think correct). 1×5=5

(i) As per AS-16, a qualifying asset is

A. An asset which qualifies to be a part of reconstruction
B. An asset that takes a long time to get ready for intended use or sale
C. An asset which satisfies a particular condition
D. An asset which qualifies for a particular rate of depreciation

(ii) Amortization of Unidentified intangible assets is in terms of

A. Conservation concept
B. Going concern concept
C. Matching concept
D. None of (A), (B) and (C)

(iii) Which of the following combination of accounting assumptions are fundamentals as per AS–1?

A. Going concern, consistency and accrual
B. Going concern, conservatism and historic cost
C. Histric cost, consistency and conservatism
D. Conservatism, consistency and accrual

(iv) A reportable segment must exceed the quantitative thresholds mentioned in AS–17. These thresholds relate to

A. Revenue of segment to the revenue of Enterprise
B. Profit or Loss to the combined profit or loss of all segments
C. Segment assets to the total assets of all segments
D. All of the above

(v) As per AS–29 contingent Assets are

A. Recognized in Balance Sheet, if happening is almost certain
B. Not Recognized in Balance Sheet
C. Disclosed in Notes to Accounts
D. None of the above

(c) PARTHAN Ltd. took a machine on lease from ZEESLIN Ltd., the fair value being ₹ 9,00,000. The economic life of the machine as well as lease term is 3 years. At the end of each year Parthan Ltd. pays ₹ 3,50,000. Guaranteed Residual Value (GRV) is ₹ 25,000 on expiry of the lease. Implicit Rate of Return (IRR) is 15% p.a. Calculate the value of machine to be considered by Parthan Ltd. and the interest (Finance Charges) in each year.

Notes:

Extracted from the PV Table: 4

Year	1	2	3
P.V. factor of ₹ 1 @ 15%	0.869	0.756	0.657

PART B (75 Marks)

2. (a) Ms. AINDRILA furnishes the following information about all options at the Balance Sheet date (31.03.2013).

(Figures in ₹)

Securities	BN	DM	TZ
Details of Options bought:			
Premium paid	18,000	9,000	9,000
Premium prevailing on Balance Sheet date	27,000	4,500	7,200
Details of Options Sold:			
Premium received	9,000	27,000	9,000
Premium prevailing on Balance Sheet date	22,500	18,000	13,500

Required:

Determine the amount of Provision to be made in the Books of Ms. Aindrila. 5

(b) PHIMPEX LTD. (PL) engeged in manufacturing business furnished the following Profit and Loss Account for the year ended March 31, 2013.

(Amount in ₹ lakh)

		Amount
Income:		
Sales	3,120	
Other Income	27	3,147
Expenditure:		
Production and Operational Expenses	2,160	
Administration Expenses (factory)	90	
Interest and Other Charges	312	
Depreciation	8	2,570
Profit before Tax		577
Provision for Tax		27
		550
Balance as per last Balance Sheet		30
		580
Less: Transfer to Fixed Asset Replacement Reserve	200	
Dividend paid	80	280
Surplus carried to Balance Sheet		300

(Amount in ₹ lakh)

	Amount
Additional Information:	
(i) Production and Operation expenses consist of:	
Consumption of Raw materials	1,604
Consumption of stores	20
Local Taxes	4
Salaries to Administrative staff	310
Other Manufacturing Expenses	222
(ii) Administrative expenses include salaries and Commission to Directors	2.50
(iii) Interest and other charges include interest on:	
(a) Bank overdraft (overdraft is of temporary nature)	54.50
(b) Fixed loan from SIDBI	25.50
(c) Working Capital Loan from IDBI	10
(iv) Excise duty amounts to one-tenth of Total Value Added by manufacturing and trading activities.	

Required:

Prepare Gross Value Added Statement of PHIMPEX LTD. and also show the reconciliation between Gross Value Added and Profit before Taxation. 10

3. (a) The following is an abstract of the Balance Sheet of RICHA LTD., PURU LTD. and SURA LTD. as on March 31,2013.

Particulars	RICHA Ltd. ₹	PURU Ltd. ₹	SURA Ltd. ₹
Assets:			
Fixed Assets (at cost less depreciation)	4,00,000	5,00,000	4,00,000
Investments:			
6,400 Equity Shares in Puru Ltd.	7,00,000	—	—
3,000 Equity Shares in Sura Ltd.	4,00,000	—	—
800 Equity Shares in Puru Ltd.	—	—	90,000
Current Assets:			
Debtors	40,000	1,80,000	80,000
Stock	40,000	1,40,000	1,00,000
Cash and Bank Balance	20,000	3,30,000	90,000
	16,00,000	11,50,000	7,60,000
Liabilities:			
Equity Share Capital (₹ 100 each)	10,00,000	8,00,000	5,00,000
Reserves and Surplus:			
Profit and Loss Account	5,00,000	2,00,000	60,000
Current Liabilities & Provisions:			
Sundry Creditors	92,000	1,34,000	1,60,000
Bills payable	8,000	16,000	40,000
	16,00,000	11,50,000	7,60,000

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Additional Information:

(i) Profit and Loss Account of PURU Ltd. includes ₹ 50,000 as pre-acquisition Profits, the balance representing post-acquisition Profits.

(ii) The balance in the Profit and Loss Account of SURA Ltd. is arrived at after setting off ₹ 15,000 being pre-acquisition loss against the post acquisition profit of ₹ 75,000.

(iii) Richa Ltd. and Sura Ltd. acquired the shares of Puru Ltd. on the same date.

Required:

Prepare a consolidated Balance Sheet of Richa Ltd. and its subsidiaries Puru Ltd. and Sura Ltd. as on March 31, 2013. 10

(b) Who are related parties under AS-18? what are the disclosure requirements with respect to related party transactions? 5

4. From the following Balance Sheets of DOLL LTD. and additional information, prepare a Cash Flow Statement as per AS-3 for the current year.

Balance Sheet of DOLL LTD.

Liabilities	Previous Year (₹)	Current Year (₹)	Assets	Previous Year (₹)	Current Year (₹)
Share Capital	2,50,000	3,50,000	Goodwill	60,000	50,000
Reserves	1,30,000	1,65,000	Fixed Assets	2,90,000	3,95,000
Proposed Dividend	20,000	35,000	Stock	70,000	1,00,000
Provision for tax	50,000	60,000	Debtors	1,00,000	1,30,000
Current Liabilities	90,000	1,20,000	Cash & Cash Equivalent	20,000	55,000
	5,40,000	7,30,000		5,40,000	7,30,000

Additional information:

(i) Depreciation on fixed assets provided during the year ₹ 30,000; Net Profit during the year ₹ 80,000; Income Tax paid ₹ 50,000; Final dividend paid ₹ 20,000; Interim dividend was also paid.

(ii) Fixed asset costing ₹ 60,000 (accumulated depreciation ₹ 35,000) sold for ₹ 30,000.

(iii) Fixed asset costing ₹ 50,000 was purchased by issue of share capital. 15

5. The Balance Sheets of ZYX Ltd. are as follows:

(₹ in lakhs)

Particulars	*As at 31.03.2012*	*As at 31.03.2013*
Liabilities:		
Share Capital	1,000	1,000
General Reserve	800	850
Profit & Loss A/c	120	175
Term Loans	370	330
Sundry Creditors	70	90
Provision for tax	23	25
Proposed dividend	200	250
	2,583	2,720
Assets:		
Fixed Assets & Investments (non-trade)	1,600	1,800
Stock	550	600
Debtors	340	220
Cash & Bank	93	100
	2,583	2,720

Other information:

(i) Current cost of fixed assets excluding non-trade investments on 31.03.2012, ₹ 2,200 lakhs and on 31.03.2013, ₹ 2,532.80 lakhs.

(ii) Current cost of stock on 31.03.2012, ₹ 670 lakhs and on 31.03.2013, ₹ 750 lakhs.

(iii) Non-trade investments in 10% government securities ₹ 490 lakhs.

(iv) Debtors include foreign exchange debtors amounting to $ 70,000 recorded at the rate of $ 1 = Rs. 43.50, but the closing exchange rate was $ 1 = ₹ 47.50.

(v) Creditors include foreign exchange creditors amounting to $ 1,20,000 recorded at the rate of $ 1 = ₹ 42.50, but the closing exchange rate was $ 1 = ₹ 47.50.

(vi) Profit included ₹ 120 lakhs being government subsidy which is not likely to recur.

(vii) ₹ 247 lakhs, being the last instalment of R & D cost, were written off in the Profit and Loss account. This expenditure is not likely to recur.

(viii) Tax rate is 35%.

(ix) Normal rate of return is expected at 13%.

Find out goodwill: (a) under capitalisation method.
(b) under super profit method. 15

6. The following are the Balance Sheet of ASHLIN LTD. and MEGHLA LTD. ason March 31, 2013.

(₹ in lakhs)

Liabilities	ASHLIN Ltd.	MEGHLA Ltd.	Assets	ASHLIN Ltd.	MEGHLA Ltd.
Equity Share Capital (₹ 10 each)	200	120	Fixed Assets other than Goodwill	120	80
Reserve	16	8	Stock	32	24
Profit & Loss A/c	24	16	Debtors	56	36
Creditors	20	12	Cash & Bank	48	14
			Preliminary Expenses	4	2
Total	**260**	**156**	**Total**	**260**	**156**

ASHLIN LTD. takes over MEGHLA LTD. on 01.07.2013. No Balance Sheet of Meghla Ltd. is available as on that date. It is however estimatd that Meghla Ltd. earns estimated Profit of ₹ 8 lakh after charging proportionate depreciation @ 10% p.a. on Fixed Assets, during April-June, 2013.

Estimated Profit of Ashin Ltd. during these 3 months is ₹ 16 lakh after charging proportionate depreciation @ 10% p.a. on Fixed Assets. Both the Companies have declared and paid 10% dividend within this 3 months period. Goodwill of Meghla Ltd. is valued at ₹ 8 lakh and Fixed Assets are valued at ₹ 4 lakh above the estimated book value. Purchase consideration is to be satisfied by Ashlin Ltd. by issuing shares at PAR.

You are required to Calculate the following:

(a) Net Current Assets of Ashlin Ltd. and Meghla Ltd. as on 01.07.2013.

(b) Profit & Loss account balance of Ashlin Ltd. as on 01.07.2013.

(c) Fixed Assets of Ashlin Ltd. and Meghla Ltd. as on 01.07.2013.

(d) Number of shares to be issued by Ashlin Ltd. to Meghla Ltd. against purchase consideration.

(e) Prepare Balance Sheet of Ashlin Ltd. as on 01.07.2013 after taking over Meghla Ltd. 4+2+3+1+5=15

7. The business of P. Ltd. was being carried on continuously at losses. The following are the extracts from the Balance Sheet of the company as on 31st March, 2013.

(₹ in 000)

Liabilities	Amount	Assets	Amount
Authorised, Issued and subscribed Capital:		Goodwill	50
30,000 equity shares of ₹ 10 each fully paid	300	Plant	300
2,000, 8% cumulative preference shares of ₹ 100 each fully paid	200	Loose Tools	10
Securities Premium	90	Debtors	250
Unsecured Loan (from directors)	50	Stock	150
Sundry Creditors	300	Cash & Bank	45
Outstanding Expenses (including director's remuneration ₹ 20,000)	70	Preliminary Expenses	5
		Profit & Loss Account	200
	1,010		1,010

Note: Dividends on cumulative Preference Shares are in arrears for 3 years.

The following scheme of reconstruction has been agreed upon and duly approved by the court.

(a) Equity shares to be converted into 1,50,000 shares of ₹ 2 each.

(b) Equity shareholders to surrender to the company 90% of their holding.

(c) Preference shareholders agree to forego their right to arrears to dividends in consideration of which 8% Preference Shares are to be converted into 9% Preference Shares.

(d) Sundry Creditors agree to reduce their claim by 1/5th in consideration of their getting shares of ₹ 35,000 out of the surrendered equity shares.

(e) Directors agree to forego the amounts due on account of unsecured loan and outstanding remuneration.

(f) Surrendered shares not otherwise utilised to be cancelled.

(g) Assets to be revalued as under:

Goodwill	₹ Nil
Plant	₹ 2,60,000
Tools	₹ 2,000
Sundry Debtors	₹ 2,35,000
Stock	₹ 1,30,000

(h) Any surplus after meeting the losses should be utilised in writing down the value of the plant further.

(i) Expenses on reconstruction amounted to ₹ 10,000.

(j) Further 50,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid-up.

You are required to pass the journal entries for giving effect to the above arrangement and also to draw up the Balance Sheet after reconstruction of the company. 15

8. Write short notes on *any three* of the following: 5×3=15

(a) Whistle Blower Policy;

(b) Functions of the Committee on Public Undertaking;

(c) Criteria for identification of Reportable segment as per AS-17;

(d) Objectives of Financial Reporting.