FINAL EXAMINATION

June 2013

F–P16(AFA)
Syllabus 2008

Advanced Financial Accounting and 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 workings/reasons briefly in support of your answer (= 1 mark): 2×8=16

(i) SMITH LTD. had 1000000 equity shares outstanding on April 01, 2012. The average fair value per share during the year 2012-13 was ₹ 50. The Company has given share option to its employees of 2,00,000 shares at option price of ₹ 40. If net profit attributable to equity shareholders for the year ended March 31, 2013 is ₹ 21 lakh, what would be DILUTED EPS as per AS-20?

A. ₹ 2·10
B. ₹ 2·06
C. ₹ 2·02
D. None of (A), (B), (C)

(ii) VASUDA CONSTRUCTION LTD. undertook a contract on January 1, 2013 to construct a building for ₹ 70 lakh. The Company found on March 31, 2013 that it had already spent ₹ 52 lakh on the construction. Prudent estimate of additional cost for completion was ₹ 28 lakh. SContract value to be recognized as Turnover in the final accounts for the year ended March 31, 2013 as per AS-7 (revised) will be

A. ₹ 52·5 lakh
B. ₹ 50·4 lakh
C. ₹ 45·5 lakh
D. None of these

(iii) BANSAL LTD. had acquired 75% share of NAVINA LTD. for ₹ 27 lakh. The Net Assets of NAVINA LTD. on the day are ₹ 24 lakh. During the year Bansal Ltd. sold the investment for ₹ 32 lakh and Net Assets of Navina Ltd. on the date of disposal was ₹ 40 lakh. The Profit/Loss on disposal of this investment to be recognized in consolidated financial statement is

A. Profit ₹ 8·00 lakh
B. Profit ₹ 2·00 lakh
C. Loss ₹ 7·00 lakh
D. Insufficient Information

(iv) The fair values of Pension Plan Assets of ZOOM LTD. at the beginning and end of the year 2012-13 were ₹ 5,60,000 and ₹ 6,20,000 respectively. The actual return on Pension Plan Assets for the year was ₹ 63,000. If benefit payments made to the retirees are ₹ 64,000, the employer's contribution to the plan during the year as per AS-15 would be

A. ₹ 52,000
B. ₹ 61,000
C. ₹ 65,000
D. None of (A), (B), (C)

(v) MS. DEEPASHREE purchased 1000 shares in SPECTRUM LTD. at ₹ 600 per share in 2010. There was a rights issue in 2013 at one share for every two held at price of ₹ 150 per share. If Ms. Deepashree subscribed to the rights, what would be carrying cost of 1,500 shares as per AS-13.

A. ₹ 6,00,000
B. ₹ 6,75,000
C. ₹ 7,00,000
D. Data insufficient

(vi) SWIFT LTD. has an asset, which is carried in the Balance Sheet on 31.3.2013 at ₹ 600 lakh. As at that date value in USE is ₹ 400 lakh. If the net selling price is ₹ 450 lakh, Impairment loss of the Asset as per AS-28 will be

A. ₹ 200 lakh
B. ₹ 150 lakh
C. ₹ 50 lakh
D. None of (A), (B), (C)

(vii) PARTHAN LTD. reports quarterly and estimates an annual income of ₹ 200 crores. Assume Tax rates on first ₹ 100 crores at 30% and on the balance income at 40%. The estimated quarterly incomes are ₹ 15 crores, ₹ 50 crores, ₹ 75 crores and ₹ 60 crores respectively. The Tax expenses to be recognized in the last quarter as per AS-25 is

A. ₹ 24 crores
B. ₹ 21 crores
C. ₹ 19 crores
D. Insufficient Information

(viii) BHARAT LTD. bought a forward contract for three months of US $ 150000 on 1st March, 2013 at 1 US $ = ₹ 54·10 when exchange rate was 1US $ = ₹ 54·12. On 31st March, 2013 when the books were closed forward exchange rate for two months was US $ 1= ₹ 54·16. On 30th April, 2013 the contract was sold at ₹ 54·20 per US Dollar. As per AS-30 the profits from sale of contract to be recognized in the Profit & Loss A/c will be

A. ₹ 6,000
B. ₹ 8,000
C. ₹ 12,000
D. None of these

(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) The objective of AS-1 is

A. To prohibit any change in accounting policies
B. To ensure disclosure of accounting policies
C. To ensure that the effect of any change in accounting policy is adequately disclosed
D. Both B and C above

(ii) As per AS-3 (Revised) Interest and Dividends received in the case of a manufacturing enterprise should be classified as cash flow from

A. Operating activities
B. Financing activities
C. Investing activities
D. Both (B) and (C)

(iii) According to AS-28, estimates of future cash flow should not include

A. Cash flow from financing activities
B. Cash flow from the continuing use of the assets
C. Cash flow to be received for disposal of asset at the end of its useful life
D. None of (A), (B), (C)

(iv) M Ltd. holds 51% of N Ltd. N Ltd. holds 51% of P Ltd. and O Ltd. holds 49% of P Ltd.
The Related parties as per AS-18 are

A. M Ltd., N Ltd. and P Ltd.
B. M Ltd. and P Ltd.
C. N Ltd. and P Ltd.
D. M Ltd. and N Ltd. only

(v) According to AS-11 (Revised) the difference between the forward rate and the exchange rate at the date of transaction should be

A. Ignored
B. Recognized as income or expense
C. Adjusted to Shareholders' interests
D. None of (A), (B), (C)

(c) (i) From the following information, determine the possible value of brand under potential earning model:

	₹ in lakhs
Profit before tax	650
Income Tax	150
Tangible Fixed Assets	1000
Identifiable Intangibles other than brand	500
Expected normal return on Tangible Fixed Assets	300
Appropriate Capitalisation Factor for Intangibles	25 %

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(ii) Mohan Ltd. purchased a plant for US $ 15000 on 31st December, 2012, payable after 4 months. The Company entered into a forward contract for 4 months @ ₹ 52·50 per Dollar. On 31st December, 2012, the exchange rate was ₹ 51·10 per Dollar. How the Company will recognize the profit or loss on forward contract in its books for the year ended 31st March, 2013. 2

PART B : (75 Marks)

Attempt *any five* questions.

2. (a) ALEENA LTD. is in the business of manufacturing and export of its product. Sometimes back in 2010, the Government put restriction on export of goods exported by Aleena Ltd. Due to that restriction Aleena Ltd. impaired its assets. The Company acquired at the end of the year 2006 identifiable assets worth ₹ 5,000 lakh and paid ₹ 7,500 lakh, balance is treated as Goodwill. The useful life of the identifiable assets are 15 years and depreciated on straight-line basis. When Government put the restriction at the end of year 2010, the Company recognized the impairment loss by determining the recoverable amount of assets at ₹ 3,400 lakh.

In 2012, Government lifted the restriction imposed on the export and due to this favourable change, Aleena Ltd. re-estimated recoverable amount, which was estimated at ₹ 4275 lakh.

The amortization period of Goodwill to be taken as 5 years as per AS-14.

Required :

(i) Calculation and allocation of Impairment loss in 2010.

(ii) Reversal of an Impairment loss and its allocation as per AS-28 at the end of year 2012. 4+4=8

(b) From the following information of Neel Ltd., compute the Economic Value Added (EVA) :

Share Capital	₹ 3,000 lakhs
Reserves and Surplus	₹ 5,000 lakhs
Long Term Debt	₹ 500 lakhs
Tax Rate	40 %
Risk Free Rate	8 %
Market Rate of Return	15 %
Interest	₹ 50 lakhs
Beta Factor	1·05
Profit before Interest and Tax	₹ 3,000 lakhs

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3. The following is an abstract of the Balance Sheet as on 31st March, 2013 of H LTD. and its two Subsidiaries (B LTD. and C LTD).

	H LTD. ₹	B LTD ₹	C LTD ₹
Liabilities :			
Share Capital :			
Authorised and Issued Equity Shares of ₹ 100 each fully paid	50,00,000	25,00,000	10,00,000
Reserves and Surplus:			
Capital Reserve	5,00,000	1,50,000	1,00,000
Revenue Reserve	10,00,000	7,50,000	6,00,000
Current liabilities & Provisions :			
Creditors	20,00,000	10,00,000	3,00,000
Income Tax	5,00,000	3,50,000	3,00,000
	90,00,000	47,50,000	23,00,000
Assets :			
Fixed Assets (at cost less depreciation)	32,00,000	16,00,000	3,00,000
Investments :			
Shares in B Ltd. at cost	45,00,000		
Shares in C Ltd. at cost	5,00,000	10,00,000	—
Stock	2,00,000	9,00,000	7,00,000
Debtors	4,00,000	10,50,000	11,50,000
Bank Balance	2,00,000	2,00,000	1,50,000
	90,00,000	47,50,000	23,00,000

Additional Information :

(a) B Ltd. acquired 6000 shares in C Ltd. on 01.4.2011 when the balance on Capital Reserve had been ₹ 1,00,000 and Revenue Reserve ₹ 1,50,000.

(b) H Ltd. purchased 20000 shares in B Ltd. on 01.4.2012 when the latter's balance on Consolidated Revenue Reserve had been ₹ 5,50,000. The Balance of Capital Reserve in B Ltd. at that time was ₹ 1,50,000.

(c) H Ltd. also acquired 3000 shares in C Ltd. on 01.4.2012 when the balance on Capital Reserve had been ₹ 1,00,000 and Revenue Reserve ₹ 3,50,000.

Required :

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiaries as on March 31, 2013 together with consolidation schedules. 15

4. The following are the Balance Sheet of RITO LTD. and ARIMA LTD. as on March 31, 2013.

(Amounts in ₹ lakh)

Liabilities	RITO LTD.	ARIMA LTD.	Assets	RITO LTD	ARIMA LTD.
Share Capital :					
Equity Shares of ₹ 100 each fully paid up	600	300	Fixed Assets – net of depreciation	810	255
Reserves & Surplus	240	—	Investments (including investment in Arima Ltd.)	210	—
10% Debentures	150	—			
Loans from Banks	75	135			
Bank Overdrafts	—	15	Debtors	120	45
Sundry Creditors	90	90	Cash at Bank	75	—
Proposed Dividends	60	—	Accumulated loss	—	240
			Peofit & Loss A/c		
	1215	540		1215	540

It was decided that ARIMA LTD. will acquire the business of RITO LTD. for enjoying the benefit of carry forward of business loss.

The following scheme has been approved for the merger :

(i) ARIMA LTD. will reduce its shares to ₹ 10 per share and then consolidate 10 such shares into one share of ₹ 100 each (New Shares).

(ii) Banks agreed to waive the loan of ₹ 18 lakh of Arima Ltd.

(iii) Shareholders of Rito Ltd. will be given one share (new) of Arima Ltd. in exchange of every share held in Rito Ltd.

(iv) Sundry Creditors of Arima Ltd. includes ₹ 30 lakh payable to RITO Ltd.

(v) After merger the proposed dividend of Rito Ltd. will be paid to Shareholders of Rito Ltd.

(vi) RITO Ltd. will cancel 20% holding of Arima Ltd. investment which was held at a cost of ₹ 75 lakh.

(vii) Authorised Capital of ARIMA LTD. will be raised accordingly to carry out the scheme.

Required :

Pass necessary entries in the books of ARIMA LTD. and prepare Balance Sheet (after merger) as on March 31, 2013. 15

5. (a) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS-3: 8

	₹ in lakhs	₹ in lakhs
Net Profit		80,000
Add: Sale of Investments		60,000
Depreciation on Assets		14,000
Issue of Preference Shares		10,000
Loan Raised		5,000
Decrease in Stock		11,000
		1,80,000
Less: Purchase of Fixed Assets	50,000	
Decrease in Creditors	5,000	
Increase in Debtors	10,000	
Exchange Gain	10,000	
Profit on Sale of Investments	15,000	
Redemption of Debenture	6,500	
Dividend Paid	2,000	
Interest Paid	1,500	1,00,000
		80,000
Add: Opening Cash and Cash Equivalent		14,450
Closing Cash and Cash Equivalent		94,450

(b) As per requirement of Revised Clause-49 issued by SEBI, the Board shall lay down a Code of Conduct for all Board members and senior management of the company. For this purpose, state the meaning of "senior management". 2

(c) State the powers of Audit Committee. 2

(d) Why internally generated goodwill is not recognized in financial statement? 3

6. (a) Following information is given of two companies for the year ended 31st March, 2013:

Particulars	Company X ₹	Company Y ₹
Equity Shares of ₹ 100 each	12,00,000	15,00,000
10% Preference Shares of 100 each	9,00,000	6,00,000
Profit after Tax	4,50,000	4,50,000

Assume market expectation is 15% and 80% of the profits are distributed.

(i) What is the rate you would pay to the Equity Shares of each company?
   (a) if you are buying a small lot.
   (b) if you are buying controlling interest in the company.

(ii) If you plan to invest only in Preference Shares, which company's Preference Shares is better? 8

(b) AB Ltd. has entered into a contract by which it has the option to sell its specified asset to XY Ltd. for ₹ 100 lakhs after 3 years, whereas the current market price is Rs. 150 lakhs. Company always settles account by delivery. What type of option is this? Is it a financial instrument? Explain with reference to the relevant accounting standard. 4

(c) How is liability determined in the case of a finance lease? 3

7. The following is the Balance Sheet as at 31st March, 2012 of Hopeful Ltd.:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets (including goodwill of ₹ 1,00,000)	11,80,000
8,500 Equity Shares of ₹ 100 each fully paid up	8,50,000	Investments	40,000
4,000 Cumulative Preference Shares of ₹ 100 each fully paid up	4,00,000	Stock in Trade	2,75,000
Securities Premium	20,000	Trade Debtors	1,50,000
General Reserve	60,000	Bank Balances	65,000
Trade Creditors	3,80,000		
	17,10,000		17,10,000

Contingent liability:

Preference Dividends in arrears ₹ 60,000.

The Board of Directors of the company decided upon the following scheme of reconstructions, which was duly approved by all concerned and put into effect from 1st April, 2012.

(i) The Preference Shares are to be converted into 12% unsecured debentures of ₹ 100 each with regard to 70% of the dues (including arrears of dividends) and for the balance Equity Shares of ₹ 50 paid up would be issued. The authorised Capital of the company permitted the issue of additional shares.

(ii) Equity Shares would be reduced to share of ₹ 50 each paid up.

(iii) Since goodwill has no value, the same is to be written off fully.

(iv) The market value of investments are to be reflected at ₹ 60,000.

(v) Obselete item in Stock of ₹ 75,000 are to be written off. Bad Debts to the extent of 5% of the total debtors would be provided for. Fixed assets to be written down by ₹ 1,80,000.

The company carried on trading for six months upto 30th September, 2012, and made a net profit of ₹ 1,00,000 after writting off depreciation at 25% p.a. on the revised value of fixed assets. The half yearly working resulted in an increase of Sundry Debtors by ₹ 80,000, stock by ₹ 70,000 and Cash by ₹ 50,000.

You are required to show the Journal entries for giving effect to the above arrangement and also draw the Balance Sheet of the company as at 30th September, 2012. 15

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

(a) Advantages in the preparation of Value Added Statement;

(b) Jaggi and Lau model on valuation of group basis of Human Resources;

(c) Constitution of Public Accounts Committee;

(d) Convergence of Accounting Standards with IFRS.
