Paper-16: Advanced Financial Accounting & Reporting

Time Allowed: 3 Hours **Full Marks: 100**

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

Working Notes should form part of the answer.

"Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates."

Part A questions are compulsory. Attempt all of them.

Part B has seven question. Attempt any five of them.

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):** **[10×2=20]**

(i) R. Chandra Ltd. has provided the following information:
Depreciation as per accounting records ₹ 8,00,000, Depreciation as per income tax records ₹ 20,00,000. Unamortized preliminary expenses as per income tax records ₹ 1,20,000, Tax rate 50%. There is adequate evidence of future profit sufficiency. As per AS 22 Deferred Tax Asset/ Liability to be recognized will be
A. ₹ 6,00,000 (DTA)
B. ₹ 5,40,000 (DTL)
C. ₹ 60,000 (Net DTL)
D. None of these

(ii) D Ltd. incurred costs to modify its building and to rearrange its production line. As a result, an overall reduction in production costs is expected. However, the modifications did not increase the building's market value, and the rearrangement did not extend the production line's life.

Should the building modification costs and the production line rearrangement costs be capitalized?

	Building modification costs	Production line rearrangement costs
A.	Yes	No
B.	Yes	Yes
C.	No	No
D.	No	Yes

(iii) The following data apply to a company's defined benefit pension plan for the year:

Amount (₹)

Fair market value of plan assets (beginning of year)	8,00,000
Fair market value of plan assets	11,40,000
Employer Contribution	2,80,000
Benefit Paid	2,00,000

Calculate the actual return on plan assets.

A. ₹11,40,000
B. ₹2,60,000
C. ₹8,00,000
D. ₹3,40,000

(vi) Mega Ltd. deals in three products A,B and C, which are neither similar nor interchangeable. At the time of closing of its account for the year 2012-13 the historical cost and net realizable value of the items of closing stock are determined as below:

Items	Historical Cost (₹ in Lakhs)	Net realizable value (₹ in Lakhs)
A	65	56
B	40	46
C	28	23

What will be the value of closing stock?
A. ₹119 Lakhs
B. ₹125 Lakhs
C. ₹133 Lakhs
D. None of these

(v) V Ltd. acquired 2,000 equity shares of D Ltd. on April, 01,2013 for a price of ₹ 3,00,000. D Ltd. made a net profit of ₹ 80,000 during the year 2013-14. D Ltd. issued bonus shares of one share for every five shares held out of the post acquisition profits earned during the year 2013-14. The Share Capital of D Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the share of V Ltd. in the pre-acquisition profit of D 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)

(vi) A firm obtained a contract for construction of a fly-over. Following information is available for the year ended 31.3.2014: Total contract Price = ₹ 3,000 lakhs Work certified = ₹ 1,600 lakhs Work not certified = ₹ 920 lakhs Estimated further cost to completion = ₹ 760 lakhs Progress payment received = ₹ 1,400 lakhs What will be the foreseeable loss to be shown in the accounts of 2013-14 as per AS-7?
A. No effect in 2013-14
B. ₹200 lakhs
C. ₹1,120 lakhs
D. ₹280 lakhs

(vii) H LTD. bought a forward contract for three months of US \$ 3,00,000 on 1st March, 2013 at 1 US \$ = ₹ 64.10 when exchange rate was 1US \$ = ₹ 64.12. On 31st March, 2013 when the books were closed forward exchange rate for two months was US \$ 1= ₹ 64.16. On 30th April, 2013 the contract was sold at ₹ 64.20 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

(viii) On 1-1-2013 Ashwin Ltd. has 1800 equity shares outstanding. On 31-6-2013, it issued 600 equity shares for cash (without bonus claim). On 1-11-2013 it bought back 300 equity shares. Calculate the weighted average number of shares as on 31-12-2013?

A. 2050 shares
B. 2700 shares
C. 2400 sahres
D. None of the above

(ix) During 2013, Madhur Ltd. incurred costs to develop and produce a routine, low-risk computer software product, as follows:

Completion of detailed program design	₹26,000
Cost incurred for coding and testing to establish technological feasibility	₹20,000
Other coding costs after establishing technological feasibility	₹58,000
Other testing costs after establishing technological feasibility	₹42,000

What amount should be capitalized as software cost?

A. ₹46,000
B. ₹26,000
C. ₹1,00,000
D. ₹48,000

(x) Miss Dimpy purchased 1,000 shares in M Ltd. at ₹ 600 per share in 2011. There was a rights issue in 2013 at one share for every two held at price of ₹150 per share. If Miss Dimpy 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

(b) Morning Ltd. has 60% shares in joint venture with Night Ltd. Morning Ltd. Sold a plant WDV of ₹240 lakhs for ₹300 lakhs. Calculate how much profit the Morning Ltd. Should recognize in its book in case joint venture is

- Jointly controlled operation
- Jointly controlled asset
- Jointly controlled entity **[5]**

Part B (75 marks)

2. **(a)** The following balances are extracted from the Balance Sheets of Upul Ltd and Vipul Ltd.

Particulars	Upul Ltd	Vipul Ltd
Bills Payable	1,50,000	90,000
Trade Creditors	1,00,000	1,40,000
Bills Receivable	70,000	1,00,000
Trade Debtors	1,60,000	1,40,000
Contingent Liability for Bills discounted	40,000	30,000

Additional Information –

(i) Vipul Ltd is wholly owned Subsidiary of Upul Ltd.
(ii) Creditors of Vipul Ltd include ₹50,000 due to Upul for goods supplied by it for ₹60,000. Debtors of Upul however shows a Debit balance of ₹ 60,000 due from Vipul. Vipul had remitted ₹10,000 by Demand Draft to Upul which was not received by Upul on the Balance Sheet date.
(iii) Bills Payable of Vipul include ₹60,000 drawn in favour of Upul Ltd. Upul had discounted Bills worth ₹ 24,000 with its Bankers.

Determine how the above given balances will be disclosed in the Consolidated Balance Sheet of Upul Ltd. **[5]**

(b) T Ltd was incorporated for the purpose of acquiring B Ltd. V Ltd. and S Ltd. The balances in the books of these Companies as on 30th June of a Financial Year are as follows:

Particulars	B Ltd.(₹)	V Ltd.(₹)	S Ltd. (₹)
Tangible Fixed Assets at Cost Less Depreciation	5,00,000	4,00,000	3,00,000
Goodwill	---	60,000	---
Other Assets	2,00,000	2,80,000	85,000
Total Assets	7,00,000	7,40,000	3,85,000
Liabilities:			
Issued Ordinary Share Capital Shares of ₹ 10 each	4,00,000	5,00,000	2,50,000
Profit & Loss Account	1,50,000	1,10,000	60,000
10% Debentures	70,000	---	40,000
Sundry Creditors	80,000	1,30,000	35,000
Total Liabilities	7,00,000	7,40,000	3,85,000

Particulars	B Ltd.(₹)	V Ltd.(₹)	S Ltd. (₹)
Average Annual Profits before Debenture Interest	90,000	1,20,000	50,000
Professional Valuation of Tangible Assets on 30th June	6,20,000	4,80,000	3,60,000

The Directors in their negotiations agreed that (i) the recorded Goodwill of V Ltd. is valueless, (ii) the Other Assets of the B Ltd. are worth ₹ 30,000, (iii) the valuation of 30th June in respect of Tangible Fixed Assets should be accepted, (iv) these adjustments are to be made by the individual Company before the completion of the acquisition.

The acquisition agreement provides for the issue of 12% Unsecured Debentures to the value of the Net Assets of the Companies B Ltd, V Ltd. and S Ltd and for the issuance of ₹ 10 nominal value ordinary shares for the capitalized average Profits of each acquired Company in excess of the Net Assets contributed. The Capitalization Rate is taken at 10%.

You are required to calculate purchase consideration and show the purchase consideration as discharged. **[10]**

3. **(a)** Given- (i) Future Maintainable Profit before Interest -₹ 250 Lakhs; (ii) Normal Rate of Return on Long Term Funds is 20% and on Equity Funds is 25%; (iii) Long Term Funds of the Company is ₹640 Lakhs of which Equity Funds is ₹ 420 Lakhs; (iv) Interest on loan Fund is 18%. Find out leverage effect on the Goodwill if tax rate is =30%. **[6]**

(b) The following are the information relating to two Companies for the year ended 31st March –

Particulars	B Ltd.	D Ltd.
Equity Shares of ₹10 each	₹8,00,000	₹ 10,00,000
10% Preference Shares of ₹10 each	₹6,00,000	₹ 4,00,000
Profit After Tax	₹3,00,000	₹ 3,00,000

Assume that Market Expectation is 18% and that 80% Profits are distributed.

i. What is the rate you would pay for the Equity Shares of each Company -
   - If you are buying a small lot;
   - If you are buying controlling interest shares.

ii. If you plan to invest only in Preference Shares, which Company's Preference Shares would you prefer?

iii. Would your rates to be different for buying a small lot, if B Ltd retains 30% and D Ltd 10% of the Profits? **[9]**

4. The following was the Balance Sheet of A Ltd as on 31st December –

	EQUITY AND LIABILITIES	₹
(1)	Shareholders' Funds:	
	(a) Share Capital	
	24,000 Shares of ₹ 10 each	2,40,000
	Less: Calls Unpaid (₹ 3 per Share on 6,000 Sh)	(18,000)
	(b) Reserves & Surplus – P&L A/c	
	As per Last B/Sheet (Loss b/fd) 44,000	
	(Less) Profit for the Year 2,400	(41,600)
(2)	Current Liabilities:	
	(a) Trade Payables – Sundry Creditors	30,850
	(b)Short Term Provisions – Provision for Taxation	8,000
	Total	2,19,250
	ASSETS	
(1)	Non-Current Assets:	
	(a)Fixed Assets: (i)Tangible Assets	
	- Land & Buildings	41,000
	-Machinery	1,01,700
	(ii) Intangible Assets – Goodwill	20,000
	(b)Other Non-Current Assets	
	- Preliminary Expenses	3,000
(2)	Current Assets:	
	(a) Inventories	20,550
	(b) Trade Receivables–Book Debts	30,000
	(c) Cash & Cash Equivalents	3,000
	Total	2,19,250

Note: Authorised Capital is ₹ 4,00,000 being 40,000 Equity Shares of ₹ 10 each.
The Directors have had a valuation made for the Machinery and find it overvalues by ₹ 20,000. It is proposed to write down this asset to its true value and to extinguish the deficiency in the Profit and Loss Account and to write off Goodwill and Preliminary Expenses, by adoption of the following course –

(i) Forfeit the Shares on which the Call is outstanding.

(ii) Reduce the Paid-up Capital by ₹ 3 per Share.
(iii) Reissue the Forfeited Shares at ₹ 5 per Share.
(iv) Utilize the Provision for Taxes, if necessary.

The Shares on which the Calls were in Arrears were duly Forfeited and reissued on payment of ₹ 5 per Share. Give the Journal Entries and the Balance Sheet of the Company after carrying out the above scheme. **[15]**

5. Mathi Ltd acquired 8,000 Shares of ₹100 each in Nidhi Ltd on 30.09.2012. The summarized Balance Sheets of the two Companies as on 31.03.2013 were as follows –

(₹'000)

EQUITY AND LIABILITIES	Mathi	Nidhi
(1) Shareholders' Funds:		
(a) Share Capital (₹ 100)	3,000	1,000
(b) Reserves & Surplus		
-Capital Reserve	---	550
-General Reserve	300	50
-Profit & Loss A/c	382	180
(2) Non-Current Liabilities:		
-Long Term Borrowings		
(Loan from Nidhi Ltd)	21	---
(3) Current Liabilities:		
Trade Payables		
-Sundry Creditors	179	70
-Bills Payable	---	17
(incl. ₹ 5,000 to Mathi Ltd)		
Total	3,882	1,867
ASSETS		
(1) Non-Current Assets:		
(a) Fixed Assets	1,500	1,447
(b) Non-Current Investments		
-Investments in Nidhi Ltd	1,700	---
(2) Current Assets:		
(a) Inventories	400	200
(b) Trade Receivables		
-Debtors	250	180
-Bills Receivable	12	---
(incl. ₹ 5,000 to Nidhi Ltd)		
(c) Cash & Cash Equivalents	20	20
(d) Short Term Loans & Adv.		
-Loan to Mathi Ltd	---	20
Total	3,882	1867

Contingent Liability (Mathi Ltd.): Bills discounted of ₹ 6,000.

Additional information:

(i) Nidhi Ltd made a Bonus issue on 31.03.2013 of one share for every two shares held, reducing the Capital Reserve equivalently, but the accounting effect to this has not been given in the above Balance Sheet.
(ii) Interest receivable for the year (₹1,000) in respect of the loan due by Mathi Ltd. to Nidhi Ltd had not been credited in the accounts of Nidhi Ltd.
(iii) The credit balance in Profit & Loss Account of Nidhi Ltd. on 01.04.2012 was ₹21,000.
(iv) The Directors decided on the date of the acquisition that the Fixed Assets of Nidhi Ltd were overvalued and should be written down by ₹50,000. Consequential adjustments on depreciation are to be ignored.

Prepare the Consolidated Balance Sheet as at 31.03.2013, showing your workings. **[15]**

6. **(a)** The following information is available for a concern. Compute EVA.

Debt Capital 12%	₹8,000 crores	Risk free rate	9%
Equity capital	₹2,000 crores	Beta factor	1.05
Reserves & Surplus	₹30,000 crores	Market rate of return	19%
Capital Employed	₹40,000 crores	Equity(market) risk premium	10%
Operating profit after tax	₹8,400 crores	Tax rate	30%

[7]

(b) Mr. Bose buys a stock option of PQR Co. Ltd. in July, 2013 with a strike price on 30.07.2013 of ₹270 to be expired on 30.08.2013. The premium is ₹20 per unit and the market lot is 100. The margin to be paid is ₹120 per unit.
Show the accounting treatment in the books of Buyer when :
(i) the option is settled by delivery of the asset, and
(ii) the option is settled in cash and the index price is ₹280 per unit. **[8]**

7. **(a)** A factory started it activities on 1st April, 2013. From the following data, compute the value of closing stock on 30th April, 2013.
   - Raw Materials purchased during April - 40,000 kg at ₹24 (out of which Excise Duty = ₹ 4 per kg). Stock on hand as on 30th April – 2,500 kg.
   - Production during April – 7,000 units (of which 5,000 units were sold). In addition to the production, 500 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).
   - Wages and Production Overheads - ₹60
   - Selling Price - ₹ 220 per unit (of which Excise Duty is ₹20 per unit). **[6]**

(b) Discuss the nature of risks as classified under AS-32. **[3]**

(c) Uniformity in Accounting Policies is necessary for consolidation purposes. **[6]**

8. **Write short notes on any three of the following:** **[5x3=15]**

(a) Market Value Added (MVA);
(b) Objections to Segmental Reporting;
(c) Derivatives and their Characteristics;
(d) General Principles of Government Accounting.