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) Umbrrella Ltd. reports quarterly and estimates an annual income of ₹ 400 crores. Assume Tax rates on first ₹ 200 crores at 30% and on the balance income at 40%. The estimated quarterly incomes are ₹ 30 crores, ₹ 100 crores, ₹ 150 crores and ₹ 120 crores respectively. The Tax expenses to be recognized in the last quarter as per AS-25 is
A. ₹ 48crores
B. ₹ 42crores
C. ₹ 38 crores
D. Insufficient Information

(ii) Urvashi 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	44	32
B	36	36
C	20	28

What will be the value of closing stock?
A. ₹88 Lakhs
B. ₹80 Lakhs
C. ₹96Lakhs
D. None of these

(iii) Perfect Ltd. is having a plant (asset), carrying amount of which is ₹ 240 lakh on March 31, 2012. Its balance useful life is 3 years and residual value at the end of 3 years is ₹ 18 lakh. Estimated future cash flow from using the plant will be ₹ 60 lakh per annum for 3 years. If the discount rate is 10% "the Value in Use" for the plant as per AS-28 will be
[Given: PVIFA (10%, 3 yrs) = 2.487 and PVIF (10%, 3 yrs) = 0.7513]
A. ₹ 162.74 lakh

B. ₹ 132.00 lakh
C. ₹ 131.22 lakh
D. Insufficient Information

(iv) Moon Ltd. entered into agreement with Sun Ltd. for sale of goods of ₹ 8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2013. On the same day, Sun Ltd. entered into another agreement with Moon Ltd. to resell the same goods at ₹ 10.80 lakhs on 1st August, 2013. The pre-determined reselling price covers the holding cost of Sun Ltd. Treatment as per AS-9 in the books of Moon Ltd.
A. Sales A/c will be credited with ₹ 9,60,000
B. Advance from Sun Ltd. A/c will be credited with ₹ 9,60,000
C. Financing Charges A/c will be debited with ₹ 1,20,000
D. None of these

(v) Rajasthali Ltd. ordered 16,000 kg. of certain material at ₹ 160 per unit. The purchase price includes excise duty ₹ 10 per kg. in respect of which full CENVAT credit admissible. Freight incurred amounted to ₹ 1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg. and consumed 13,600 kg. of material. The cost of inventory as per AS 2 will be
A. ₹ 3,20,644
B. ₹ 3,01,644
C. ₹ 3,07,800
D. None of these

(vi) Nikita Limited wishes to obtain a machine costing ₹ 30 lakhs by way of lease. The effective life of the machine is 15 years, but the company requires it only for the first 5 years. It enters into an agreement with Ashok Ltd., for a lease rental of ₹ 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. Treatment as per AS-19 in the books of Lessee
A. Lease payments should be recognized as an expense in the Statement of Profit and Loss on a straight line basis over the lease term
B. Finance Charges included in Lease payments should be recognized as an expense in the Statement of Profit and Loss
C. Depreciation of ₹ 2,00,000 p.a. should be recognized as an expense in the Statement of Profit and Loss
D. None of these

(vii) X Ltd. holds 51% of Y Ltd., Y Ltd. holds 51% of W Ltd., Z Ltd. holds 49% of W. Ltd. As per AS 18, Related Parties are :
A. X Ltd., Y Ltd. & W Ltd.
B. X Ltd. & Z Ltd.
C. Y Ltd. & Z Ltd.
D. X Ltd. & Y Ltd. only

(viii) On 1-1-2013 Ashwin Ltd. has 188 equity shares outstanding. On 31-5-2013, 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. 2100 shares
B. 2700 shares
C. 2400 sahres
D. None of the above

(ix) A&B Ltd. obtained a Loan from a bank for ₹ 240 lakhs on 30.04.2012. It was utilized for : Construction of a shed ₹ 120 lakhs, Purchase of a machinery ₹ 80 lakhs, Working Capital ₹ 40 lakhs, Construction of shed was completed in March 2014. The machinery was installed on the same date. Delivery truck was not received. Total interest charged by the bank for the year ending 31.03.2014 was ₹ 36 lakhs. As per AS 16, Interest to be debited to Profit & Loss Account will be :
A. ₹ 36 lakhs
B. ₹ 18 lakhs
C. ₹ 9 lakhs
D. None of these

(x) Ding-Dong Construction Ltd. undertook a contract on January 1, 2013 to construct a building for ₹ 140 lakh. The Company found on March 31, 2013 that it had already spent ₹ 104 lakh on the construction. Prudent estimate of additional cost for completion was ₹ 56 lakhs. Contract 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. ₹ 105 lakh
B. ₹ 100 lakh
C. ₹ 91 lakh
D. None of these

(b) ANNA Ltd. purchased an oil well for $ 200 million. It estimates that the well contains 500 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 20,000 barrels of oil during the first year, how much depletion expense should be recognized as per IFRS 6? **[5]**

Part B (75 marks)

2. Given below is the Balance Sheet of H Ltd. as on 31.3.2013:

(Figures in ₹ lakhs)

Liabilities	₹	Assets	₹
Equity share capital	4.00	Block assets less depreciation to date	6.00
(in equity shares of ₹ 10 each)		Stock and debtors	5.30
10% preference share capital	3.00	Cash and bank	0.70
General reserve	1.00		
Profit and loss account	1.00		
Creditors	3.00		
	12.00		12.00

M Ltd. another existing company holds 25% of equity share capital of H Ltd. purchased at ₹ 10 per share.

It was agreed that M Ltd. should take over the entire undertaking of H Ltd. on 30.09.2013 on which date the position of current assets (except cash and bank balances) and creditors was as follows:

Stock and debtors	4 lakhs
Creditors	2 lakhs

Profits earned for half year ended 30.09.2013 by H Ltd. was ₹ 70,500 after charging depreciation of ₹ 32,500 on block assets. H Ltd. declared 10% dividend for 2013-14 on 30.08.2013 and the same was paid within a week.

Goodwill of H Ltd. was valued at ₹ 80,000 and block assets were valued at 10% over their book value as on 31.3.2013 for purposes of take over. Preference shareholders of H Ltd. will be allotted 10% preference shares of ₹ 10 each by M Ltd. Equity shareholders of H Ltd. will receive requisite number of equity shares of ₹ 10 each from M Ltd. valued at ₹ 10 per share.

(a) Compute the purchase consideration.

(b) Explain, how the capital reserve or goodwill, if any, will appear in the Balance Sheet of M Ltd. after absorption. **[15]**

3. The following are the Balance Sheets of C Ltd. and D Ltd. on 31st March, 2013:

Balance Sheets

Liabilities	C Ltd.	D Ltd.	Assets	C Ltd.	D Ltd.
	₹	₹		₹	₹
Equity Shares of ₹100 each fully paid	45,00,000	15,00,000	Fixed Assets	30,00,000	1,50,000
			Investments		
General Reserve	4,00,000	3,00,000	3,000 shares in D Ltd.	4,50,000	—
Profit and Loss A/c	7,34,000	30,000	9,000 Shares in C Ltd.	—	15,00,000
14% Debentures	—	9,00,000	Debtors	8,70,000	4,50,000
Current Liabilities	6,00,000	2,70,000	Stock	14,40,000	6,30,000
			Bank Balance	4,74,000	2,70,000
	62,34,000	30,00,000		62,34,000	30,00,000

Stock of C Ltd. includes goods worth ₹ 3,00,000 purchased from D Ltd., which made a profit of 20% on selling price. As on 31.3.2013, C Ltd. owes to D Ltd. ₹ 1,20,000. C Ltd. absorbs D Ltd. on the basis of the intrinsic value of the shares of both companies as on 31st March, 2013. Before absorption C Ltd. has declared a dividend of 12%. Dividend tax is 10%.

Show the Balance Sheet of C Ltd. after the absorption of D Ltd. and the working for the number of shares issued. **[15]**

4. Following are the Balance Sheets of Mumbai Limited, Delhi Limited, Amritsar Limited and Kanpur Limited as at 31st December, 2013:

Liabilities	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
Share Capital (₹ 100 face value)	1,00,00,000	80,00,000	40,00,000	1,20,00,000
General Reserve	40,00,000	8,00,000	5,00,000	20,00,000
Profit & Loss Account	20,00,000	8,00,000	5,00,000	6,40,000
Sundry Creditors	6,00,000	2,00,000	1,00,000	1,60,000
	1,76,00,000	98,00,000	51,00,000	1,48,00,000
Assets				
Investments :				
30,000 shares in Delhi Ltd.	70,00,000	—	—	—
10,000 shares in Amritsar Ltd	22,00,000	—	—	—
5,000 shares in Amritsar Ltd.	—	10,00,000	—	—
Shares in Kanpur Ltd. @ ₹ 120	72,00,000	36,00,000	12,00,000	—
Fixed Assets	—	40,00,000	30,00,000	1,40,00,000
Current Assets	2,00,000	12,00,000	9,00,000	8,00,000
	1,76,00,000	98,00,000	51,00,000	1,48,00,000

Balance in General Reserve Account and Profit & Loss Account, when shares were purchased in different companies were:

	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
General Reserve Account	20,00,000	4,00,000	2,00,000	12,00,000
Profit & Loss Account	12,00,000	4,00,000	1,00,000	1,20,000

Required :

Prepare the consolidated Balance Sheet of the group as at 31st December, 2013 (Calculations may be rounded off to the nearest rupee). **[15]**

5. A Ltd. and B Ltd. were amalgamated on and from 1st April, 2014. A new company C Ltd. was formed to take over the business of the existing companies. The Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2014 are given below:

	(₹ in lakhs)			(₹ in lakhs)	
Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Share Capital			Fixed Assets		
Equity Shares of ₹ 100 each	800	750	Land & Building	550	400
12% Preference shares of ₹100 each	300	200	Plant & Machinery	350	250
Reserves and Surplus			Investments	150	50

Revaluation Reserve General Reserve	150 170	100 150	Current Assets, Loans and Advances		
Investment Allowance Reserve	50	50	Stock	350	250
Profit and Loss Account	50	30	Sundry Debtors	250	300
Secured Loans			Bills Receivable	50	50
10% Debentures (₹ 100 each)	60	30	Cash and Bank	300	200
Current Liabilities and provisions					
Sundry Creditors	270	120			
Bills Payable	150	70			
	2,000	1,500		2,000	1,500

Additional Information:

(1) 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹ 150 per share (face value of ₹ 100).

(3) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.

(4) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 2014 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. **[15]**

6. (a) The following information is available of a concern; calculate Economic Value Added(E.V.A):

Debt capital 12%	₹ 2,000 crores
Equity capital	₹ 500 crores
Reserve and surplus	₹ 7,500 crores
Capital employed	₹ 10,000 crores
Risk-free rate	9%
Beta factor	1.05
Market rate of return	19%
Equity (market) risk premium	10%
Net Operating Profit after Tax	₹2,100 crores

Tax rate	30%

[7]

(b) A Company has its share capital divided into shares of ₹ 10 each. On 1st April, 2014 it granted 10,000 employees' stock options at ₹ 40, when the market price was ₹130. The options were to be exercised between 16th December, 2014 and 15th March, 2015. The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries. **[8]**

7.(a) On the basis of the following information related to trading in Options, you are required to pass relevant Journal Entries (at the time of inception and at the time of final settlement) in the books of Amit (Buyer) and Sumit (Seller). Assume that the price on expiry is ₹1,050/- and both Amit and Sumit follow the calendar year as an accounting year.

Date of	Option Type	Expiry Date	Premium per unit	Contract Lot	Multiplier
29.03.2012	Equity Index, Call	31.05.2012	₹10	2,000 units	₹950 p.u

[6]

(b) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard-3 (AS-3) revised. **[6]**

(c) Distinguish between Human capita and Intellectual Capital. **[3]**

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

(a) Need and significance of Environmental Accounting.
(b) Process of election of Public Accounts Committee:
(c) Cost v/s Fair value with reference to Indian Accounting Standards
(d) Timing and Permanent Differences