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) On 1st December, 2012, VC Ltd. undertook a contract to construct a building for ₹ 85 lakhs. ON 31st March, 2013 the company found that it had already spent ₹ 64,99,000 on the construction. Prudent estimate of additional cost for completion was ₹ 32,01,000. What is the additional provision for foreseeable loss, which must be made in the final accounts for the year ended 31st March, 2013 as per provisions of AS-7 on "Accounting for Construction Contracts".

A. ₹64,99,000
B. ₹ 32,01,000
C. ₹ 3,96,000
D. ₹ 8,04,000

(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)

	Exchange Rate
Goods purchased on 24-2-2011 of US $ 10000	₹ 46.60

Exchange rate on 31-3-2011	₹ 47.00
Date of actual payment 5-6-2012	₹ 47.50

Calculate the loss/gain for the financial years 2012-13.

A. ₹ 4,66,000
B. ₹ 4,70,000
C. ₹ 4,75,000
D. ₹ 5,000

(iv) 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)	400,000
Fair market value of plan assets	5,70,000
Employer Contribution	1,40,000
Benefit Paid	1,00,000

Calculate the actual return on plan assets.

A. ₹5,70,000
B. ₹1,30,000
C. ₹4,00,000
D. ₹1,70,000.

(v) On 1-1-2013 Ashwin Ltd. has 3,600 equity shares outstanding. On 31-5-2013, it issued 1,200 equity shares for cash (without bonus claim). On 1-11-2013 it bought back 600 equity shares. Calculate the weighted average number of shares as on 31-12-2013?
A. 4,200 shares
B. 5,400 shares
C. 4,800 sahres
D. None of the above

(vi) UV Ltd. had 20,00,000 equity shares outstanding as on 1-1-2013. On 1-10-2013 it issued 2 equity shares bonus for each share outstanding on 30-9-2013. Net profit for 2012 was ₹ 18,00,000, net profit for 2013 was ₹60,00,000. Calculate Basic EPS 2013 and adjusted EPS for 2012.
A. ₹1.00, ₹0.30
B. ₹0.30, ₹1.00
C. ₹1.30, ₹2.00
D. None of the above

(vii) From the following details of PQ Ltd. for the year ended 31-3-2013, Calculate the deferred tax asset/liability as per AS-22.

	₹
Accounting Profit	5,00,000
Book profit as per MAT	4,50,000
Profit as per Income-tax Act	50,000
Tax rate	30%
MAT rate	7.50%

A. ₹1,50,000
B. ₹33,750
C. ₹15,000
D. ₹1,35,000

(viii) Uday Ltd. presents interim financial report quarterly. On 1-4-2013. Uday Ltd. has carried forward loss of ₹400 lakhs for income-tax purpose for which deferred tax asset has not been recognized. The Uday Ltd. earns ₹ 500 lakhs in each for quarter ending on 30-6-2013,30-9-2013,31-12-2013 and 31-3-2014 excluding the loss carried forward. Income-tax rate is expected to be 40% Calculate the amount of tax expense to be reported in each quarter.
A. ₹500
B. ₹640
C. ₹160
D. ₹1,600

(ix) On January 2, 2012 Virat Ltd. bought a trademark from Mithil Ltd. for ₹ 5,00,000. Virat Ltd. retained an independent consultant, who estimated the trademark's remaining life to be 20 years. Its unamortised cost on Mithil Ltd. accounting records was ₹ 3,80,000. Virat Ltd. decided to amortize the trademark over the maximum period allowed. In Virat's December 31, 2012 balance sheet, what amount should be reported as accumulated amortization?
A. ₹ 7,600
B. ₹ 9,500
C. ₹ 25,000
D. ₹ 50,000

(x) Swift Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2014 at ₹ 1,200 lakh. As at that date value in use is ₹ 800 lakh. If the net selling price is ₹ 900 lakh, Recoverable amount of the asset as per AS-28 will be
A. ₹ 900 lakh
B. ₹ 300 lakh
C. ₹ 100 lakh
D. None of (A), (B), (C)

(b) From the following information compute diluted earnings per share.

Net profit for the year 2012	₹12,00,000
Weighted average number of equity shares outstanding during year 2012	5,00,000 shares

Average fair value of one equity share during the year 2012	₹20
Weighted average number of shares under option during the year 2012	1,00,000 shares
Exercise price per share under option during the year 2012	₹15

[5]

Part B (75 marks)

2. 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, 2012.

Balance Sheet as on 31st March, 2012

Liabilities	Amount ₹	Assets	Amount ₹
Authorised, Issed and Subscribed Capital :		Goodwill	50,000
30,000 Equity Shares of ₹ 10		Plant	3,00,000
each fully paid	3,00,000	Loose Tools	10,000
2,000 8% Cumulative Pref.		Debtors	2,50,000
Shares of ₹ 100 each fully paid	2,00,000	Stock	1,50,000
Securities Premium	90,000	Cash	10,000
Unsecured Loan(From Director)	50,000	Bank	35,000
Sundry creditors	3,00,000	Preliminary Expenses	5,000
Outstanding Expenses (including Directors' remuneration ₹ 20,000)	70,000	Profit & Loss Account	2,00,000
	10,10,000		10,10,000

Note : 1) Dividends on Cumulative Preference Shares are in arrears for 3 years.

2) Unsecured loans (from director) is assumed to be of less than 12 months hence, treated as short term borrowings. (ignoring interest)

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

i. Equity shares to be converted into 1,50,000 shares of ₹ 2 each.

ii. Equity shareholders to surrender to the Company 90 per cent of their holding.

iii. Preference shareholders agree to forego their right to arrears to dividends inconsideration of which 8 percent Preference Shares are to be converted into 9 per cent Preference Shares.

iv. Sundry creditors agree to reduce their claim by one fifth in consideration of their getting shares of ₹ 35,000 out of the surrendered equity shares.

v. Directors agree to forego the amounts due on account of unsecured loan and Director's remuneration.

vi. Surrendered shares not otherwise utilised to be cancelled.

vii. Assets to be reduced as under :

Goodwill by	₹ 50,000
Plant by	₹ 40,000
Tools by	₹ 8,000
Sundry Debtors by	₹ 15,000
Stock by	₹ 20,000

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

ix. Expenses of reconstruction amounted to ₹10,000.

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

A member holding 100 equity shares opposed the scheme and his shares were taken over by the Director on payment of ₹ 1,000 as fixed by the Court.

You are required to pass the journal entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the Company. **[15]**

3. X Ltd. has 2 divisions A and B.
Division A has been making constant profits while Division B has been invariably suffering losses. On 31st March, 2012 the division wise Balance Sheet was:

(₹ Crores)

		A	B	Total
Fixed Assets cost (Tangible)		250	500	750
Depreciation		225	400	625
	(i)	25	100	125
Current Assets:		200	500	700
Less: Current liabilities		25	400	425
	(ii)	175	100	275
	(i) + (ii)	200	200	400
Financed by :				
Loan		—	300	300
Capital : Equity ₹ 10 each		25	_	25
Surplus		175	(100)	75
		200	200	400

Division B along with its assets and liabilities was sold for ₹ 25 crores to Y Ltd. a new comapny, who allotted 1 crore equity shares of ₹ 10 each at a premium of ₹ 15 per share to the memebers of X Ltd. in full settlement of the consideration in proportion to their shareholding in the company.
Asssuming that there are no other transactions, you are asked to :

i. Pass journal entries in the books of X Ltd.
ii. Prepare the Balance Sheet of X Ltd. after the entires in (i). **[6+9=15]**

4. (a) The following is the Balance Sheet of P Ltd.

Liabilities	₹

Equity Share Capital		2,00,000
Reserves and Surplus		4,00,000
Secured Loan		2,00,000
Unsecured Loans		6,00,000
		14,00,000
Assets	₹	₹
Fixed Assets		7,00,000
Investments		4,00,000
(Market Value ₹ 9,00,000)		
Current Assets	4,00,000	
Less: Current liabilities	(1,00,000)	3,00,000
		14,00,000

The company consists of three divisions. The scheme was agreed upon, according to which a new company B Ltd. is to be formed. It will take over investments at ₹ 9,00,000 and unsecured loans at balance sheet value. It is to allot equity shares of ₹ 10 each at par to the shareholders of P Ltd. in satisfaction of the amount due under the arrangement. The scheme was duly approved by the High Court. Pass journal entries in the books of P Ltd. **[6]**

(b) The draft balance Sheets of A and its American subsidiary B Inc. as at 30.06.2013 are as under –

Liabilities	A Ltd	B Inc.	Assets	A Ltd	B Inc.
	₹	US $		₹	US $
Share Capital in Equity shares	30,00,000	30,000	Fixed assets	18,00,000	20,000
Profit & Loss Account	20,00,000	40,000	Investments in B	17,00,000	-
Loan Funds	13,00,000	20,000	Stocks	12,00,000	30,000
Trade Creditors	6,00,000	10,000	Debtors	24,00,000	60,000
Provision for Taxation	10,00,000	20,000	Cash and Bank	8,00,000	10,000
Total	79,00,000	1,20,000	Total	79,00,000	1,20,000

1. A Ltd. acquired 80% of shares in B Inc. on 01.07.2009, when the P & L A/c showed a balance of $20,000.
2. Exchange rates per $ prevalent dates were: 01.07.2009: ₹30, 01.07.2012 = ₹ 36 : 30.06.2013: ₹42.
3. A Ltd decided to amortise goodwill, if any, over a period of eight years.

Determine (i) the exchange rate gain and the amount to be transferred to the translation reserve

(ii) Minority interest, and

Show analysis of profit as integral and non-integral operation. **[9]**

5. The following are the Balance Sheets of Sky Ltd. and Star Ltd. as on 31.03.2012 -

Liabilities	Sky (₹)	Star (₹)	Assets	Sky (₹)	Star (₹)
Share Capital:			Fixed Assets:		
Equity Shares of ₹ 10 each	5,00,000	2,00,000	Goodwill (Purchased) Machinery	60,000 1,00,000	40,000 60,000
12% Pref. Shares of ₹ 100 each	1,00,000	50,000	Vehicles	1,80,000	70,000
Reserves:			Furniture	50,000	30,000
General Reserve Profit & Loss A/c	1,00,000 1,50,000	60,000 90,000	Investment: Shares of Star (Cost)	 3,80,000	 –
Current Liabilities & Provisions:			Current Assets:		
Creditors	60,000	70,000	Stock Debtors	70,000 1,00,000	1,40,000 1,65,000
Income Tax	70,000	60,000	Bank Balance	40,000	25,000
Total	9,80,000	5,30,000	Total	9,80,000	5,30,000

The following further information is furnished:

i. Sky Ltd. acquired 12,000 Equity Shares and 400 Preference Shares on 01.04.2011 at a cost of ₹ 2,80,000 and ₹ 1,00,000 respectively.
ii. The Profit & Loss Account of Star Ltd. had a credit balance of ₹ 30,000 as on 01.04.2011 and that of General Reserve on that date was ₹ 50,000.
iii. On 01.07.2011, Star Ltd. declared dividend out of its pre-acquisition profit, 12% on its Share Capital; Sky Ltd. credited the receipt of dividend to its Profit & Loss Account.
iv. On 01.10.2011 Star Ltd. issued one Equity Share for every three shares held, as Bonus Shares, at a face value of ₹ 100 per share out of its General Reserve. No entry has been made on the books of Sky Ltd. for the receipt of these bonus shares.
v. Star Ltd. owed Sky Ltd. ₹ 20,000 for purchase of goods from Sky Ltd. The entire stock of goods is held by Star Ltd. on 31.03.2012. Sky Ltd. made a profit of 25% on cost.

Prepare a Consolidated Balance Sheet as at 31.03.2012. **[15]**

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

Particulars	₹ in Lakhs	₹ in Lakhs
Net Profit		60,000

Add:	Sale of Investments		70,000
	Depreciation on Assets		11,000
	Issue of Preference Shares		9,000
	Loan raised		4,500
	Decrease in Stock		12,000
			1,66,500
Less:	Purchase of Fixed Assets	65,000	
	Decrease in Creditors	6,000	
	Increase in Debtors	8,000	
	Exchange gain	8,000	
	Profit on sale of investments	12,000	
	Redemption of Debenture	5,700	
	Dividend paid	1,400	
	Interest paid	945	1,07,045
			59,455
Add:	Opening cash and cash equivalent		12,341
Closing cash and cash equivalent			71,796

[9]

(b) Future maintainable profit before interest is ₹380 lakhs, normal rate of return on long term fund is 20% and on equity fund is 25%. Long term fund is of the company is ₹1,280 lakhs and equity fund is ₹840 lakhs. Interest on long term fund is 18% . Find out leverage effect of goodwill. **[6]**

7. (a) Mr. Sen buys the following Equity Stock Options and the seller/writer of the options is Mr. Ghosh.

Date of purchase	Type of option	Expiry date	Market lot	Premium per unit ₹	Strike price ₹
29 June,2013	PQ Co. Ltd.	30 Aug.,2013	100	30	460
30 June ,2013	MN Co. Ltd.	30 Aug.,2013	200	40	550

Assume the price of PQ Co. Ltd. and MN Co. Ltd. on 30th August,2013 is ₹470 and 500 respectively. Pass journal entries in the books of Mr. Ghosh. **[6]**

(b) From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz (1971) model:

		Skilled	Unskilled
(i)	Annual average earning of an employee till the retirement age.	₹70,000	₹50,000
(ii)	Age of retirement	65 years	62 years
(iii)	Discount rate	15%	15%
(iv)	No. of employees in the group	30	40
(v)	Average age	62 years	60 years

[9]

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

(a) Disclosure requirement as per AS 24 (Discontinuing Operations);
(b) Jaggi and Lau model on valuation of group basis of Human Resources;
(c) Basic Structure of the Form of the Government Accounts;
(d) The concept of Materiality.