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) 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

(ii) On January 2, 2014 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 Induga accounting records was ₹ 3,80,000. Virat Ltd. decided to amortize the trademark over the maximum period allowed. In Virat's December 31, 2014 balance sheet, what amount should be reported as accumulated amortization?

A. ₹ 7,600

B. ₹ 9,500

C. ₹ 25,000

D. ₹ 50,000

(iii) 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) On 1-1-2014 Vivan Ltd. has 3,600 equity shares outstanding. On 31-6-2014, it issued 1,200 equity shares for cash (without bonus claim). On 1-11-2014 it bought back 600 equity shares. Calculate the weighted average number of shares as on 31-12-2014?
A. 4,100 shares
B. 5,400 shares
C. 4,800 shares
D. None of the above

(v) Tulip Ltd. holds 25% share in Lotus Ltd. at a cost of ₹ 7.50 lakhs as on 31.3.2006 out of Lotus's Share Capital and Reserve of ₹ 30 lakhs each. For the year ended 31.3.2013, Lotus Ltd. made a profit of ₹ 2,40,000 and 30% of it was distributed as dividend.
In the Consolidated Financial Statement, the carrying amount of investment as at 31.3.2013 will be —
A. ₹ 15.00 lakhs
B. ₹ 15.60 lakhs
C. ₹ 15.42 lakhs
D. ₹ 14.82 lakhs

(vi) G Ltd. takes over P Ltd. on 31.03.2014

There is Export Profit Reserve of ₹15,000 in the Balance Sheet of P Ltd. which is to be maintained for two more years. The journal entry will be :

A. Statutory Reserves A/c debit , to Amalgamation Adjustment A/c
B. Amalgamation Adjustment A/c debit , to Statutory Reserves A/c
C. General Reserves A/c debit, to Amalgamation Adjustment A/c
D. None of the above.

(vii) Uday Ltd. presents interim financial report quarterly. On 1-4-2014. Uday Ltd. has carried forward loss of ₹800 lakhs for income-tax purpose for which deferred tax asset has not been recognized. The Uday Ltd. earns ₹ 1,000 lakhs in each for quarter ending on 30-6-2014,30-9-2014,31-12-2014 and 31-3-2015 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. ₹1,000
B. ₹1,280
C. ₹320
D. ₹3,200

(viii) Best Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2015 at ₹ 2,400 lakh. As at that date value in use is ₹ 1,600 lakh. If the net selling price is ₹ 1,800 lakh, Recoverable amount of the asset as per AS-28 will be
A. ₹ 1,800 lakh
B. ₹ 600 lakh
C. ₹ 200 lakh
D. None of the above

(ix) The fair value of Plan assets of Tulip Ltd. at beginning and end of the year 2013-2014 were ₹ 4,00,000 and ₹ 5,70,000 respectively. The employer's contribution to the plan during the year was ₹ 1,40,000. If benefit payments to retirees were ₹ 1,00,000 what would be the actual return on plan assets (as per AS- 15) ?

A. ₹ 1,50,000 lakhs
B. ₹ 1,30,000 lakhs
C. ₹ 1,20,000 lakhs
D. Insufficient Information

(x) Vishal Construction Ltd. undertook a contract on 1st January, 2013 to construct a building for ₹ 80 lakhs. The company found on 31st March, 2013 that it had already spent ₹ 58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹ 31,50,000. Contract Value to be recognized as turnover in the final accounts for the year ended 31st March, 2013 as per AS 7 (revised) will be:

A. ₹ 80 lakhs
B. ₹ 10 lakhs
C. ₹ 52 lakhs
D. None of these

(b) What are the recognition criteria of share Based Payment under International Financial Reporting Standard (IFRS) – 2 ? **[5]**

Part B (75 marks)

2. The following is the Balance Sheet of Winners Ltd as on 30th June-

Equity and Liabilities	₹
(1) Shareholders' Funds:	
(a) Share Capital – 20,000 Shares of ₹ 10 each	2,00,000
(b) Reserves & Surplus – General Reserve	20,000
(2) Non-Current Liabilities:	
Long Term Borrowings (i) 10% Debentures	1,00,000
(ii) Loan from bank	40,000
(3) Current Liabilities:	
Trade Payables – Sundry Creditors	80,000
Total	4,40,000
Assets	
(1) Non-Current Assets:	
(a) Fixed Assets: (i) Tangible Assets	
- Land & Building	1,00,000
- Plant & Machinery	1,45,000
(ii) Intangible Assets – Goodwill	25,000
(b) Other Non-Current Assets	
- Preliminary expenses	16,000

(2) Current Assets:	
(a) Inventories	55,000
(b) Trade Receivables	65,000
(c) Cash & Cash Equivalents	34,000
Total	4,40,000

The balance of Winners Ltd is taken over by Superb Ltd as on that date on the following terms:

(i) All Assets except cash and Bank are taken over at Book Value less 10% subject to (b) below.
(ii) Goodwill is to be valued at 4 years' Purchase of the excess of average (five years) Profits over 8% of the combined account of Share Capital and General Reserve.
(iii) Trade Creditors are to be taken over subject to a discount of 5%.
(iv) Loan from Bank is to be repaid by Winners Ltd.
(v) The Purchase Consideration is to be discharged in Cash to the extent of ₹ 1,50,000 and the balance is fully paid Equity Shares of ₹ 10 each valued at ₹ 12.50 per share.

The average of the five years profit is ₹ 30,100. The expenses of Liquidation amount to ₹ 2,000. Prior to 30th June, Winners Ltd sold goods costing ₹ 30,000 to Superb Ltd for ₹ 40,000. Debtors include ₹ 20,000 still due from Superb Ltd. on the date of absorption, ₹ 25,000 worth of Goods were still in Stock of Superb Ltd.

Show the:
A. Realisation Account, Bank Account, Sundry Shareholders Account and Shares in Superb Ltd and
B. Journal Entries in the books of Superb Ltd. **[15]**

3. **(a)** Mayukh Ltd. wanted to buy 30% equity shares of Omkar Ltd. with an intention to establish an associate relationship between the two on 01.04.2013 Mayukh Ltd. purchased such percentage of equity shares at a cost of ₹15 Lakhs. On that date the balance sheet of Omkar Ltd. Was as under:

Name of the Company: Omkar Ltd.
Balance Sheet as at: 1st April, 2013

(₹ in lakh)

Ref No.		Note No.	As at 1st April, 2013	As at 1st April, 2012
	EQUITY AND LIABILITIES			
	Shareholder's Fund			
	(a) Share capital	1	30.00	
	(b) Reserves and surplus	2	9.00	
	Current Liabilities			
	(a) Short-term borrowings	3	1.00	
	(b) Trade payables	4	3.00	
	Total		43.00	
	ASSETS			
	Non-current assets			
	(a) Fixed assets			

	(i) Tangible assets	5	36.00	
	Current assets			
	(b) Inventories	6	3.00	
	(c) Trade receivables	7	3.00	
	(d) Cash and cash equivalents	8	1.00	
	Total (1+2)		43.00	

(₹ in lakh)

Note 1. Share Capital	As at 1st April, 2013	As at 1st April, 2012
Authorized, Issued, Subscribed and paid-up Share capital:		
30,000 Equity share of ₹ 100 each	30.00	
Note 2. Reserve & Surplus		
Reserves & Surplus	9.00	
Note 3. Short term borrowings		
Bank Overdraft	1.00	
Note 4. Trade Payables		
Sundry Creditors	3.00	
Note 5. Tangible Assets		
Tangible Assets	36.00	
Note 6. Inventories		
Stock in trade	3.00	
Note 7. Trade Receivables		
Sundry debtors	3.00	
Note 8. Cash and cash equivalents		
Balance at Bank	1.00	

During the year 2013-14 Omkar Ltd. earned a profit of ₹15 lakhs and on 2014 – 15 it suffered a loss of ₹90 lakhs. Mayukh Ltd. did not have any subsidiary during 2013-14 but on 01.04.2014 it purchased 60% equity shares of Umang Ltd. for ₹160 lakhs.

Discuss the impact of the associate relationship on the balance sheet of 2013-14 & 2014-15 of Mayukh Ltd. **[12]**

(b) Explain Negative Goodwill in case of amalgamation in the nature of purchase. **[3]**

4. (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	8,000	
	Increase in Debtors	6,000	
	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		12,345
Closing cash and cash equivalent			71,800

[10]

(b) State the disclosure requirement of Contingent liabilities and Assets under AS 29 "Provisions, Contingent liabilities and Contingent Assets". **[5]**

5. (a) On 31st March, 2014 the balance sheet of Q Ltd. was as follows:

Equity and Liabilities	₹
(1) Shareholders' Funds:	
Share Capital Authorise and Issued 5,000 Equity Shares of ₹100 each fully paid	5,00,000
Reserves & Surplus – Profit and Loss A/c	1,03,000
(2) Current Liabilities:	
Trade Payables – Sundry Creditors	77,000
Other Current Liabilities	20,000
Short-term provisions [Provision for Taxation ₹45,000 + Proposed Dividend ₹75,000]	1,20,000
Total	8,20,000
Assets	
(2) Non-Current Assets:	
Fixed Assets: Tangible Assets	
- Land & Building	2,20,000
- Plant & Machinery	95,000
(2) Current Assets:	
Inventories	3,50,000
Trade Receivables	1,55,000
Total	8,20,000

The net profits of the company, after deducting all working charges and providing for depreciation and taxation, were as under:

Year ended 31st March	₹
2010	85,000
2011	96,000
2012	90,000
2013	1,00,000
2014	95,000

On 31st March,2014 , Land and Buildings were valued at ₹2,50,000 and Plant and Machinery ₹1,50,000.

In view of the nature of business, it is considered that 10% is a reasonable return on tangible capital.

Compute the value of the company's shares after taking into account the received values of fixed assets and the valuation of goodwill based on five year's purchase of the super profit based on the average profit of the last five years. **[10]**

(b) Given- (i) Future Maintainable Profit before Interest- ₹ 125 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 ₹320 Lakhs of which Equity Funds is ₹ 210 Lakhs; (iv) Interest on loan Fund is 18%. Find out leverage effect on the Goodwill if tax rate is =30%. **[5]**

6. (a) M Ltd. provides you the following data to calculate Economic Value Added (EVA):

Particulars	
60 crores Equity Shares of ₹10 each	
2 crores, 15% Preference Shares of ₹100 each	
16 crores, 15% Debentures of ₹100 each	
Tax Rate	30%
Beta Factor	1.5
Market Rate of Return	15.5%
Equity Market Risk Premium	9%
Financial Leverage	1.5 times
Immovable Property (held as Investment)	₹200 crores

[9]

(b) The draft Balance Sheets of S Ltd. and H Ltd. as on 31.3.2014 were as follows.

(₹ in Lakhs)

Liabilities		S Ltd.		H Ltd.
Equity Share capital		80		25
Reserves and surplus		400		75
10% 25,000 Debentures of ₹ 100 each		–		25
Other Liabilities		120		–
		600		125
Assets				
Fixed assets at cost	200		75	
Less: Depreciation	100	100	50	25
Investments in H Ltd.				
2 Lakhs Equity shares of ₹ 10				
each at cost	32			
10% 25,000 debentures of ₹ 100				
each at cost	24	56		
Current assets	800		300	
Less: Current liabilities	(356)	444	(200)	100
		600		125

In a scheme of absorption duly approved by the Court, the assets and liabilities of 'H' Ltd. were taken over at an agreed value of ₹ 130 lakhs. Debenture holders are to be discharged at per. Outside shareholders of 'H' Ltd. were allotted equity shares in S Ltd. at a premium of ₹ 90 per share in satisfaction of other claims in 'H' Ltd. for purposes of recording in the books of 'S' Ltd. Fixed assets taken over from 'H' Ltd. were revalued at ₹ 40 lakhs.

The scheme was put through on 1st April, 2014.

Compute the purchase consideration. And show the breakup. **[2+4=6]**

7. (a) Y Ltd. decides to absorb X Ltd. The draft Balance Sheet of X Ltd. is as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
3,000 Equity Shares of ₹100 each (fully paid)	3,00,000	Fixed Assets	2,50,000
Preference Shares @ ₹100 each	60,000	Sundry Debtors	1,00,000
Sundry Creditors	60,000	Profit & Loss Account	70,000
	4,20,000		4,20,000

Y Ltd. agrees to take over X Ltd. for this purpose an Equity Share of X Ltd. will be valued at ₹70 . Y Ltd. agrees to pay ₹60,000 in cash for payment to preference shareholders. Equity Shares will be issued at value of ₹120 each.
Calculate the Purchase Consideration. **[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:

Particulars	Skilled	Unskilled
(i) Annual average earning of an employee till the retirement age.	₹1,40,000	₹1,00,000
(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) Market Value Added (MVA);
(b) Committee on Public Undertaking;
(c) Timing and Permanent Differences;
(d) Election Process of Public Accounts Committee.