

**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)** Umbrella 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
- (ii)** Umesh Behari Ltd. has provided the following information: Depreciation as per accounting records ₹ 4,00,000, Depreciation as per income tax records ₹10,00,000. Unamortized preliminary expenses as per income tax records ₹ 60,000, 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. ₹ 3,00,000 (DTA)  
B. ₹ 30,000 (DTL)  
C. ₹ 2,70,000 (Net DTL)  
D. None of these
- (iii)** M.M Corporate Securities Ltd. is showing an intangible asset at ₹ 72 lakhs as on 01.04.2011 and that item was acquired for ₹ 96 lakhs on 01.04.2008 and that the item was available for use from that date. It has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. As per AS 26
- A. ₹ 4.8 lakhs should be adjusted against the current year's profits  
B. ₹ 4.8 lakhs should be adjusted against the opening balance of revenue reserves  
C. ₹ 9.6 lakhs should be adjusted against the opening balance of revenue reserves  
D. None of these
- (iv)** B & B Construction Co. 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

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₹ 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

(v) Gurjari Ltd. purchased Fixed Assets costing ₹ 12,000 lakhs on 1.4.2013 and the same was fully financed by Foreign Currency Loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = ₹ 40 and ₹ 42.50 as on 1.04.2013 and 31.03.2014 respectively. First instalment was paid on 31.03.2014. As per AS-11, Exchange Difference to be charged to P & L A/c for the year 2013-14 will be :

- A. ₹ 750 lakhs
- B. ₹ 500 lakhs
- C. ₹ Nil
- D. None of these

(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	22	16
B	18	18
C	10	14

What will be the value of closing stock?

- A. ₹44 Lakhs
- B. ₹40 Lakhs
- C. ₹48 Lakhs
- D. None of these

(vii) Montana Ltd. is having a plant (asset), carrying amount of which is ₹ 120 lakh on March 31, 2012. Its balance useful life is 3 years and residual value at the end of 3 years is ₹ 9 lakh. Estimated future cash flow from using the plant will be ₹ 30 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. ₹ 81.37 lakh
- B. ₹ 66.00 lakh
- C. ₹ 65.61lakh
- D. Insufficient Information

(viii) 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

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- (ix) First Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2013 at ₹ 2,400 lakh. As at that date value in USE is ₹ 1,600 lakh. If the net selling price is ₹ 1,800 lakh, Impairment loss of the Asset as per AS-28 will be
- A. ₹ 800 lakh  
 B. ₹ 600 lakh  
 C. ₹ 200 lakh  
 D. None of (A), (B), (C)
- (x) MGS Ltd. purchased a machine costing ₹1,25,000 for its manufacturing operations and paid shipping costs of ₹30,000. MGS Ltd. spent an additional ₹12,000 testing and preparing the machine for use. What amount should MGS record as the cost of machine?
- A. ₹1,67,000  
 B. ₹1,25,000  
 C. ₹ 30,000  
 D. None of (A), (B), (C)

1.(b) Cost of Production of product A is given below:

Raw material per unit	₹160
Wages per unit	₹50
Overhead per unit	<u>₹50</u>
	<u>₹260</u>

As on the balance sheet date the replacement cost of raw material is ₹110 per unit. There are 100 units of raw material on 31.3.12.

Calculate the value of closing stock of raw materials in the following conditions:

- (i) If finished product is sold at ₹ 275 per unit, what will be the value of closing stock of raw material?
- (ii) If finished product is sold at ₹ 240 per unit, what will be the value of closing stock of raw material?

**[5]**

### Part B (75 marks)

2. The summarized Balance Sheets of S Ltd. and H Ltd. as on 31.3.13 were as follows:

(₹ in Lakhs)

Liabilities	S Ltd.		H Ltd.	
Equity Share capital		100		30
Reserves and surplus		500		90
10% 25,000 Debentures of ₹ 100 each		-		25
Other Liabilities		150		-
Total		750		145
<b>Assets</b>				
Fixed assets at cost	250		100	
Less: Depreciation	<u>125</u>	125	<u>55</u>	45
Investment in H Ltd.				
- 2 Lakhs Equity shares of ₹ 10 each at cost	32			
- 10% 25,000 debentures of ₹ 100 each at cost	<u>24</u>	56		
Current assets	1,000		300	
Less: Current liabilities	<u>431</u>	569	<u>200</u>	100

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Total		750		145
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In a scheme of absorption duly approved by the Court, the assets of 'H' Ltd. were taken over at an agreed value of ₹ 140 lakhs. The liabilities were taken over at par. 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 ₹ 50 lakhs.

The scheme was put through on 1st April, 2013.

a. Pass journal Entries in the books of 'S' Ltd.

b. Show the balance of 'S' Ltd. after absorption of 'H' Ltd.

**[15]**

**3.** The following are the Balance Sheets of A Ltd. and B Ltd. as on 31st December 2013.

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Share capital			Fixed Assets	14,00,000	5,00,000
Equity shares of ₹ 10 each	12,00,000	6,00,000	Investment:		
10% Preference shares of ₹10 each	4,00,000	2,00,000	6,000 shares of B Ltd.	1,60,000	-
Reserves and surplus	6,00,000	4,00,000	5,000 shares of A Ltd.	-	1,60,000
Secured loans:			Current Assets:		
12% Debentures	4,00,000	3,00,000	Stock	4,80,000	6,40,000
Current liabilities:			Debtors	7,20,000	3,80,000
Sundry creditors	4,40,000	2,50,000	Bills receivable	1,20,000	40,000
Bills payable	60,000	50,000	Cash at bank	2,20,000	80,000
	31,00,000	18,00,000		31,00,000	18,00,000

Fixed assets of both the companies are to be revalued at 20% above book value. Stock in—-trade and Debtors are taken over at 10% lesser than their book value. Both the companies are to pay 10% Equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, A Ltd. will absorb B Ltd. on the following terms.

- i. 8 Equity shares of ₹ 10 each will be issued by A Ltd. at par against 6 shares of B Ltd.
- ii. 10% Preference Shareholders of B Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in A Ltd.
- iii. 12% Debentureholders of B Ltd. are to be paid at 8% premium by 12% Debentures in A Ltd. issued at a discount of 10%.
- iv. ₹ 60,000 is to be paid by A Ltd. to B Ltd. for Liquidation expenses. Sundry creditors of B Ltd. include ₹ 20,000 due to A Ltd.

Prepare :

(a) Absorption entries in the books of A Ltd.

(b) Statement of consideration payable by A Ltd.

**[15]**

**4.** X Ltd. is a holding Company and Y Ltd. and Z Ltd. are subsidiaries of X Ltd. Their Balance Sheets as on 31.12.2012 are given below-

Liabilities	X Ltd.	Y Ltd.	Z Ltd.	Assets	X Ltd.	Y Ltd.	Z Ltd.

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Share Capital	1,50,000	1,50,000	90,000	Fixed Assets	30,000	90,000	64,500
Reserves	42,000	15,000	13,500	Investments in:			
Profit & Loss A/c	24,000	18,000	13,500	- Shares of Y Ltd.	1,12,500	—	—
Z Ltd. Balance	4,500	—	—	- Shares of Z Ltd.	19,500	79,500	—
Sundry Creditors	10,500	7,500	—	Stock in Trade	18,000	—	—
X Ltd. Balance	—	10,500	—	Y Ltd. Balance	12,000	—	—
				Sundry Debtors	39,000	31,500	48,000
				X Ltd. Balance	—	—	4,500
<b>Total</b>	<b>2,31,000</b>	<b>2,01,000</b>	<b>1,17,000</b>	<b>Total</b>	<b>2,31,000</b>	<b>2,01,000</b>	<b>1,17,000</b>

The following particulars are given:

- i. The Share Capital of all Companies is divided into shares of ₹ 10 each.
- ii. X Ltd. held 12,000 shares in Y Ltd. and 1,500 shares of Z Ltd.
- iii. Y Ltd. held 6,000 shares of Z Ltd.
- iv. All these investments were made on 30.6.2011.
- v. On 31.12.2011, the position was as shown below:

(Amount in ₹)

Particulars	Reserve	P&LA/c	Creditors	Fixed Assets	Stock	Debtors
Y Ltd.	12,000	6,000	7,500	90,000	6,000	72,000
Z Ltd.	11,250	4,500	1,500	64,500	53,250	49,500

- vi. 10% Dividend is proposed by each Company.
- vii. The whole of stock in trade of Y Ltd. as on 30.06.2012 (₹ 4,000) was later sold to X Ltd. for ₹ 4,400 and remained unsold by X Ltd. as on 31.12.2012.
- viii. Cash in transit from Y Ltd. to X Ltd. was ₹ 1,500 as at the close of business. You are required to prepare the Consolidated Balance Sheet of the group as at 31.12.2012. **[15]**

5. The following are the Balance sheets (as at 31.3.2013) of A Ltd. and C Ltd.:

Liabilities	A Ltd. ₹	C Ltd. ₹	Assets	A Ltd. ₹	C Ltd. ₹
Share Capital:			Fixed Assets	75,00,000	45,00,000
Equity Shares of ₹10 each	54,00,000	27,00,000	Investments	7,50,000	7,50,000
10% Preference shares of ₹100 each	18,00,000	-	Current Assets		
12% Preference shares of ₹100 each	-	9,00,000	Stock	27,00,000	18,00,000
Reserve and Surplus:			Debtors	22,50,000	18,00,000
Statutory Reserve	1,50,000	1,50,000	Bills receivable	75,000	15,000
General Reserve	37,50,000		Cash at Bank	2,25,000	1,35,000
Secured Loan		25,50,000			
15% Debentures	7,50,000	-			

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12% Debentures	-	7,50,000			
Current Liabilities					
Sundry creditors	16,20,000	19,20,000			
Bills payable	<u>30,000</u>	<u>30,000</u>			
	1,35,00,000	90,00,000		1,35,00,000	90,00,000

Contingent liabilities for bills receivable discounted ₹ 30,000.

(A)	The following additional information is provided to you:		
		A Ltd.	C Ltd.
		₹	₹
	Profit before Interest and Tax	22,12,500	11,70,000
	Rate of Income-tax	40%	40%
	Preference dividend	1,80,000	1,08,000
	Equity dividend	5,40,000	4,05,000
	Balance profit transferred to Reserve account.		

- (B) The equity shares of both the companies are quoted on the Mumbai Stock Exchange. Both the companies are carrying on similar manufacturing operations.
- (C) A Ltd proposes to absorb business of C Ltd. as on 31.3.2013. The agreed terms for absorption are:
- (i) 12% Preference shareholders of C Ltd. will receive 10% Preference shares of A Ltd. sufficient to increase their present income by 20%.
  - (ii) The Equity shareholders of C Ltd. will receive equity shares of A Ltd. on the following terms:
    - (a) The Equity shares of C Ltd. will be valued by applying to the earnings per share of C Ltd. 60 per cent of price earnings ratio of A Ltd. based on the results of 2010-11 of both the Companies.
    - (b) The market price of Equity shares of A Ltd. is ₹ 40 per share.
    - (c) The number of shares to be issued to Equity shareholders of C Ltd. will be based on the 80% of market price.
    - (d) In addition to Equity shares, 10% Preference shares of A Ltd. will be issued to the equity shareholders of C Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2010-11.
  - (iii) 12% Debentureholders of C Ltd. are to be paid at 8% premium by 15% debentures in A Ltd. issued at a discount of 10%.
  - (iv) ₹ 24,000 is to be paid by A Ltd. to C Ltd. for liquidation expenses. Sundry Creditors of C Ltd. include ₹ 30,000 due to A Ltd. Bills receivable discounted by A Ltd. were all accepted by C Ltd.
  - (v) Fixed assets of both the companies are to be revalued at 20% above book value. Stock in trade is taken over at 10% less than their book value.

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- (vi) Statutory reserve has to be maintained for two more years  
 (vii) For the next two years no increase in the rate of equity dividend is anticipated.  
 (viii) Liquidation expense is to be considered as part of purchase consideration.

You are required to:

- Find out the purchase consideration and
- Give journal entries in the books of A Ltd.

**[15]**

**6. (a)** From the following information of Neelam 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

**[6]**

**(b)** Explain the need and significance of Environmental Accounting.

**[9]**

**7. (a)** On April 1, 2012, a company Sky Blue Ltd. offered 100 shares to each of its 1,500 employees at ₹60 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant date is ₹70 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹68 per share.

On April 30, 2012, 1,200 employees accepted the offer and paid ₹60 per share purchased. Nominal value of each share is ₹10.

Record the issue of shares in book of the Sky Blue Ltd. under the aforesaid plan.

**[5]**

**(b)** From the following information, prepare cash flow statement by using indirect method as per AS-3.

Balance Sheet

Liabilities	31.3.2013	31.3.2014	Assets	31.3.2013	31.3.2014
Capital	50,00,000	60,00,000	Plant & Machinery	27,30,000	42,70,000
Retained Earnings	26,50,000	36,90,000	Less : Depreciation	6,10,000	7,90,000
Debentures	—	9,00,000		21,20,000	34,80,000
Current Liabilities :			Current Assets :		
Creditors	8,80,000	8,20,000	Debtors	23,90,000	28,30,000
Bank Loan	1,50,000	3,00,000	Less : Provision	1,50,000	1,90,000

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Liability for Expenses	3,30,000	2,70,000		22,40,000	26,40,000
Dividend Payable	1,50,000	3,00,000	Cash	15,20,000	28,20,000
Creditors for plant	—	2,00,000	Marketable Securities	11,80,000	15,00,000
and machinery			Inventories	20,10,000	19,20,000
purchased			Prepaid Expenses	90,000	1,20,000
	91,60,000	1,24,80,000		91,60,000	1,24,80,000

Additional Information:

- (i) Net Income for the year ended 31.03.2014, after charging depreciation of ₹1,80,000 is ₹22,40,000.
- (ii) Debtors of ₹ 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account.
- (iii) The Board of Directors declared dividend of ₹ 12,00,000.

Note: Marketable securities are treated as cash equivalents.

**[10]**

**8.** Write short notes on any three of the following:

**[5x3=15]**

- (a)** Basic Structure of the Form of the Government Accounts :
- (b)** Human Resource Accounting (HRA):
- (c)** Advantages in the preparation of Value Added Statement;
- (d)** Committee on Public Undertaking.