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) M Ltd. entered into agreement with S Ltd. for sale of goods of ₹ 8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2014. On the same day, S Ltd. entered into another agreement with M Ltd. to resell the same goods at ₹ 10.80 lakhs on 1st August, 2014. The pre-determined reselling price covers the holding cost of S 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 S 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

(ii) Ramesh Chandra 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 ₹ 6 0,000, 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) As per records of Play Fin Stock Ltd. Net Profit for the current year ₹199.20 lakhs, No. of Equity Shares outstanding 100 lakhs, No. of 12% Convertible Debentures of ₹100 each 2 lakhs, Each Debenture is convertible into 10 equity shares, Tax Rate 30%, As per AS 20, Diluted Earnings Per Share is :
A. ₹ 1.66
B. ₹ 1.86
C. ₹ 1.80
D. None of these

(iv) Dhan Raj Ltd. issued certain callable convertible debentures at ₹ 60. The value of similar debentures without call or equity conversion option is ₹ 57. The value of call as determined using Black and Scholes model for option pricing is ₹ 2. The values of liability and equity component will be :

A. ₹ 57, ₹ 3
B. ₹ 58, ₹ 2
C. ₹ 59, ₹1
D. ₹ 55, ₹ 5

(v) Vasundhara Construction Ltd. undertook a contract on December 1, 2012 to construct a building for ₹ 70 lakh. The Company found on March 31, 2013 that it had already spent ₹ 52 lakh on the construction. Prudent estimate of additional cost for completion was ₹ 28 lakh. SContract 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. ₹ 52.5 lakh
B. ₹ 50.4 lakh
C. ₹ 45.5 lakh
D. None of these

(vi) Quick Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2014 at ₹ 600 lakh. As at that date value in use is ₹ 400 lakh. If the net selling price is ₹ 450 lakh, Impairment loss of the Asset as per AS-28 will be:

A. ₹ 200 lakh
B. ₹150 lakh
C. ₹ 50 lakh
D. None of (A), (B), (C)

(vii) 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 shares
D. None of the above

(viii) 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. ₹ 24 crores
B. ₹ 21 crores
C. ₹ 19 crores
D. Insufficient Information

(ix) Mega Ltd. deals in three products A1,B2 and C3, which are neither similar nor interchangeable. At the time of closing of its account for the year 2013-14 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)
A1	22	16
B2	18	18

C3	10	14

What will be the value of closing stock?
A. ₹44 Lakhs
B. ₹40 Lakhs
C. ₹48 Lakhs
D. None of these

(x) 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

(b) Aveer Ltd. wants to re-classify its Investment in accordance with AS-13.Decide on the treatment to be given in each of the following cases:

(i) A portion of Current Investments purchased for ₹20 lakhs to be reclassified as long-term Investments, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹25 lakhs.
(ii) Another portion of Current Investments purchased for ₹15 lakhs has to be reclassified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was ₹6.5 lakhs.
(iii) Certain Long-term Investments no longer considered for holding purposes have to be re-classified as Current Investments. The original cost of theses was ₹18 lakhs but they had been written down to ₹12 lakhs to recognize permanent decline as per AS 13. **[5]**

Part B (75 marks)

2. The summarized Balance Sheets of R Ltd. and S Ltd. for the year ending on 31.3.2014 are as under:

Equity and Liabilities	R Ltd. (₹)	S Ltd. (₹)
Shareholders' funds		
Share Capital		
Equity share capital (in shares of ₹10 each)	24,00,000	12,00,000
8% Preference Share Capital(in shares of ₹10 each)	8,00,000	-
10% Preference share Capital (in shares of ₹10 each)	-	4,00,000
Reserves and Surplus	30,00,000	24,00,000
Current Liabilities	18,00,000	10,00,000
Total	80,00,000	50,00,000
Assets		
Non-current Assets	55,00,000	27,00,000
Current Assets	25,00,000	23,00,000

Total	80,00,000	50,00,000

The following information is provided:

		R Ltd. (₹)	S Ltd. (₹)
	Profit before tax	10,64,000	4,80,000
	Taxation	4,00,000	2,00,000
	Preference Dividend	64,000	40,000
	Equity Dividend	2,88,000	1,92,000

The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.
R Ltd. proposes to absorb S Ltd. as on 31.03.2014. The terms of absorption are as under:

(i) Preference Shareholders of S Ltd. will receive 8% preference shares of R Ltd. sufficient to increase the income of preference shareholders of S Ltd. by 10%.
(ii) The equity shareholders of S Ltd. will receive equity shares of R Ltd. on the following basis:
- The equity shares of S Ltd. will be valued by applying to the earnings per share of S Ltd.75% of price earnings ratio of R Ltd. based on the results of 2013-14 of both the companies.
- The market price of equity shares of R Ltd. is ₹40 per share.
- The number of shares to be issued to the equity shareholders of S Ltd. will be based on the above market value.
- In addition to equity shares , 8% preference shares of R Ltd. will be issued to equity shareholders of S Ltd. to make up for the loss in income arising from the above exchange od shares based on the dividends for the year 2013-14.

The assets and liabilities of S Ltd. as om 31.03.2014 are revalued by professional valuer as under:

	Increased by (₹)	Decreased by (₹)
Fixed Assets	1,00,000	-
Current Assets	-	2,00,000
Current Liabilities	-	40,000

For the next two years, no increase in the rate of equity dividend is expected.
You are required to:
(i) Set out in detail the purchase consideration.
(ii) Give the Balance Sheet as on 31.03.2014 after absorption. **[15]**

3. (a) Mr. Investor buys a stock option of ABC Co. Ltd. in July, 2012 with a strike price on 30.07.2012 of ₹250 to be expired on 30.08.2012. 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 ₹260 per unit. **[8]**

(b) Discuss the concept of Cost v/s Fair value with reference to Indian Accounting Standards. **[7]**

4. The following are the summarized Balance Sheets of Sand Ltd. and Snow Ltd. as on 31.3.2014:

Particulars	(₹ in thousands)	
	Sand Ltd.	Snow Ltd.
Equity and Liabilities:		
Shareholders' Funds		
Share capital-		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves and Surplus	800	(800)
Non-current Liabilities		
10% Debentures	500	—
Loans from Banks	250	450
Current Liabilities		
Bank overdrafts	—	50
Trade payables	300	300
Proposed dividend	200	—
Total	4,050	1,000
Assets		
Non-current assets		
fixed assets	2,700	850
Non-current Investments (including investments in Snow Ltd.)	700	—
Current assets		
Trade receivables	400	150
Cash at bank	250	—
Total	4,050	1,000

Snow Ltd. has acquired the business of Sand Ltd. The following scheme of merger was approved:

(i) Banks agreed to waive off the loan of ₹ 60 thousands of Snow Ltd.

(ii) Snow Ltd. will reduce its shares to ₹10 per share and then consolidate 10 such shares into one share of ₹ 100 each (new share).

(iii) Shareholders of Sand Ltd. will be given one share (new) of Snow Ltd. in exchange of every share in Sand Ltd.

(iv) Proposed dividend of Sand Ltd. will be paid after merger to shareholders of Sand Ltd.

(v) Trade payables of Snow Ltd. includes ₹ 100 thousands payable to Sand Ltd.

(vi) Sand Ltd. will cancel 20% holding in Snow Ltd. as investment, which was held at a cost of ₹250thousands.

Pass necessary entries in the books of Snow Ltd. **[15]**

5. (a) From the following information determine the amount of unrealized profits to be eliminated and the apportionment of the same, if C Ltd. Holds 75% of the equity shares of D Ltd.

Sales by C Ltd to D Ltd-

- Goods costing ₹50,000 at a profit of 20% on sale price. Entire stock was lying unsold as on the Balance Sheet date.
- Goods costing ₹70,000 at a profit of 25% on cost price. 40% of the goods were included in closing stock of D Ltd.

[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	₹60,000	₹40,000
(ii) Age of retirement	60 years	60 years
(iii) Discount rate	15%	15%
(iv) No. of employees in the group	30	40
(v) Average age	57 years	58 years

[9]

6. D Ltd. own 80% of S, 40% of J and 40% of A. J is Jointly controlled entity and A is an Associate. Balance Sheet of four companies as on 31.03.2013 are:

I. Equity &Liabilities	D	S	J	A
Share Capital ₹1 equity share	1,000	400	800	800
Reserves and Surplus – Retained earnings	4,000	3,400	3,600	3,600
Trade payables-creditors	200	300	250	250
Total	5,200	4,100	4,650	4,650
II. Assets	D	S	J	A
Non-current assets – fixed assets	1,000	800	1,400	1,000
Non-current Investments				
Investment in S	800	-	-	-
Investment in J	600	-	-	-
Investment in A	600	-	-	-
Current assets	2,200	3,300	3,250	3,650
Total	5,200	4,100	4,650	4,650

D Ltd. acquired shares in S many years ago when retained earnings of S were ₹520. D Ltd acquired its shares in J at the beginning of the year when retained earnings of J were ₹400. D Ltd. acquired its shares in A on 01.04.2012 when retained earnings of A were ₹400.
The Balance of goodwill relating to S had been written off three years ago. The value of goodwill in J remains unchanged. Prepare the Consolidated Balance Sheet of D Ltd as on 31.03.2013 as per AS-21,23 and 27. **[15]**

7. (a) AB Ltd. has entered into a contract by which it has the option to sell its specified asset to XY Ltd. for ₹ 100 lakhs after 3 years, whereas the current market price is ₹ 150 lakhs. Company always settles account by delivery. What type of option is this? Is it a financial instrument? Explain with reference to the relevant accounting standard. **[4]**

(b) List the disclosures required by an enterprise as per AS-29 for each class of contingent liability at the balance sheet date. **[5]**

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

Debt Capital 12%	₹4,000 crores	Risk free rate	9%
Equity capital	₹1,000 crores	Beta factor	1.05
Reserves & Surplus	₹15,000 crores	Market rate of return	19%
Capital Employed	₹20,000 crores	Equity(market) risk premium	10%
Operating profit after tax	₹4,200 crores	Tax rate	30%

[6]

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

(a) Environmental Accounting.
(b) List the functions of the Committee on Public Undertakings.
(c) Describe the process of election of Public Accounts Committee.
(d) Market Value Added (MVA).