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) Ramayana Ltd. presents interim financial report quarterly. On 01-04-2013. Ramayana Ltd. has carried forward loss of ₹ 800 lakhs for income-tax purpose for which deferred tax asset has not been recognized. The Ramayana Ltd. earns ₹1,000 lakhs in each for quarter ending on 30. 06.2013, 30.09.2013, 31.12.2013 and 31.03.2014 excluding the loss carried forward. Income-tax rate is expected to be 40%. The amount of tax expense to be reported in each quarter will be:
(A) ₹1,000 lakhs;
(B) ₹1,280 lakhs;
(C) ₹320 lakhs;
(D) ₹4,000 lakhs.

(ii) On January 2, 2014 Ekta Ltd. bought a trademark from Mukut Ltd. for ₹ 10,00,000. Ekta retained an independent consultant, who estimated the trademark's remaining life to be 20 years. Its unamortised cost on Mukut's accounting records was ₹ 7,60,000. Ekta decided to amortize the trademark over the maximum period allowed. In Ekta's December 31, 2014 balance sheet, what amount should be reported as accumulated amortization?
(A) ₹ 76,000
(B) ₹ 38,000
(C) ₹ 50,000
(D) ₹ 1,00,000.

(iii) In a production process, normal waste is 5% of input. 10,000 MT of input were put in process resulting in a wastage of 600 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end. If waste has Nil realizable value. The cost per unit is:
(A) ₹1,05,263;
(B) ₹1063.83;
(C) ₹105.26;
(D) ₹1052.63.

(iv) Mayur Ltd. purchased a machine costing ₹1,25,000 for its manufacturing operations and paid shipping costs of ₹ 40,000. Mayur Ltd. spent an additional amount of ₹ 20,000 for testing and preparing the machine for use. Mayur Ltd. will record the machine at a cost of:

(A) ₹1,85,000;
(B) ₹1,25,000;
(C) ₹1,65,000;
(D) None of the above.

(v) Akash Ltd. wants to re-classify its investments in accordance with AS-13.

A portion of current investments purchased for ₹30 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 13 lakhs. After transfer the investment should be carried at :
(A) ₹30 lakhs;
(B) ₹13 lakhs;
(C) ₹17 lakhs;
(D) None of the above.

(vi) X Ltd. holds 61% 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.

(vii) B & T Ltd. obtained a Loan from a bank for ₹ 480 lakhs on 30.04.2013. It was utilized for : Construction of a shed ₹ 210 lakhs, Purchase of a machinery ₹ 150 lakhs, Working Capital ₹ 80 lakhs, Advance for purchase of truck ₹ 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 ₹ 72 lakhs. As per AS 16, Interest to be debited to Profit & Loss account will be :
(A) ₹ 31.50 lakhs;
(B) ₹ 40.50 lakhs;
(C) ₹ 210 lakhs;
(D) None of the above.

(viii) The fair value of Plan assets of Vipul 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.

(ix) White Ltd. has imported $ 100,000 worth of goods from Chicago Traders of USA on 30.2.2013 when exchange rate was ₹ 54.60 per US $. The payment for imports was made on 30.6.2013 when exchange rate was ₹ 55.50 per US $. If the rate of exchange on 31.3.2013 is ₹ 55.00 per US $, the exchange difference to be charged/debited to Profit & Loss Account for the year 2013-14 as per AS-11 will be –
(A) ₹ 50,000 ;
(B) ₹ 45,000 ;
(C) ₹ 20,000 ;
(D) None of the above.

(x) A company follows a policy of refunding money to the dissatisfied customers if they claim within thirty days from the date of purchase and return the goods. It appears from the past experience that in a month only 0.30% of the customers claim refunds. The company sold goods amounting to ₹50 lakhs during the last month of the financial year. The amount of contingency is:
(A) ₹50 lakhs;
(B) ₹15 lakhs;
(C) ₹35 lakhs;
(D) None of the above.

(b) State the objectives of IFRS – 5 (Non-Current Assets Held for Sale and Discontinued Operations). **[2]**

(c) List the types of share based transaction as per IFRS - 2 (Share Based Payments). **[3]**

Part B (75 marks)

2. A Ltd. and M Ltd. decide to amalgamate and to form a new company AM Ltd. The following are their summarised balance sheets as at 31.3.2014:

Equity and Liabilities	A Ltd. (₹)	M Ltd. (₹)
(1)Shareholders' funds		
(a)Share Capital (₹ 100) each	10,00,000	6,00,000
(b) Reserves and Surplus		
General Reserve	1,00,000	50,000
Investment Allowance Reserve	40,000	30,000
Non-Current Liabilities		
12% Debentures (₹100 each)	3,00,000	1,00,000
Current Liabilities		
Trade payables	60,000	20,000
Total	15,00,000	8,00,000
Assets		
Non-current Assets		
Fixed Assets	7,50,000	2,00,000
Non-current investments		
1,500 Shares in M	3,50,000	—
4,000 Shares in A	—	5,00,000
Current Assets	4,00,000	1,00,000
Total	15,00,000	8,00,000

Calculate the amount of purchase consideration for A Ltd. and M Ltd. and draw up the balance sheet of AM Ltd. after considering the following:

(i) Assume amalgamation is in the nature of purchase.
(ii) Fixed assets of A Ltd. are to be reduced by ₹ 50,000 and that of M Ltd. are to be taken at ₹ 3,00,000.
(iii) 12% debentureholders of A Ltd. and M Ltd. are discharged by AM Ltd. by issuing such number of its 15% debentures of ₹ 100 each so as to maintain the same amount of interest.

(iv) Shares of AM Ltd. are of ₹ 100 each.
Also show, how the investment allowance reserve will be treated in the Financial Statement assuming the Reserve will be maintained for 3 years. **[15]**

3. (a) The business of H Ltd. was carried on continuously at losses. The following are the extracts from the Balance Sheet of the company as on 31st March,2014

Equity and Liabilities	H Ltd. (₹)
(1)Shareholders' funds	
(a)Share Capital (₹ 100) each	
30,000 Equity Shares of ₹10 fully paid	3,00,000
2,000 8% Cum Pref. Shares of ₹100 fully paid	2,00,000
(b) Reserves and Surplus	
Securities Premium Account	90,000
Profit & Loss Account	(2,05,000)
Non-Current Liabilities	
Long Term Borrowings	
Unsecured Loan (From Directors)	50,000
Current Liabilities	
Trade payables	3,00,000
Outstanding Expenses (incl Directors Remuneration ₹ 20,000)	70,000
Total	8,05,000
Assets	
Non-current Assets	
Fixed Assets	
Tangible Assets	
Plant	3,00,000
Loose Tools	10,000
Intangible Assets	
Goodwill	50,000
Current Assets	
Inventories	1,50,000
Trade Receivables - Debtors	2,50,000
Cash & Cash Equivalents	
Cash	10,000
Bank	35,000
Total	8,05,000

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

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

- Equity Shares to be converted into 1,50,000 Shares of ₹ 2 each.
- Equity Shareholders to surrender to the Company 90% of their holding.
- Preference Shareholders agree to forego their right to arrears of Dividends in consideration of which 8% Preference Shares are to be converted into 9% Preference

Shares.

- 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.
- Directors agree to forego the amounts due on account of Unsecured Loan and Directors Remuneration.
- Surrendered Shares not otherwise utilized to be cancelled.
- 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

- Any surplus after meeting the losses should be utilized in writing down the value of the Plant further.
- Expenses of Reconstruction amounted to ₹10,000.
- 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.

Pass Journal Entries for giving effect to the above arrangement. **[12]**

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

4. (a) From the following information, calculate the value of a share if you want to

(i) Buy a small lot of Shares;
(ii) Buy a controlling interest in the Company

Year	Profit (₹)	Capital Employed (₹)	Dividend %
2011	27,50,000	1,71,87,500	12
2012	80,00,000	4,00,00,000	15
2013	1,10,00,000	5,00,00,000	18
2014	1,25,00,000	5,00,00,000	20

The market Expectation is 12%. **[8]**

(b) Discuss the major accounting issues that are involved in Environmental Accounting. **[7]**

5. Red Ltd. and Blue Ltd. propose to amalgamate. Their balance sheets as at 31st March,2014 were as follows:

Equity and Liabilities	Note	Red Ltd.	Blue Ltd.

		(₹)	(₹)
Shareholders' funds			
Share Capital			
Equity share capital (in shares of ₹10 each)		15,00,000	6,00,000
Reserves and Surplus	1	9,00,000	1,50,000
Current Liabilities:			
Trade Payables - Creditors		3,00,000	1,50,000
Total		27,00,000	9,00,000
Assets			
Non-current Assets:			
Fixed Assets (less depreciation)		12,00,000	3,00,000
Investments (Face value of ₹ 3 lakhs ,6% Tax free G.P notes)		3,00,000	
Current Assets:			
Inventories		6,00,000	3,90,000
Trade receivables - Debtors		5,10,000	1,80,000
Cash and cash equivalents		90,000	30,000
Total		27,00,000	9,00,000

Note 1: Reserves and Surplus	Red Ltd. (₹)	Blue Ltd. (₹)
General Reserves	6,00,000	60,000
Profit and Loss Account	3,00,000	90,000
	9,00,000	1,50,000

Their Net Profit (after taxation) were as follows:

Year	Red Ltd.	Blue Ltd.
2011-12	(₹)3,90,000	(₹)1,35,000
2012-13	(₹)3,75,000	(₹)1,20,000
2013-14	(₹)4,50,000	(₹)1,68,000

Normal trading profit may be considered as 15% on closing capital invested. Goodwill may be taken as 4 year's purchase of average super profit. The stock of Red Ltd. and Blue Ltd. are to be taken at ₹ 6,12,000 and ₹ 4,26,000 respectively for the purpose of amalgamation. Green Ltd. is formed for the purpose of amalgamation of two companies. Assume Tax Rate 40%.

(i) Ascertain the number of shares to be issued by Green Ltd. in the form of equity shares of ₹10 each.
(ii) Draft the opening balance sheet of Green Ltd. after amalgamation. **[15]**

6. (a) The Balance Sheet of Golden and Silver Limited as on 31.3.2014 are given below:

Equity and Liabilities	Note	Golden Ltd. (₹)	Silver Ltd. (₹)
Shareholders' funds			
Share Capital			
Equity share capital		2,40,000	2,40,000
Reserves and Surplus	1	64,000	71,000

Current Liabilities:			
Trade Payables - Creditors		8,000	15,000
Other current liabilities		4,000	10,000
Total		3,16,000	3,36,000
Assets			
Non-current Assets:			
Fixed Assets		88,000	1,68,000
Investments		1,80,000	10,000
Current Assets:			
Inventories		20,000	80,000
Trade receivables - Debtors		12,000	30,000
Cash and cash equivalents		8,000	16,000
Other current assets		8,000	32,000
Total		3,16,000	3,36,000

Note 1: Reserves and Surplus	Golden Ltd. (₹)	Silver Ltd. (₹)
General Reserves	40,000	32,000
Profit and Loss Account	24,000	39,000
	64,000	71,000

Additional information:
(i) On 1.10.2011, Golden Ltd. acquired 16,000 shares of ₹10 each at the rate of ₹11 per share.
(ii) Balances to General reserve and Profit and Loss account of Silver Ltd. stood on 1.4.2011 at ₹60,000 and ₹32,000 respectively.
(iii) All the dividends declared and paid relating to the past years had been properly adjusted for to arrive at the Profit and Loss Account Balance.
(iv) On 1.3.2014, bonus shares were issued by Silver Ltd. at the rate of one fully paid share for every five held and effect has been given to that in the above accounts. The bonus was declared from general reserves from out of profits earned prior to 1.4.2011.
(v) On 1.10.2011, Fixed assets was revalued at ₹2,16,000, but no adjustment had been made in the books.
(vi) Depreciation had been charged @ 10% p.a. on the book value as on 1.4.2011 (on straight line method), there being no addition or sale since then.
(vii) Out of Current profits ₹4,000 have been transferred to General reserve every year.
(viii) Bills receivable of Golden Ltd. include ₹4,000 bills accepted by Silver Ltd. Bills discounted by Golden Ltd., but not yet matured include ₹3,000 accepted by Silver Ltd.
(ix) Sundry creditors of Golden Ltd. include ₹4,000 due to Silver Ltd. Sundry debtors of Silver Ltd. include ₹8,000 due from Golden Ltd.
(x) It is found that Golden Ltd. has remitted a cheque of ₹4,000, which has not yet been received by Silver Ltd.

Show the analysis of pre and post acquisition profit and reserves as on 31.03.2014 for the purpose of consolidation. **[8]**

(b) Find out the average capital employed of Nida Ltd. from its Balance Sheet as at 31st March, 2014:

Equity and Liabilities	Note	31st March, 2014	31st March, 2013

		(₹)	(₹)
Shareholders' funds			
Share Capital:			
Equity share capital (in shares of ₹10 each)		50,00,000	
9% preference Shares fully paid up		10,00,000	
Reserves and Surplus:			
General Reserves		12,00,000	
Profit and Loss Account		20,00,000	
Non-current Liabilities			
16% Debenture		5,00,000	
16% Term Loan		31,30,000	
Current Liabilities:			
Trade Payables - Creditors		2,70,000	
Short-term provision:			
Equity Dividend ₹10,00,000			
9% Preference Dividend ₹90,000		10,90,000	
Provision for taxation		6,40,000	
Total		148,30,000	
Assets			
Non-current Assets:			
Fixed Assets – Tangible assets			
Land and Buildings		25,00,000	
Plant and machinery		80,25,000	
Vehicles		10,50,000	
Investments		10,00,000	
Other non-current assets – Preliminary expenses		50,000	
Current Assets:			
Inventories		6,75,000	
Trade receivables - Debtors		4,90,000	
Cash and cash equivalents		10,40,000	
Total		148,30,000	

Non-trade investments were 30% of the total investments.
Balances as on 01.04.2013 to the following accounts were:
Profit and Loss account ₹ 10.70 lakhs, General reserve ₹ 7.50 lakhs. **[7]**

7. (a) Mitra Corporation had been preparing value added statements for the past five years. The personnel manager of the company has suggested that a value added incentive scheme when introduced will motivate employees to better performance. To introduce the scheme, it is proposed that the best index performance, i.e, employee costs to added value for the last 5 years will be used as the target index for future calculations of the bonus to be earned.

After the target index is determined, any actual improvement in the index will be rewarded the employer and employees sharing any such bonus in the ratio 1:2. The bonus is given at the end of the year, after the profit for the year is determined. From the following details, find out the bonus to be paid to the employees, if any, for 2014.

Value Added Statement for 5 years

Year	2009 ₹ '000	2010 ₹'000	2011 ₹'000	2012 ₹'000	2013 ₹'000
Sales	2,800	3,800	4,600	5,200	6,000
Less: Bought in goods & services	1,280	2,000	2,500	2,800	3,200
Added Value	1,520	1,800	2,100	2,400	2,800
Employees Cost	650	760	840	984	1,120
Dividend	100	150	200	240	300
Taxes	320	380	420	500	560
Depreciation	260	310	360	440	560
Debenture Interest	40	40	40	40	40
Retained earnings	150	160	250	196	200
Added value	1,520	1,800	2,100	2,400	2,800

Summarized P & L for 2012

	₹ '000	₹'000
Sales		7,300
Cost of material	2,500	
Wages	700	
Prod. Salaries	200	
Prod. Expenses	700	
Depreciation of machinery	500	
Adm. Salaries	300	
Adm. Expenses	300	
Adm. Depreciation	200	
Deb. Interest	40	
Salaries (Sales Deptts)	60	
Sales Expenses	200	
Dep. (Sales Deptt. Assets)	60	
Profit		1,540

[8]

(b) Nidhiram Investment Ltd. deals in equity derivatives. Their current portfolio comprises of the following instruments:
Infsys ₹ 5600 Call Expiry June 2014 2,000 unit bought at ₹ 197 each (cost)
Infsys ₹ 5700 Call Expiry June 2014 3,600 unit bought at ₹ 131 each (cost)
Infsys ₹ 5400 Put Expiry June 2014 4,000 unit bought at ₹ 81 each (cost)

What will the profit or loss to Nidhiram Investments Ltd. in the following situations?

i. Infsys closes on the expiry day at ₹ 6,041
ii. Infsys closes on the expiry day at ₹ 5,812
iii. Infsys closes on the expiry day at ₹ 5,085 **[7]**

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

(a) Impairment of asset and its application to inventory;

(b) Disclosure requirement as per AS – 11;
(c) Basic Structure of the form of the Government Accounts;
(d) Advantages of preparation of Value Added (VA) statements.