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) The records of Win Now Stock Ltd. shows that, Net Profit for the current year is ₹398.40 lakhs, No. of Equity Shares outstanding 200 lakhs, No. of 8% Convertible Debentures of ₹100 each 3 lakhs, All the Debentures are convertible into 10 equity shares, Tax Rate 30%, As per AS 20, Diluted Earnings Per Share will be :

A. ₹ 1.70
B. ₹ 1.76
C. ₹ 1.80
D. None of these

(ii) X Ltd. holds 61% of Y Ltd., Y Ltd. holds 51% of W Ltd., Z Ltd. holds 49% of W. Ltd. and 45% shares of Q 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.

(iii) Fast 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 ₹ 900 lakh. If the net selling price is ₹850 lakh, recoverable amount of the Asset as per AS-28 will be:

A. ₹ 850 lakh
B. ₹ 900 lakh
C. ₹ 300 lakh
D. None of the above

(iv) A firm obtained a contract for construction of a railway bridge. Following information is available for the year ended 31.3.2014:

Total contract Price = ₹ 3,000 lakhs
Work certified = ₹ 1,600 lakhs
Work not certified = ₹ 920 lakhs
Estimated further cost to completion = ₹ 760 lakhs

Progress payment received = ₹ 1,400 lakhs
What will be the foreseeable loss to be shown in the accounts of 2013-14 as per AS-7?

A. ₹280 lakhs
B. ₹1,120 lakhs
C. ₹200 lakhs
D. None of the above

(v) As per records of Popular Ltd. Accounting Profit ₹12,00,000, Book Profit as per MAT ₹7,00,000, Profit as per Income Tax Act ₹1,20,000, Tax Rate 20%, MAT Rate 7.50%. As per AS-22, Deferred Tax Asset/Liability will be :
A. ₹ 2,40,000
B. ₹ 2,16,000
C. ₹ 48,000
D. ₹ 2,68,500

(vi) Gayatri Ltd. purchased 1,500 shares of Savita Ltd. in December, 2011 at ₹ 100 each and paid brokerage at 1%. In September, 2012 Savita Ltd. issued bonus shares at one share for every three held by the Shareholders. If Gayatri Ltd. sold 1,000 shares in March, 2013 at ₹ 110 per share and paid a brokerage of 1%, what would be the carrying cost of investment in Savita Ltd. after the sale of shares as per AS-13?
A. ₹ 75,750
B. ₹ 41,500
C. ₹ 42,700
D. None of the above

(vii) Mittal Ltd. had acquired 75% share of Mitali Ltd. for ₹ 27 lakh. The Net Assets of Mitali Ltd. on the day are ₹ 24 lakh. During the year Mittal Ltd. sold the investment for ₹ 32 lakh and Net Assets of Mitali Ltd. on the date of disposal was ₹ 40 lakh. The Profit/Loss on disposal of this investment to be recognized in consolidated financial statement is
A. Profit ₹ 800 lakh
B. Profit ₹ 200 lakh
C. Loss ₹ 700 lakh
D. Insufficient Information

(viii) 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)	20,000
Fair market value of plan assets	28,500
Employer Contribution	7,000
Benefit Paid	5,000

The actual return on plan assets is:

A. ₹20,000
B. ₹28,500
C. ₹ 8,500
D. ₹ 6,500

(ix) On 1st April, 2013 Good Morning Ltd. offered 100 shares to each of its 500 employees at ₹ 50 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan (ESPP) 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 dated is ₹60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹56 per share.
On 30th April, 2013 400 employees accepted the offer and paid ₹30 per share purchased. Normal value of each share is ₹10.
The amount of expense to be recognised on 2013-2014 is:
A. ₹2,40,000;
B. ₹4,00,000;
C. ₹20,00,000;
D. ₹18,40,000.

(x) Vishal Ltd. uses horses to transport material from one place to another place on hilly area where construction activity is going on. It purchases horses worth ₹1,00,000 for transporting material on 1.4.2013. Useful life of horses was estimated 5 years, therefore company decided to write off depreciation on horses as per Straight Line Method over 5 years. Depreciation for the year 2014 will be:
A. ₹20,000
B. ₹1,00,000
C. NIL
D. None of the above.

(b) A private limited company manufacturing fancy terry towels had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers. Comment on the valuation of the stocks by the company. **[5]**

Part B (75 marks)

2. HJ Ltd. made an offer to acquire all the Shares of LJ Ltd., to be satisfied by the allotment of 5 Shares in HJ Ltd. at ₹ 25 per Share for every 4 Shares in LJ Ltd. By the date of expiration of the offer, which was on 1.1.2013, Shareholders owning 75% of the Shares LJ Ltd. accepted the offer and the acquisition was effective from that date.
The accounting date of LJ Ltd. was on 31st March in each year, but to conform with HJ Ltd. the accounts were prepared to 30.06.2013, covering the Fifteen Months to the date.
The draft summarized accounts of the Companies on 30.06.2013 which do not include any of Shares in LJ Ltd. were as follows –

Particulars	HJ Ltd. (₹)	LJ Ltd.(₹)
Equity and Liabilities		
(1) Shareholders' Funds:		
(a) Share Capital -Authorised	3,00,000	75,000
- Issued & Fully paid (₹ 10)	1,50,000	60,000
(b) Reserves & Surplus		
- General Reserve	55,000	---
- Profit & Loss A/c	62,000	20,000
(2) Current Liabilities:		
(a) Other Current Liabilities	27,000	7,000
(b) Short Term Provisions		
- Provision for Taxation	33,000	6,000

Total	3,27,000	93,000
Assets		
(1) Non-Current Assets:		
(a) Fixed Assets - Tangible		
(i) P & M at Cost	50,000	12,000
Less: Depreciation	18,000	3,000
	32,000	9,000
(ii)Freehold Prop,(at cost)	2,00,000	38,000
(b) Non-Current Investments		
(Quoted Invt at Cost)	7,000	-
(2) Current Assets:		
(a) Inventories	32,000	21,000
(b) Trade Receivables - Drs	41,000	17,000
(c)Cash & Cash Equivalents	15,000	8,000
Total	3,27,000	93,000

Profit & Loss Account - Period ending 30.06.2013

Particulars	HJ Ltd. (₹)	LJ Ltd.(₹)
Period	12 Months	15 Months
Balance brought forward	14,000	12,000
Add: Profit for the period	80,000	18,000
Total	94,000	30,000
Taxation for the period	32,000	6,000
Interim Dividend paid, 30th Nov 2012	---	4,000
Balance Carried forward	62,000	20,000
Total	94,000	30,000

The Directors of HJ Ltd recommended a final dividend of 20% to the Shareholders on register as on 30.06.2013. The Directors of LJ Ltd proposed a final dividend of 12.50% payable on 30.09.2013.

You are required to prepare the Consolidated Balance Sheet of HJ Ltd. and LJ Ltd. as on 30.06.2013. **[15]**

3. Sea Fish Ltd. was hugely unsuccessful and had to be reconstructed. For this purpose, Testy Sea Foods Ltd. was incorporated with an Authorised Capital of ₹ 5,00,000 broken into 50,000 Shares of ₹10 each. The Shareholders of Sea Fish Ltd. were to receive 2 shares of ₹10 each credited as ₹ 6 paid for every 3 Shares held. The balance of ₹ 4 was to be paid as to ₹ 2 application and ₹ 2 on allotment.

The Trial Balance of Sea Fish Ltd. on the date of reconstruction was as follows-

Particulars	₹	₹
Share Capital 50,000 Shares of ₹ 10 each, fully paid		5,00,000
Patent Rights	2,50,000	
Sundry Debtors / Creditors	1,45,000	1,50,000
Stock	70,000	
Cash at Bank	15,000	
Preliminary Expenses	20,000	
Profit & Loss A/c	1,50,000	
Total	6,50,000	6,50,000

Preferential Creditors amount to ₹20,000 and were to be settled in full in Cash. The Balance amounts due to other Creditors were to be settled as under:

Creditors for ₹ 80,000	₹ 50,000 in Cash
Creditors for ₹ 50,000	₹ 50,000 in 10% Debentures

Liquidation Expenses amounted to ₹ 3,000 which met by Testy Sea Foods Ltd.
Fractions of Shares in all amounted to 133.33 Shares in terms of Shares of Tasty Sea Foods Ltd. for which cash was paid. The other Shares were duly allotted and all payments due in respect of them received by Testy Sea Foods Ltd.
5,000 of the unissued shares offered, were taken up and paid for in Cash by the General Public.
Close the books of the Sea Fish Ltd. and open the books of Testy Sea Foods Ltd. Give the Balance Sheet of Tasty Sea Foods Ltd. The value of Patent Rights can be adjusted to the required extent. **[15]**

4. The balance Sheet of NM Traders Ltd. as on 31.12.2012 is as follows –

Equity & Liabilities	₹
(1) Shareholders' Funds:	
(a) Share capital (₹100 each)	
(i) 4,500 Equity Shares	4,50,000
(ii) 1,500 6% Preference Shares	1,50,000
(b) Reserves & Surplus - P & L Account	7,50,000
(2) <u>Non- current Liabilities</u>:	
Long term Borrowings - 5% Debenture	3,00,000
(3) <u>Current Liabilities</u>:	
Trade Payable - Sundry creditors	2,39,250
Total	18,89,250
Assets	**₹**
(1) Non-current Assets:	
(a) Fixed Assets:	
(i) Tangible Assets	
- Freehold Properties	3,75,000
- Plant and Machinery	1,50,000
(ii) Intangible Assets – Goodwill	1,50,000
(b) Non-Current Investments(Quoted)	
- Returns 10% on cost	3,00,000
(2) <u>Current Assets</u>:	
(a) Inventories	2,70,000
(b) Trade receivables – debtors	2,99,250
(c) Cash & Cash Equivalents	3,45,000
Total	18,89,250

Profits for the three years 2011, 2012, 2013 after charging the Debenture Interest but before providing for Preference Dividend, were ₹ 2,20,500, ₹ 3,22,500, and ₹ 2,40,000 respectively.

1. Preference Shares are payable on Liquidation.

2. The Purchaser wants to acquire all the 4,500 Equity Shares.

3. The price for Equity Shares is to be based on the following assumptions -
(a) Normal Return of 10% on Net Asset (at revised valuation) attributable to Equity Shares.
(b) Goodwill to be calculated at 3 times the adjusted average Super Profits of the 3 years referred above.
(c) Debentures will be redeemed at a discount of 25% prior to the Sale of the Business, and in order to provide fund for this purpose, Investments will be sold out.
(d) Value of Freehold Property is agreed to be ascertained on the basis 8% return. The current rental value is ₹ 50,400.
(e) A claim of ₹ 8,250 was omitted to be provided in the year 2013.
(f) Market Value of Quoted Investments was ₹ 3,75,000.
(g) Non-recurring Profits are to be eliminated. 10% of the Profits for 2012 referred to above arose from a transaction of non-recurring nature.
(h) A Provision of 5% on Sundry Debtors was made in 2013 is no longer required (the provision when made was taken into account for purpose of Income Tax at 50%)

Prepare a valuation for the Company's Shares (from the point of view of the purchaser) after taking into account the revised values and valuation of Goodwill based on 3 years Purchase of Super Profits based on the Average Profits of the last three years. **[15]**

5. (a) P Ltd. own 80% of S and 40% of J. J is Jointly Controlled Entity. Balance Sheet of four Companies as on 31.03.14 are-

(₹ in lakhs)

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

P Ltd acquired Shares in S many years ago when retained earnings of S were ₹520. P Ltd acquired its shares in J at the beginning of the year when retained earnings of J 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 P Ltd as on 31.03.2014 as per AS-21 and 27. **[9]**

(b)(i) Compute Goodwill if - Future Maintainable Profit before Tax is ₹30 Lakhs; Normal After Tax Rate of Return is 20%; Actual Capital Employed is ₹93 Lakhs and the Tax rate is 30%.

(ii) Compute Goodwill under Annuity Method, based on 3 years purchase of Discounted Super Profits if - Future Maintainable Profit after Tax is ₹30 Lakhs; Normal Pre-tax Rate of Return is 20%; Capital Employed is ₹120 Lakhs; Tax rate is 30% and the Discount Rate is 15%.

[3+3=6]

6. (a) Compute EVA of Vikram Ltd. for 3 years from the information given - (in ₹ Lakhs)

Year	1	2	3
Average Capital Employed	₹3,000.00	₹3,500.00	₹4,000.00
Operating Profit before Interest (adjusted for Tax Effect)	₹850.00	₹1,250.00	₹1,600.00
Corporate Income Taxes	₹80.00	₹70.00	₹120.00
Average Debt ÷ Total Capital Employed (in %)	40.00	35.00	13.00
Beta Variant	1.10	1.20	1.30
Risk Free Rate (%)	12.50	12.50	12.50
Equity Risk Premium (%)	10.00	10.00	10.00
Cost of Debt (Post Tax) (%)	19.00	19.00	20.00

[10]

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

(i)	Annual average earning of an employee till the retirement age	₹2,00,000
(ii)	Age of Retirement	65 years
(iii)	Discount rate	15%
(iv)	No. of employees in the group	20
(v)	Average age	62 years

[5]

7. The following abridged Balance Sheet as at 31.03.2013 pertains to Jupiter Ltd. (₹Lakhs)

Equity & Liabilities	₹
(1) Shareholders' Funds:	
(a) Share Capital - Equity Share Capital	
(i) 180 Lakhs Shares of ₹10, fully paid up	1,800
(ii) 90 Lakhs Shares of ₹10, ₹8 paid up	720
(iii) 150 Lakhs Shares of ₹5, fully paid up	750
(b) Reserves & Surplus	5,628
(2) Non-Current Liabilities:	
Long Term Borrowings - Secured Loans	4,500
(3) Current Liabilities:	
(a) Other Current Liabilities	1,242
(b) Short Term Provisions	960
Total	15,600
Assets	

(1) Non-Current Assets:	
(a) Fixed Assets:	
(i) Tangible Assets	11,166
(ii) Intangible Assets - Goodwill	420
(b) Other Non-Current Assets	
- Miscellaneous Expenditure	171
(2) Current Assets:	
(a) Short Term Loans & Advances	943
(b) Other Current Assets	2,900
Total	15,600

You are required to calculate the following for each one of three categories of Equity Shares appearing in the above mentioned Balance Sheet -

- Intrinsic Value on the basis of Book Values of Assets and Liabilities including Goodwill,
- Value per Share on the basis of Dividend Yield. Normal Rate of Dividend in the concerned Industry is 15%, whereas Jupiter Ltd has been paying 20% Dividend for the last four years and is expected to maintain it in the next few years, and
- Value per Share on the basis of EPS, For the year ended 31st March, 2013 the Company has earned ₹1,371 Lakhs as Profit after tax, which can be considered to be normal for the Company. Average EPS for a fully paid Share of ₹10 of a Company in the same Industry is ₹2.

[15]

8. Write short notes on any three of the following: [3×5=15]

(a) Treatment of refund of Government grants;
(b) Disclosure requirement as per AS 24 (Discontinuing Operations);
(c) Objections to Segmental Reporting;
(d) "Grant Date" and "Vesting Conditions" as per IFRS-2.