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) (i) In a production process, normal waste is 5% of input. 5,000 units of input were put in process resulting in a wastage of 300 units. Cost per unit of input is ₹1,000. The entire quantity of waste is on at the year end. If waste has Nil realizable value. What is the cost per unit?**
A. ₹52,631.50
B. ₹1,052.63
C. ₹1000.00
D. ₹5012.63

(ii) A company reports the following information regarding pension plan assets. Calculate the fair value of plan assets.

Particulars	**Amount ₹**
Fair Market value of plan assets (beginning of year)	**3,50,000**
Employer Contribution	**50,000**
Actual return on plan assets	**25,000**
Benefit payments to retirees	**20,000**

A. ₹4,05,000
B. ₹3,50,000
C. ₹4,25,000
D. ₹4,00,000

(iii) MS. DEEPASHREE purchased 1000 shares in SPECTRUM LTD. at ₹ 600 per share in 2011. There was a rights issue in 2014 at one share for every two held at price of ₹ 150 per share. If Ms. Deepashree subscribed to the rights, what would be carrying cost of 1,500 shares as per AS-13.
A. ₹ 6,00,000
B. ₹ 6,75,000
C. ₹ 7,00,000
D. Data insufficient

(iv) X Ltd. holds 51% 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

(v) Umang Ltd. Ltd. has three segments namely A, B, C. The total assets of the Company are: Segment A ₹ 1.00 crore, Segment B ₹ 3.00 crores and Segment C ₹ 6.00 crores. Deferred tax assets included in the assets of each Segments are: A ₹ 0.50 crore, B ₹ 0.40 crore and C ₹ 0.30 crore. As per AS 17
A. A, B and C are reportable segments
B. Only A and B are reportable segments
C. Only A and C are reportable segments
D. Only C and B are reportable segments

(vi) SWIFT LTD. has an asset, which is carried in the Balance Sheet on 31.3.2015 at ₹ 1,200 lakh. As at that date value in use is ₹ 800 lakh. If the net selling price is ₹ 900 lakh, Recoverable amount of the asset as per AS-28 will be
A. ₹ 900 lakh
B. ₹ 300 lakh
C. ₹ 100 lakh
D. None of (A), (B), (C)

(vii) During 2014, Kumud Ltd. incurred costs to develop and produce a routine, low-risk computer software product, as follows:

Completion of detailed program design	**₹26,000**
Cost incurred for coding and testing to establish technological feasibility	**₹20,000**
Other coding costs after establishing technological feasibility	**₹48,000**
Other testing costs after establishing technological feasibility	**₹40,000**

What amount should be capitalized as software cost?
A. ₹46,000
B. ₹26,000
C. ₹88,000
D. ₹48,000

(viii) On 1-1-2014 Ashwin Ltd. has 188 equity shares outstanding. On 31-5-2014, it issued 600 equity shares for cash (without bonus claim). On 1-11-2014 it bought back 300 equity shares. Calculate the weighted average number of shares as on 31-12-2014?
A. 2100 shares
B. 2700 shares
C. 2400 shares
D. None of the above

(ix) PQR Ltd. acquire 40% of ABC Ltd.'s shares on April 2, 2014, the price paid was ₹ 70,000. ABC Ltd.'s Shareholder equity shares are as follows:

	₹
Equity Shares (Paid up)	25,000
Share premium	75,000
Retained Earning	25,000

	1,25,000

Further ABC Ltd. reported a net income of ₹ 15,000 and paid dividends of ₹ 5,000. PQR Ltd. has subsidiary on 31-03-2015. Calculate the amount at which the investment in ABC Ltd. should be shown in the consolidated Balance Sheet of PQR Ltd. as on 31.03.2015.

A. ₹54,000
B. ₹20,000
C. ₹74,000
D. ₹70,000

(x) A&B Ltd. obtained a Loan from a bank for ₹ 240 lakhs on 30.04.2013. It was utilized for : Construction of a shed ₹ 120 lakhs, Purchase of a machinery ₹ 80 lakhs, Working Capital ₹ 40 lakhs, Construction of shed was completed in March 2015. The machinery was installed on the same date. Delivery truck was not received. Total interest charged by the bank for the year ending 31.03.2015 was ₹ 36 lakhs. As per AS 16, Interest to be debited to Profit & Loss Account will be :
A. ₹ 36 lakhs
B. ₹ 18 lakhs
C. ₹ 9 lakhs
D. None of these

(b) Mukta Ltd. has 60% shares in joint venture with Indra Ltd. Mukta Ltd. Sold a plant WDV of ₹80 lakhs for ₹100 lakhs. Calculate how much profit the Mukta Ltd. Should recognize in its book in case joint venture is

- **Jointly controlled operation**
- **Jointly controlled asset**
- **Jointly controlled entity** **[5]**

Part B (75 marks)

2. As on 30th June, 2014 the draft balance sheets of the companies showed, the following position:

	R Ltd. ₹	K Ltd. ₹	C Ltd. ₹
Fixed assets	2,70,000	60,000	70,000
Investments at cost	3,20,000	1,50,000	10,000
	5,90,000	2,10,000	80,000
Current assets:			
Inventory	1,10,480	36,840	61,760
Trade Receivables	2,20,140	69,120	93,880
Balances at bank	2,62,580	16,540	52,610
	5,93,200	1,22,500	2,08,250
Less: Current liabilities:			
Trade payables	2,24,120	73,130	78,190
Taxation	60,000	—	22,000
Proposed dividends	2,00,000	60,000	40,000
	4,84,120	1,33,130	1,40,190

Net current assets / (liabilities)	1,09,080	(10,630)	68,060
	6,99,080	1,99,370	1,48,060
Financed by:			
Issued ordinary shares of ₹10 each	4,00,000	1,50,000	80,000
Capital reserve	1,00,000	—	23,000
Revenue reserve	1,99,080	49,370	45,060
	6,99,080	1,99,370	1,48,060

You also obtain the following information:

(i) K Ltd. acquired 6,800 shares in C Ltd. at ₹22 per share in 2011 when the balance on capital reserve was ₹15,000 and on revenue reserve ₹30,500 consolidated.

(ii) R Ltd. purchased 8,000 shares in K Ltd. in 2011 when the balance on the revenue reserve was ₹40,000. R Ltd. purchased a further 4,000 shares in K Ltd. in 2012 when the balance on the revenue reserve was ₹45,000. R Ltd. held no other investments on 30th June, 2014.

(iii) Proposed dividends from subsidiary companies are included in the figure for Trade Receivables in the accounts of the parent companies.

Prepare the consolidated balance sheet of R Ltd. and its subsidiaries as on 30th June, 2014, together with the consolidation schedules. [15]

3. Given below are the summarized Balance Sheets of A Ltd. and T Ltd. as on 31.12.2014. T Ltd. was merged with A Ltd. with effect from 1.1.2015 and the merger was in the nature of purchase.

Summarised Balance Sheets as on 31.12.2014

Equity and Liabilities	A Ltd. ₹	T Ltd. ₹	Assets	A Ltd. ₹	T Ltd. ₹
Share Capital:			Fixed Assets	9,50,000	4,00,000
Equity Shares of ₹10 each	7,00,000	2,50,000	Investments (Non-trade)	2,00,000	50,000
General Reserve	3,50,000	1,20,000	Inventory	1,20,000	50,000
Surplus (P & L A/c)	2,10,000	65,000	Trade receivables	75,000	80,000
Export Profit Reserve	70,000	40,000	Advance Tax	80,000	20,000
12 % Debentures	1,00,000	1,00,000	Cash & Bank Balances	2,75,000	1,30,000
Trade payables	30,000	55,000			
Prov. for Taxation	1,00,000	50,000			
Proposed Dividend	1,40,000	50,000			
	17,00,000	7,30,000		17,00,000	7,30,000

A Ltd. would issue 12% Debentures to discharge the claims of the debenture holders of T Ltd. at par. Non-trade investments of A Ltd. fetched @25% while those of T Ltd. fetched @18%. Profit before of A Ltd. and T Ltd. during 2012, 2013 and 2014 and were as follows:

	A Ltd. ₹	T Ltd. ₹
2012	5,25,000	1,50,000
2013	5,75,000	1,90,000
2014	6,25,000	2,00,000

Goodwill may be calculated on the basis of capitalisation method taking 20% as normal rate of return for profit before tax. Purchase consideration is discharged by A Ltd. on the basis of intrinsic value per share. Prepare Balance Sheet of A Ltd. after merger. [15]

4. (a) State the advantages of preparation of Value Added (VA) statements? [5]

(b) Informatio derived from the balance sheets of of Amrit Ltd. and its subsidiary Viidha Ltd. as on 31.3.2014 are as follows:

	Amrit Ltd. (₹)	Vividha Ltd. (₹)
Equity Share Capital (₹ 10 each)	1,00,00,000	20,00,000
Reserves and Surplus	1,40,00,000	60,00,000
Secured Loans	40,00,000	–
Current liabilities	60,00,000	20,00,000
	3,40,00,000	1,00,00,000
Fixed Assets	1,20,00,000	35,00,000
Investment in Vividha Ltd.	7,40,000	–
Sundry Debtors	70,00,000	10,00,000
Inventories	60,00,000	50,00,000
Cash and Bank	82,60,000	5,00,000
	3,40,00,000	1,00,00,000

Note : Secured loans are assumed to be of less than 12 months (ignoring interest)

Amrit Ltd. holds 76% of the paid up capital of Vividha Ltd. The balance shares in Vividha Ltd. are held by a foreign Collaborating Company. A memorandum of understanding has been entered into with the foreign company providing for the following.

a. **The shares held by the foreign company will be sold to Amrit Ltd. The price per share will be calculated by capitalising the yield at 16%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were ₹ 35 lakhs, ₹44 lakhs and ₹65 lakhs.**
b. **The actual cost of shares to the foreign company was ₹ 2,40,000 only. The profit that would accrue to them would be taxable at an average rate of 20%. The tax payable be deducted from the proceeds and Amrit Ltd. will pay it to the Government.**
c. **Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after one year. It was also decided that Amrit Ltd. would absorb Vividha Ltd. simultaneously by writing down the Fixed assets of Vividha Ltd. by 5%. The Balance sheet figures includes a sum of ₹1,50,000 due by Vividha Ltd. to Amrit Ltd.**

   The entire arrangement was approved by all concerned for giving effect to on 1.4.2014. You are required to compute

   (i) the purchase consideration,
   (ii) discharge of purchase consideration
   (iii) Cash and Bank Balances after absorption. [4+4+2]

5. (a) State the disclosures to be made in relation to Provisions ,Contingent Liabilities and Contingent Assets (AS 29). [6]

(b) From the following information determine the amount of unrealized profit to be eliminated and the apportionment of the same. Om Ltd. holds 80% Equity shares of Shanti Ltd.

i. **Om Ltd. sold goods costing ₹15,00,000 to Shanti Ltd. at a profit of 25% on Cost Price. Entire stock were lying unsold as on the date of Balance Sheet.**

ii. Again, Om Ltd. sold goods costing ₹13,50,000 on which it made a profit of 25% on Sale Price. 60% of the value of goods were included in closing stock of Shanti Ltd.

iii. Shanti Ltd. sold goods to Om Ltd. for ₹24,00,000 on which it made a profit of 20% on Cost . 40% of the value of goods were included in the closing stock of Om Ltd. [3×3=9]

6. (a) 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	₹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

[8]

(b) The Capital Structure of Nidhi Ltd is as under:

- 80,00,000 Equity Shares of ₹10 each = ₹ 800 Lakhs
- 1,00,000 12% Preference Shares of ₹250 each = ₹250 Lakhs
- 1,00,000 10% Debentures of ₹500 each = ₹500 Lakhs
- Term Loan from Bank (at 10%) = ₹450 Lakhs.

The Company's Profit and Loss Account for the year showed a balance PAT of ₹100 lakhs, after appropriating Equity Dividend at 20%. The Company is in the 30% tax bracket. Treasury Bonds carry 6.5% interest and beta factor for the Company may be taken at 1.5. The long run market rate of return may be taken at 16.5%. Calculate EVA. [7]

7. (a) Mr. Investor buys a stock option of ABC Co. Ltd. in July, 2014 with a strike price on 30.07.2014 of ₹ 250 to be expired on 30.08.2014. 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. [9]

(b) What is a "Grant Date" as per IFRS-2. Mention the vesting conditions. [6]

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

(a) Process of election of Public Accounts Committee;

(b) Roles of Public Accounts Committee;

(c) Differences between the GAAP and IFRS with regards to Cash Flow Statement;

(b) Differentiate the following items with reference to 'Accounting Standards' (AS applicable in India) and International Financial Reporting Standards (IFRS):

(i) Extra ordinary items

(ii) Contingencies.