P18_Practice Test Paper_Syl12_Dec13_Set 1

Corporate Financial Reporting
Syllabus – 2012

1. **Answer any two from question No.1** **[2×5]**

(a) Rose Ltd. entered into agreement with Tulip Ltd. for sale of goods of ₹8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2012. On the same day Tulip Ltd. entered into another agreement with Rose Ltd. to resell the same goods at ₹10.80 lakhs on 1st August, 2012. State the treatment of this transaction in the financial statements of Rose Ltd. as on 31.03.12. The pre-determined re-selling price covers the holding cost of Tulip Ltd. Give the Journal Entries as on 31.03.12 in the books of Rose Ltd.

(b) Beautiful Ltd. acquired 30% of Ugly Ltd. Shares for ₹ 4,00,000 on 01-06-2011. By such an acquisition Beautiful Ltd. can exercise significant influence over Ugly Ltd. During the financial year ended on 31.03.2011 Ugly Ltd. earned profits ₹1,60,000 and Declared a dividend of ₹ 1,00,000 on 12.08.2011. Ugly Ltd. reported earnings of ₹ 6,00,000 for the financial year on 31.03.2012 and declared dividends of ₹ 1,20,000 on 12.06.2012.
Calculate the carrying amount of investment in :
(i) Separate financial statements of Beautiful Ltd. as on 31.03.2012
(ii) Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2012
(iii) What will be the carrying amount as on 30.06.2012 in consolidated financial Statements?

(c) Kalpana Ltd. purchased an old well for $200 million. It estimates that the well contains 500 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 20,000 barrels of oil during the first year, how much depletion expense should be recognizes as per IFRS-6?

2. **(a)** J Ltd., and K Ltd., had the following financial position as at 31st March, 2012.

Liabilities	**J Ltd.** ₹	**K Ltd.** ₹	**Assets**	**J Ltd.** ₹	**K Ltd.** ₹
Share capital: Equity shares of ₹100 each fully paid	48,00,000	36,00,000	Goodwill	30,00,000	6,00,000
General Reserve	18,00,000	12,00,000	Fixed Assets	24,00,000	42,00,000
Investment Allowance Reserve	-	18,00,000	Investment at cost	18,00,000	12,00,000
Current Liabilities	24,00,000	9,00,000	Current Assets	18,00,000	13,00,000
	90,00,000	75,00,000		90,00,000	75,00,000

It was decided that J Ltd. will take over the business of K Ltd., on that date, on the basis of the respective share values adjusting, wherever necessary, the book values of assets and liabilities on the strength of information given below:

i. Investment of K Ltd., included 6,000 shares in J Ltd., acquired at a cost of ₹ 150 per share. The other investments of K Ltd., have a market value of ₹ 1,50,000;
ii. Investment Allowance Reserve was in respect of additions made to Fixed assets by K Ltd., in the years 2007-2012 on which Income Tax relief has been obtained. In terms of the Income Tax Act, the company has to carry forward till 2014, reserve of ₹ 9,00,000 for utilisation;
iii. Goodwill of J Ltd., and K Ltd., are to be taken at ₹ 24,00,000 and ₹ 12,00,000 respectively;
iv. The market value of investments of J Ltd., was ₹ 12,00,000;
v. Current assets of J Ltd., included ₹ 4,80,000 of stock in trade obtained from K Ltd. which company sold at a profit of 25% over cost ;
vi. Fixed assets of J Ltd., and K Ltd., are valued at ₹ 30,00,000 and ₹ 45,00,000 respectively.

Suggest the scheme of absorption and show the journal entries necessary in the books of J Ltd. Also prepare the Balance Sheet of that company after takeover of the business of K Ltd. **[15]**

Or,

(b) AB Ltd. and BA Ltd. decided to amalgamate their business with a view to a public share issue. A holding company, ABA Ltd. is to be incorporated on 1st May 2012 with an authorised capital of ₹ 60,00,000 in ₹ 10 ordinary shares. The company will acquire the entire ordinary Share capital of AB Ltd. and BA Ltd. in exchange for an issue of its own shares.

The consideration for the acquisition is to be ascertained by multiplying the estimated profits available to the ordinary shareholders by agreed price earnings ratio. The following relevant figures are given:

	AB Ltd. ₹	**BA Ltd.** ₹
Issued Share capital		
Ordinary shares of ₹ 10 each	60,00,000	24,00,000
6% Cumulative Preference shares of ₹ 100 each	–	20,00,000
5% Debentures, redeemable in 2013		16,00,000
Estimated annual maintainable profits, before deduction of debenture interest and taxation	12,00,000	4,80,000
Price / Earning Ratio	15	10

The shares in the holding company are to be issued to members of the subsidiaries on 1st June 2012, at a premium of ₹ 2.50 per share and thereafter these shares will be marketable on the Stock Exchange.

It is anticipated that the merger will achieve significant economics but will necessitate additional working capital. Accordingly, it is planned that on 31st December, 2012, ABA Ltd. will make a further issue of 60,000 ordinary shares the public for cash at the premium of ₹ 3.75 a share. These shares will not rank for dividends until 31st December, 2012.

In the period ended 31st December, 2012, bank overdraft facilities will provide funds for the payment of ABA Ltd. of preliminary expenses estimated at ₹ 1,00,000 and management etc. expenses estimated at ₹ 12,000.

It is further assumed that interim dividends on ordinary shares, relating to the period from 1st June to 31st December, 2012 will be paid on 31st December 2012 by ABA Ltd. at 3.5% by AB Ltd. at 5% and by BA Ltd. at 2%.
You are required to project, as on 31st December 2012 for ABA Ltd., (a) the Balance Sheet as it would appear immediately after fully subscribed share issue, and (b) the Profit and Loss Account for the period ending 31st December, 2012.

Assume the rate of corporation tax to be 40% you can make any other assumption you consider relevant. **[15]**

3. **(a)** R Ltd. owns 80% of S and 40% of T and 40% of Q. T is jointly controlled entity and Q is an associate. Balance Sheet of four companies as on 31.03.2012 are:

Assets	**R Ltd.** ₹	**S** ₹	**T** ₹	**Q** ₹
Investment in R	1,200	-	-	-
Investment in S	1,800	-	-	-
Investment in T	1,800	-	-	-
Fixed Assets	1,500	1,200	2,100	1,500
Current Assets	3,300	4,950	4,875	5,475
Total	**7,800**	**6,150**	**6,975**	**6,975**
Liabilities				
Share capital Re.1 Equity Share	1,500	600	1,200	1,200
Retained Earnings	6,000	5,100	5,400	5,400
Creditors	300	450	375	375
Total	**5,200**	**4,100**	**6,975**	**6,975**

R Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were ₹780 lakhs. R Ltd. acquired its shares in 'T' at the beginning of the year when 'T" retained earnings were ₹600 lakhs. R Ltd. acquired its shares in 'Q' on 01.04.2011 when 'T' retained earnings were ₹600 Lakhs.

The balance of goodwill relating to 'S' had been written off three years ago. The value of goodwill in 'T' remains unchanged.

Prepare the Consolidated Balance Sheet of R Ltd. as on 31.03.2012 as per AS 21, 23 and 27. **[15]**

Or,

(b) From the following Balance Sheets of a group of companies and the other information provided, draw up the consolidated Balance Sheet as on 31.3.2012. Figures given are in ₹ Lakhs:

Balance Sheets as on 31.3.2012

Liabilities	X ₹	Y ₹	Z ₹	Assets	X ₹	Y ₹	Z ₹
Shares capital (in shares of ₹ 10 each)	1,650	1,100	550	Fixed Assets (Tangible)	715	825	550
Reserves	275	220	165	Cost of investment in Y Ltd.	990		
Profit and Loss balance	330	275	220	Cost of investment in Z Ltd.	220		
Bills payables	55		27.5	Cost of investment in Z Ltd.		440	
Creditors	165	55	55	Stock	275	110	110
Y Ltd. balance			82.5	Debtors	385	55	110
Z Ltd. balance	275			Bills receivables		55	110
				Z Ltd. balance		55	
				X Ltd. balance			165
				Cash and bank balance	165	110	55
	2,750	**1,650**	**1,100**		**2,750**	**1,650**	**1,100**

i. X Ltd. holds 8,80,000 shares and 1,65,000 shares respectively in Y Ltd. and Z Ltd.; Y Ltd. holds 3,30,000
shares in Z Ltd. These investments were made on 1.7.2011 on which date the provision was as follows:

	Y Ltd. ₹	Z Ltd. ₹
Reserves	110	55
Profit and loss account	165	88

ii. In December, 2010 Y Ltd. invoiced goods to X Ltd. for ₹ 220 lakhs at cost plus 25%. The closing stock of X Ltd. includes such goods valued at ₹ 27.5 lakhs.
iii. Z Ltd. sold to Y Ltd. an equipment costing ₹ 132 lakhs at a profit of 25% on selling price on 1.1.2012. Depreciation at 10% per annum was provided by Y Ltd. on this equipment.
iv. Bills payables of Z Ltd. represent acceptances given to Y Ltd. out of which Y Ltd. had discounted bills worth ₹ 16.5 lakhs.
v. Debtors of X Ltd. Include ₹ 16.5 lakhs being the amount due from Y Ltd.

X Ltd. proposes dividend at 10%. **[15]**

4. (a) The summarized Balance Sheet of Akash Ltd. and Barish Ltd. are as Follows:

Balance Sheet as at 31 December, 2012

	Akash Ltd. ₹	**Barish Ltd.** ₹
Sources of Funds:		
Share Capital in equity shares of ₹ 10 Each	20,00,000	5,00,000
Reserves	2,00,000	50,000
Profit and Loss A/c as on 1st Jan,2012	3,00,000	1,00,000
Profit for the year	80,000	80,000
Add: Dividends from Barish Ltd.	40,000	----
Less; Dividends paid	----	(50,000)
Creditors	3,00,000	2,00,000
Total	29,20,000	8,80,000
Application of Funds:		
Fixed assets	20,00,000	8,00,000
Current Assets	3,20,000	80,000
Shares in Barish Ltd. at cost- 30,000 shares	6,00,000	----
Total	29,20,000	8,80,000

Akash Ltd. had acquired 40,000 shares in Barish Ltd. at ₹ 20 each on 1st Jan,2012 and sold 10,000 of them at the same price on 1st Oct, 2012 . The sale is cum dividend. An interim dividend of 10% was paid by Barish Ltd. on 1st July , 2012.

Required the Consolidated Balance Sheet of Akash Ltd. and its Subsidiary as at 31.03.2012. **[10]**

Or,

(b) Following are the balances in the Balance Sheet of Blue Ltd. and Green Ltd.

i. As on 31.03.2013 Equity Share Capital (₹10): Blue Ltd. ₹80,000; Green Ltd. ₹1,00,000.
ii. As on 31.03.2013 shares of Green Ltd. held by Blue Ltd. is ₹99,000.
iii. Profit and Loss A/c balances as on 31.03.2013 of Blue Ltd. is ₹22,000 and Green Ltd. is ₹30,000.
iv. Net Profit during 2012-13 included in above were : Blue Ltd. ₹18,000; Green Ltd. ₹9,000.
v. Both the companies have proposed a dividend of 10% which is yet to be recorded.
vi. On 01.04.2012, Blue Ltd. was formed and on the same day it acquired 4,000 shares of Green Ltd. at ₹55,000.
vii. On 31.07.2012, 10% dividend was received from Green Ltd. and also bonus shares at 1:4 was received. The dividend was credited to P&L A/c.
viii. On 31.08.2012 Blue Ltd. purchased another 3,000 shares of Green Ltd. at ₹44,000.

Analyse the profit . **[10]**

5. (a) X Ltd. has 2 divisions A and B.

Division A has been making constant profits while Division B has been invariably suffering losses. On 31st March, 2012 the division wise Balance Sheet was: (₹ Crores)

		A	B	Total
Fixed Assets cost (Tangible)		500	1,000	1,500
Depreciation		450	800	1,250
	(i)	50	200	250
Current Assets:		400	1,000	1,400
Less: Current liabilities		50	800	850
	(ii)	350	200	550
	(i) + (ii)	400	400	800
Financed by :				
Loan		—	600	600
Capital : Equity ₹ 10 each		50	_	50
Surplus		350	(200)	150
		400	400	800

Division B along with its assets and liabilities was sold for ₹ 50 crores to Y Ltd. a new company, who allotted 2 crores equity shares of ₹ 10 each at a premium of ₹ 15 per share to the members of B Ltd. in full settlement of the consideration in proportion to their shareholding in the company.

Asssuming that there are no other transactions, you are asked to :

i. Pass journal entries in the books of X Ltd.

ii. Prepare the Balance Sheet of X Ltd. after the entires in (i). **[10]**

Or,

(b) The summarised Balance sheets of Amrit Ltd. and its subsidiary Viidha Ltd. as on 31.3.2012 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 B 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 B 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 1.4.2012. You are required to compute

(i) the purchase consideration,

(ii) discharge of purchase consideration

(iii) Cash and Bank Balances after absorption. **[10]**

6. (a) Following are the information in respect of Adbhut Ltd. It has decided to value the human resources also and decided to determine the total value of human capital by applying the Lev and Schwartz model:

Distribution of employees of Adbhut Ltd.

Age	Unskilled		Semi-Skilled		Skilled	
	No.	**Average annual earnings ₹**	**No.**	**Average annual earnings ₹**	**No.**	**Average annual earnings ₹**
30-39	60	5,000	50	5,500	30	7,000
40-49	30	6,000	15	6,000	15	8,000
50-54	10	7,000	10	7,000	5	9,000

You are required to compute the value of human resource. **[15]**

Or,

(b) (i) On February 1, 2011, Purushottam Ltd. entered into a contract with Sun Ltd. to receive the fair value of 1,000 Purushottam Ltd.'s own equity shares outstanding as on 31-01-2012 in exghange for payment of ₹ 1,04,000 in cash i.e. ₹ 104 per share. The contract will be settled in net cash on 31.01.2012.
The fair value of this forward contract on the different dates were:

(i) Fair value value of forward on 01-02-2011	NIL
(ii) Fair value value of forward on 31-12-2011	₹ 6,300
(iii) Fair value value of forward on 01-02-2012	₹ 2,000

Presuming that Purushottam Ltd. closes its books on 31st December each year, pass entries:

- If net settled is in cash
- If net is settled by Sun Ltd. by delivering shares of Purushottam Ltd. **[8]**

(ii) Moon Light Ltd., has entered into a contract by which it has the option to sell its identified property, plant and equipment (PPE) to Three Star Ltd. for ₹ 300 lakhs after 3 years whereas its current market price is ₹ 450 lakhs. Is the put option of Moon Light Ltd., a financial instrument? Explain. **[4]**

(iii) State the Key challenges associated with implementation of Triple Bottom Line Reporting. **[3]**

7. (a) (i) From the following information of Asman Ltd., compute the economic value added:

i. Share capital ₹3,000 lakhs
ii. Reserve and surplus ₹6,000 lakhs
iii. Long-term debt ₹300 lakhs
iv. Tax rate 30%
v. Risk free rate 9%
vi. Market rate of return 16%
vii. Interest ₹30 lakhs
viii. Beta factor 1.05
ix. Profit before interest and tax ₹3,000 lakhs. **[7]**

(ii) Mr. Sen buys the following Equity Stock Options and the seller/writer of the options is Mr. Ghosh.

Date of purchase	Type of option	Expiry date	Market lot	Premium per unit ₹	Strike price ₹
29 June,2011	PQ Co. Ltd.	30 Aug.,2011	100	30	460
30 June ,2011	MN Co. Ltd.	30 Aug.,2011	200	40	550

Assume the price of PQ Co. Ltd. and MN Co. Ltd. on 30th August,2011 is ₹470 and 500 respectively. Pass journal entries in the books of Mr. Ghosh. **[3]**

Or,

(b) (i) Distinguish between Human capita and Intellectual Capital. **[6]**

(ii) 28.03.2012 – Purchase 100 share of ₹300 each

31.03.2012 – Fair value ₹316 each

04.04.2012 – Settlement date – Fair value ₹312.

22.04.2012 – Sold ₹345 / share (settled on the same date.)

Journalise using settlement date accounting. **[4]**

8. (a) (i) State the Objectives and the scope of Indian Government Accounting Standard 3 (Cash Flow Statements). **[5]**

(ii) Discuss the role of Comptroller and Auditor General. **[7]**

(iii) Discuss the structure of Government Accounting Standard Board Secretariat. **[3]**

Or,

(b) (i) List the Government Accounting Standards which are already notified by Government. **[3]**

(ii) Describe the Total Structure of Government Accounts. **[7]**

(iii) Write a note Committee on Public Undertaking. **[5]**