

Revisionary Test Paper_Final_Syllabus 2008_Jun2014

Paper - 16 : ADVANCE FINANCIAL ACCOUNTING & REPORTING

1. (a) Venus Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2014 at ₹1000 lakhs. As at that date the value in use is ₹ 800 lakhs and the net selling price is ₹750 lakhs.
From the above data :
- (i) Calculate impairment loss.
 - (ii) Prepare journal entries for adjustment of impairment loss.
 - (iii) Show, how impairment loss will be shown in the Balance Sheet.
- (b) Ashmit Ltd. entered into a sale deed for its immovable property before the end of the year. But registration was done with registrar subsequent to Balance Sheet date. But before finalisation, is it possible to recognise the sale and the gain at the Balance Sheet date? Give your view with reasons.
- (c) 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 buyer. Comment on the valuation of the stocks by the company.
- (d) During the year, the Software division supplied a special program for a foreign firm on a consideration of ₹200 lakhs. It was found on June 1st, 2013 that the foreign firm has become bankrupt. The company had received an advance of ₹100 lakhs in the year ended 31st March, 2013 from the foreign firm. Please discuss.

Answer 1. (a)

- (i) Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Thus, Impairment loss = Carrying amount – Recoverable amount*

$$= ₹ 1000 \text{ lakhs} - ₹ 800 \text{ lakhs} = ₹ 200 \text{ lakhs}$$

*Recoverable amount is higher of asset's net selling price ₹ 750 lakhs and its value in use ₹ 800 lakhs.

∴ Recoverable amount = ₹ 800 lakhs

(ii)

Journals

	Particulars	Dr. Amount ₹ in lakhs	Cr. Amount ₹ in lakhs
(a)	Impairment loss A/c Dr. To Assets A/c (Being the entry for accounting impairment loss)	200	200
(b)	Profit and loss A/c Dr. To Impairment loss A/c (Being the entry to transfer impairment loss to profit and loss account)	200	200

(iii)

Balance Sheet of Venus Ltd. as on 31.3.2014	₹ in lakhs
Fixed Assets	1000
Asset less depreciation	<u>200</u>
Less: Impairment loss	<u>800</u>

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Answer 1. (b)

Yes, it is possible for Ashmit Ltd. to recognise the sale and the gain at the balance sheet date according to AS 9 'Revenue Recognition'. It is evident that the significant risks and rewards of ownership had passed before the balance sheet date and the delay in transfer of property was merely because of formality in getting the transfer deed registered. Further the registration post the balance sheet date confirms the condition of sale at the balance sheet date as per AS 4 'Contingencies and Events occurring after the Balance Sheet Date'.

Answer 1. (c)

Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realisable value. AS 9 on "Revenue Recognition" states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at Net-realizable value."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net-realizable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

Answer 1. (d)

Sales to foreign firm : This is an event occurring after the balance sheet date and the accounts are only at draft stage. In accordance with para 13 of AS-4 (Revised) on Contingencies and Events Occurring after the Balance Sheet Date, adjustments to assets and liabilities are required. Hence the sum of ₹ 100 lakhs (₹ 200 lakhs – advance of ₹ 100 lakhs) should be provided for by way of provision for bad debts.

Q. 2. (a) M/s Prime Ltd. sold goods worth ₹ 1,00,000 to M/s X Ltd. M/s X Ltd. asked for discount of ₹16,000 which was agreed by M/s Prime Ltd. The sale was effected and goods were dispatched. After receiving, goods worth ₹14,000 was found defective, which they returned immediately. They made the payment of ₹70,000 to M/s Prime Ltd. Accountant booked the sales for ₹70,000. Please discuss whether the stand of the accountant is correct or not.

(b) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2014, when the exchange rate was ₹43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2014 when the exchange rate was ₹47 per US Dollar. However, on 31st March, 2014, the rate of exchange was ₹48 per US Dollar. The company passed an entry on 31st March, 2014 adjusting the cost of raw materials consumed for the difference between ₹47 and ₹43 per US Dollar. In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

Answer 2. (a)

As per Para 4.1 of AS 9 "Revenue Recognition", revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. In the given case, M/s Prime Ltd. should record the sales at gross value of ₹1,00,000. Discount of ₹16,000 in price and goods returned worth ₹ 14,000 are to be adjusted by suitable provisions. M/s Prime Ltd. might have sent the credit note of ₹ 30,000 to M/s X Ltd. to account for these adjustments. The contention of the accountant to book the sales for ₹ 70,000 is not correct.

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Answer 2.(b)

As per AS 11, 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each Balance Sheet date. The effect of exchange difference should be taken into Profit and Loss Account. Sundry creditors is a monetary item, hence should be valued at the closing rate i.e, ₹48 at 31st March, 2014 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of ₹5 (48-43) per US dollar should be shown as an exchange loss in the Profit and Loss Account for the year ended 31st March, 2014 and is not to be adjusted against the cost of raw-materials. In the subsequent year, the company would record an exchange gain of ₹1 per US dollar, i.e., the difference between ₹48 and ₹47 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

Q. 3. (a) Amit purchased a computer for ₹ 44,000 and leased out it to Sumit for four years on leases basis, after the lease period, value of the computer was estimated to be ₹3,000; which he realized after selling it in the second hand market. Lease amount payable at the beginning of each year is ₹22,000; ₹13,640; ₹6,820 & ₹3,410. Depreciation was charged @ 40% p.a. You are required to pass the necessary journal entries in the books of both Amit and Sumit.

(b) A Company belonging to the process industry carries out three consecutive processes. The output of the first process is taken as input of the second process, and the output of the second process is taken as input of the third process. The final product emerges out of the third process. It is also possible to outsource the intermediate products. It has been found that over a period time cost of production of the first process is 10% higher than the market price of the intermediate product available freely in the market. The company has decided to close down the first process as a measure of cost saving (vertical spin off) and outsource. Should this event be treated as discontinuing operation?

Answer 3. (a)

Journals

In the books of Amit

	Particulars	Dr.	Cr.
1 st	Purchase of Computers: Computer A/c Dr. To, Bank A/c	44,000	44,000
	Payment of first Year's Lease: Bank A/c Dr. To, Lease Rent A/c	22,000	22,000
	Depreciation for First Year: Depreciation A/c Dr. To, Computer A/c	17,600	17,600
	Transfer to Profit & Loss Account: Profit & Loss A/c Dr. To, Depreciation A/c	17,600	17,600
	Lease Rent A/c Dr. To, Profit & Loss A/c	22,000	22,000
2 nd	Payment of Second Year's Lease: Bank A/c Dr. To, Lease Rent A/c	13,640	13,640
	Depreciation for Second Year: Depreciation A/c Dr. To, Computer A/c	10,560	10,560
	Transfer to Profit & Loss Account:		

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	Profit & Loss A/c To, Depreciation A/c	Dr.	10,560	10,560
	Lease Rent A/c To, Profit & Loss A/c	Dr.	13,640	13,640
3rd	Payment of Third Year's Lease: Bank A/c To, Lease Rent A/c	Dr.	6,820	6,820
	Depreciation for Third Year: Depreciation A/c To, Computer A/c	Dr.	6,336	6,336
	Transfer to Profit & Loss Account: Profit & Loss A/c To, Depreciation A/c	Dr.	6,336	6,336
	Lease Rent A/c To, Profit & Loss A/c	Dr.	6,820	6,820
4th	Payment of Fourth Year's Lease: Bank A/c To, Lease Rent A/c	Dr.	3,410	3,410
	Depreciation for Fourth Year: Depreciation A/c To, Computer A/c	Dr.	3,802	3,802
	Transfer to Profit & Loss Account: Profit & Loss A/c To, Depreciation A/c	Dr.	3,802	3,802
	Lease Rent A/c To, Profit & Loss A/c	Dr.	3,410	3,410
	Sale of Lease assets: Bank A/c Loss on Sale A/c To, Computer A/c	Dr. Dr.	3,000 2,702	5,702

In the books of Sumit

	Particulars	Dr.	Cr.
	Purchase of Computer:	No Entry	
	Payment of First Year's Lease: Lease Rent A/c To, Bank A/c	Dr.	22,000
			22,000
	Depreciation for First Year:	No Entry	
	Transfer to Profit & Loss Account: Profit and Loss A/c To, Lease Rent A/c	Dr.	22,000
			22,000
	Payment of Second Year's Lease: Lease Rent A/c To, Bank A/c	Dr.	13,640
			13,640
	Depreciation for Second Year:	No Entry	
	Transfer to Profit & Loss Account: Profit and Loss A/c To, Lease Rent A/c	Dr.	13,640
			13,640

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	Payment of Third Year's Lease: Lease Rent A/c Dr. To, Bank A/c	6,820	6,820
	Depreciation for Third Year:	No Entry	
	Transfer to Profit & Loss Account: Profit and Loss A/c Dr. To, Lease Rent A/c	6,820	6,820
	Payment of Fourth Year's Lease: Lease Rent A/c Dr. To, Bank A/c	3,410	3,410
	Depreciation for Fourth Year:	No Entry	
	Transfer to Profit & Loss Account: Profit and Loss A/c Dr. To, Lease Rent A/c	3,410	3,410
	Sale of Lease Assets:	No Entry	

Answer 3. (b)

The change made by the company is focused on outsourcing of services, in respect of one single process – in a sequence of process. The net effect of this change is closure of facility relating to process.

This has been done by the company with a view to achieving productivity improvement and savings in costs.

Such a change does not meet definition criteria in paragraph 3(a) of AS 24- namely, disposing of substantially in its entirety, such as by selling a component of the enterprise in a single transaction. The change is merely a cost-saving endeavor. Hence, this change over is not a discontinuing operation.

Q. 4. (a) On 1st April, 2014 Good Morning Ltd. offered 100 shares to each of its 550 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, 2014, 400 employees accepted the offer and paid ₹30 per share purchased. Normal value of each share is ₹10. Record the issue of shares in the books of the company under the aforesaid plan.

(b) Beautiful Ltd. acquired 30% of Ugly Ltd. Shares for ₹ 4,00,000 on 01-06-2013. By such an acquisition Beautiful Ltd. can exercise significant influence over Ugly Ltd. During the financial year ending on 31.03.2013 Ugly Ltd. earned profits ₹1,60,000 and declared a dividend of ₹ 1,00,000 on 12.08.2013. Ugly Ltd. reported earnings of ₹ 6,00,000 for the financial year on 31.03.2014 and declared dividends of ₹ 1,20,000 on 12.06.2014. Calculate the carrying amount of investment in :

(i) Separate financial statements of Beautiful Ltd. as on 31.03.2014
(ii) Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2014
(iii) What will be the carrying amount as on 30.06.2014 in consolidated financial Statements?

Answer 4. (a)

Fair value of an ESPP = ₹ 56 - ₹ 50 = ₹ 6.00

Number of shares issued = 400 employees X 100 shares / employee = 40,000 shares

Fair value of ESPP which will be recognized as expenses in the year 2014-2015

= 40,000 shares X ₹ 6 = ₹ 2,40,000

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Vesting period = 1 month

Expenses recognized in 2014-2015 = ₹2,40,000

Journals

Date	Particulars	Dr. ₹	Cr. ₹
30.04.2014	Bank A/c (40,000 shares X ₹ 50) Dr. Employees compensation expenses A/c Dr. To, Share Capital A/c (40,000 shares X ₹ 10) To, securities Premium (40,000 shares X ₹ 46) (Being shares issued under ESPP @ ₹ 50.00)	20,00,000 2,40,000	4,00,000 18,40,000

Answer 4. (b)

(i) Carrying Amount of Investment in Separate Financial Statement of Beautiful Ltd. as on 31.03.2014

	₹
Amount paid for investment in Associate (on 1.06.2013)	4,00,000
Less: Pre- acquisition dividend (₹ 1,00,000 X 30%)	30,000
Carrying amount as on 31.03.2014 as per AS 13	3,70,000

(ii) Carrying Amount of Investment in Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2014 as per AS 23

	₹
Carrying amount as per separate financial statement	3,70,000
Add: Proportionate Share of Profit of investee as per equity method (30% of ₹ 6,00,000)	1,80,000
Carrying amount as on 31.03.2014	5,50,000

(iii) Carrying Amount of Investment in Consolidated Financial Statement of Beautiful Ltd. as on 30.06.2014 as per AS 23

	₹
Carrying amount as on 31.03.2014	5,50,000
Less: Dividend Received received (₹ 1,20,000 X 30%)	36,000
Carrying amount as on 30.06.2014	5,14,000

Q. 5. The following particulars are stated in the Balance Sheet of Tamarind Ltd. as on 31.03.2013:

(₹ in Lakhs)

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Deferred Tax Liability (Cr.)	20.00
Deferred Tax Assets (Dr.)	10.00
The following transactions were reported during the year 2013-14:	
(i) Tax Rate 50%	
(ii) Depreciation – As per Books	50.00
Depreciation – for Tax purposes	30.00
There were no addition to Fixed Assets during the year	
(iii) Items disallowed in 2012-13 and allowed for Tax purposes in 2013-14	10.00
(iv) Interest to Financial Institutions accounted in the Books on accrual basis, but actual payment was made on 30.09.2014	20.00
(v) Donations to Private Trusts made in 2013-14	10.00
(vi) Share issue expenses allowed under 35(D) of the I.T. Act, 1961 for the year 2013-14 (1/10th of ₹ 50.00 lakhs incurred in 2009-2010)	5.00
(vii) Repairs to Plant and Machinery ₹ 120.00 lakhs was spread over the period 2013- 14 and 2014-15 equally in the books. However, the entire expenditure was allowed for Income-tax purposes	

Indicate clearly the impact of above items in terms of Deferred Tax liability/Deferred Tax Assets and the balances of Deferred Tax Liability/Deferred Tax Asset as on 31.03.2014.

Answer 5.

Impact of various items in terms of deferred tax liability/deferred tax asset

Transactions	Analysis	Nature of difference	Effect	Amount
Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years	Responding timing difference	Reversal of DTL	₹ 20 lakhs X 50% = ₹ 10 lakhs
Disallowances, as per IT Act, of earlier years	Tax payable for the earlier year was higher on this account.	Responding timing difference	Reversal of DTA	₹ 10 lakhs X 50% = ₹ 5 lakhs
Interest to financial institutions	It is allowed as deduction under section 43B of the IT Act, if the payment is made before the due date of filing the	No timing difference	Not applicable	Not applicable

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	return of income (i.e. 31st October, 2014).			
Donation to private trusts	Not an allowable expenditure under IT Act	Permanent difference	Not applicable	Not applicable
Share issue expenses	Due to disallowance of full expenditure under IT Act, tax payable in the earlier years was higher.	Responding timing difference	Reversal of DTA	₹ 5 lakhs X 50% = ₹ 2.5 Lakhs
Repairs to plant and machinery	Due to allowance of full expenditure under IT Act, tax payable of the current year will be less.	Originating timing difference	Increase in DTL	₹60 lakhs X 50% = ₹30 lakhs

Deferred Tax Liability Account

Dr.

Cr.

		₹ in lakhs			₹ in lakhs
31.3.2014	To Profit and Loss account (Depreciation)	10.00	1.4.2013	By Balance b/d	20.00
	To Balance c/d	40.00		By Profit and Loss Account (Repairs to plant)	30.00
		50.00			50.00
			1.4.2014	By Balance b/d	40.00

Deferred Tax Assets Account

Dr.

Cr.

		₹ in lakhs			₹ in lakhs
1.04.2013	To Balance b/d	10.00	31.03.2014	By Profit and Loss Account: Items disallowed in 2012-13 and allowed as per I.T. Act in 2013-14	
				Share issue expenses	5.00
				By Balance c/d	2.50
		10.00			2.50
1.4.2014	To Balance b/d	2.50			10.00

Q. 6. Prasad Ltd. had the following borrowing during a year in respect of capital expansion.

Plant	Cost of Asset	Remarks
Plant A	100 Lakhs	No specific Borrowings
Plant B	125 Lakhs	Bank loan of ₹ 65 Lakhs at 10%

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Plant C	175 Lakhs	9% Debenture of ₹ 125 Lakhs were issued
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In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (i) ₹ 100 lakhs at 10% from Corporation Bank and (ii) ₹ 110 lakhs at 11.5% from State Bank of India, to meet its capital expansion requirements. Determine the borrowing costs to be capitalized in each of the above plants, as per AS-16.

Answer 6.

A. Computation of Actual Borrowing Costs incurred during the year:

Source	Loan Amount ₹ in Lakhs	Interest Rate	Interest Amount ₹ in Lakhs
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State Bank of India	110.00	11.5%	12.65
Total	400.00		40.40
Specific Borrowing included in above	190.00		17.75

B. Weighted Average Capitalization Rate for General Borrowings:

$$= \frac{\text{Total Interest} - \text{Interest on Specific Borrowing}}{\text{Total Borrowing} - \text{Specific Borrowing}} = \frac{40.40 - 17.75}{400 - 190} = \frac{22.65}{210} = 10.79\%$$

C. Capitalization of Borrowing Costs under AS-16 will be as under:

Plant	Borrowing	Loan Amount ₹ in lakhs	Interest rate	Interest amount ₹ in lakhs	Cost of Asset	
					₹ in Lakhs	₹ in Lakhs
A	General	100	10.79%	10.79		110.79
B	Specific	65	10.10%	6.50	71.50	
	General	60	10.79%	6.47	66.47	137.97
C	Specific	125	9.00%	11.25	136.25	
	General	50	10.79%	5.39	55.39	191.64
	Total	400		40.40		440.40

Note: Amount of borrowing costs capitalized should not exceed the actual interest cost.

Q. 7. The Balance Sheet of Jupiter Ltd. as on 31st March, 2012 is as under:

(All figures are in lacs)

Liabilities	₹	Assets	₹
Equity Shares ₹ 10 each	3,000	Goodwill	744
Reserves (including provision for taxation of ₹ 300 lacs)	1,000	Premises and Land at cost	400
5% Debentures	2,000	Plant and Machinery	3,000
Secured Loans	200	Motor Vehicles	40
Sundry Creditors	300	(purchased on 1.10.13)	
Profit & Loss A/c		Raw materials at cost	920
		Work-in-progress at cost	130

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Balance from previous B/S ₹ 32		Finished Goods at cost	180
Profit for the year		Book Debts	400
(After taxation) <u>₹ 1100</u>	1132	Investment (meant for replacement of Plant and Machinery)	1,600
		Cash at Bank and Cash in hand	192
		Discount on Debentures	10
		Underwriting Commission	16
	7,632		7,632

The resale value of Premises and Land is ₹ 1,200 lacs and that of Plant and Machinery is ₹ 2,400 lacs. Depreciation @ 20% is applicable to Motor Vehicles. Applicable depreciation on Premises and Land is 2%, and that on Plant and Machinery is 10%. Market value of the Investments is ₹ 1,500 lacs. 10% of book debts is bad. In a similar company the market value of equity shares of the same denomination is ₹ 25 per share and in such company dividend is consistently paid during last 5 years @ 20%. Contrary to this, Jupiter Ltd. is having a marked upward or downward trend in the case of dividend payment.

Past 5 years' profits of the company were as under:	
2008-09	₹ 67 lacs
2009-10	(-) ₹ 1,305 lacs (loss)
2010-11	₹ 469 lacs
2011-12	₹ 546 lacs
2012-13	₹ 405 lacs

The unusual negative profitability of the company during 2009-10 was due to the lock out in the major manufacturing unit of the company which happened in the beginning of the second quarter of the year 2008-09 and continued till the last quarter of 2009-10. Value the Goodwill of the Company on the basis of 4 years' purchase of the Super Profit.

(Necessary assumption for adjustment of the Company's inconsistency in regard to the dividend payment, may be made by the examinee).

Answer 7.

Calculation of capital employed		
Present value of assets:	₹ (in lacs)	₹ (in lacs)
Premises and land	1,200	
Plant and machinery	2,400	
Motor vehicles (book value less depreciation for ½ year)	36	
Raw materials		
Work-in-progress	920	
Finished goods	130	
Book debts (400 x 90%)	180	
Investments	360	
Cash at bank and in hand	1,500	
	192	
		6,918
Less: Liabilities:		
Provision for taxation	300	
5% Debentures	2,000	
Secured loans	200	

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Sundry creditors	300	2,800
Total capital employed on 31.3.12		4,118

2. Profit available for shareholders for the year 2011-12		
Profit for the year as per Balance Sheet		1,100
Less: Depreciation to be considered		
Premises and land	24*	
Plant & machinery	240*	
Motor vehicles	<u>4</u>	268
		832
Less: Bad debts		40
Profit for the year 2011-12		792

3. Average capital employed		
Total capital employed		4118
Less: ½ of profit for the current year [Refer point 2]		396
Average capital employed		3722

* Depreciation on premises and land and plant and machinery have been provided on the basis of assumption that the same has not been provided for earlier.

4. Average profit to determine Future Maintainable Profits	₹ (in lacs)
Profit for the year 2013-14	792
Profit for the year 2012-13	405
Profit for the year 2011-12	546
Profit for the year 2010-11	469
2212 / 4	553

5. Calculation of General Expectation:

Jupiter Ltd. pays ₹ 2 as dividend (20%) for each share of ₹ 10.

Market value of equity shares of the same denomination is ₹ 25 which fetches dividend of 20%.

Therefore, share of ₹ 10 (Face value of shares of Jupiter Ltd.) is expected to fetch $(20/25) \times 10 = 8\%$ return.

Since Jupiter Ltd. is not having a stable record in payment of dividend, in its case the expectation may be assumed to be slightly higher, say 10%

6. Calculation of super profit	₹ (in lacs)
Future maintainable profit [See point 4]	553
Normal profit (10% of average capital employed as computed in point 3)	372.2
Super Profit	180.8

7. Valuation of Goodwill	
Goodwill at 4 years' purchase of Super Profit	723.20

Notes :

- (1) It is evident from the Balance Sheet that depreciation was not charged to Profit & Loss Account.
- (2) It is assumed that provision for taxation already made is sufficient.
- (3) While considering past profits for determining average profit, the years 2008-09 and 2009-10 have been left out, as during these years normal business was hampered.

Q. 8. (a) Given- (i) Future Maintainable Profit before Interest-₹125 Lakhs; (ii) Normal Rate of Return on Long Term Funds is 20% and on Equity Funds is 25%; (iii) Long Term Funds of the Company is ₹320 Lakhs of

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which Equity Funds is ₹210 Lakhs; (iv) Interest on loan Fund is 18%. Find out leverage effect on the Goodwill if tax rate is =30%.

Answer 8. (a)

A. Long Term Loan Funds= Total Long Term funds Less Equity Funds= ₹(320-210) lakhs = ₹ 110 Lakhs
Interest at 18% thereon = ₹110 Lakhs X18% = ₹19.80 lakhs

B. Computation of future Maintainable Profit (₹Lakhs)

Particulars	Shareholders funds approach	Long Term Funds approach
Profit Before Interest	125.00	125.00
Less: Interest on Long term loan	19.80	N.A
Future Maintainable Profits before tax	105.20	125.00
Less : Tax Expense at 30%	31.56	37.50
Future Maintainable Profit After tax	73.64	87.50

C. Computation of Goodwill under different approaches (₹ Lakhs)

Particulars	Shareholders funds approach	Long Term Funds approach
a. Future Maintainable Profit after tax	73.64	87.50
b. Normal Rate of Return	25%	20%
c. Normal Capital Employed =(a÷b)	294.56	437.50
d. Actual Capital Employed (given)	210.00	320.00
e. goodwill= (c-d)	84.56	117.50

Hence, Leverage Effect on Goodwill = ₹ (117.50 – 84.56) = ₹32.94 Lakhs.

Q. 8. (b) 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 (Rs.)	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%.

Answer 8. (b)

(i) Buy a small lot of Shares

If the purpose of valuation is to provide data base to aid decision of buying a small (non- controlling) position of the equity of a company, dividend yield method is most appropriate. Dividend rate is rising continuously, weighted average will be more appropriate for calculation of average dividend.

Year	Rate of Dividend	Weight	Product
2011	12	1	12
2012	15	2	30
2013	18	3	54
2014	20	4	80
		10	176

$$\text{Average Dividend} = \frac{176}{10} = 17.6\%$$

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Value of share on the basis of dividend for buying a small lot of shares will be

$$\frac{\text{Average dividend rate}}{\text{Market expectation rate}} \times 100 = \frac{17.6}{12} \times 100 = ₹146.67 \text{ per share}$$

(ii) Buy a controlling interest in the Company

If the purpose of valuation is to provide data base to aid a decision of buying controlling interest in the company, total profit will be relevant to determine the value of shares as the shareholders have capacity to influence the decision of distribution of profit. As the profit is rising, weighted average will be more appropriate for calculation of average profit/ yield.

Year	Yield % (Profit/ capital employed) X 100	Weight	Product
2011	16	1	16
2012	20	2	40
2013	22	3	66
2014	25	4	100
		10	222

$$\text{Average yield} = \frac{222}{10} = 22.2\%$$

If controlling interest in the company is being taken over, then the value per share will be

$$= \frac{\text{Average yield rate}}{\text{Market expectation rate}} \times 100 = \frac{22.2}{12} \times 100 = ₹185 \text{ per share}$$

Q. 9. The Balance Sheet of Vijay Limited as at 31.12.2014 is as follows:

Liability	₹ (in lakhs)	Assets	₹ (in lakhs)
2,00,000 equity shares of ₹ 10 each Fully paid	20	Goodwill	10
2,00,000 equity shares of ₹ 6 each, Paid up fully	12	Fixed assets	30
Reserves and Surplus	8	Other tangible assets	10
Liabilities	20	Intangible assets (Market Value)	6
		Miscellaneous expenditure to the extent not written off	4
	60		60

Fixed assets are worth ₹ 48 lakhs. Other tangible assets are revalued at ₹ 6 lakhs. The company is expected to settle the disputed bonus claim of ₹2 lakh not provided for in the accounts. Goodwill appearing in the balance sheet is purchased goodwill. It is considered reasonable to increase the value of goodwill by an amount equal to average of the book value and a valuation made at 3 year's purchase of average super-profit for the last 4 years After tax, profit and dividend rates were as follows:

Year	PAT (₹ in lakhs)	Dividend%
2011	6.0	11%
2012	7.0	12%
2013	8.0	13%
2014	8.2	14%

Normal expectation in the industry to which the company belongs is 10%.

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Rahim holds 40,000 equity shares of ₹10 each fully paid and 20,000 equity shares of ₹6 each, fully paid up. He wants to sell away his holdings.

A. Determine the break-up value and market value of both kinds of shares.

Answer 9.

WN # 1 : Computation of terminal capital employed:

Particulars	₹ in lakhs	₹ in lakhs
a. Assets :		
i. Fixed Assets	48.00	
ii. Other tangible assets	6.00	
iii. Intangible assets	<u>6.00</u>	60.00
b. Outside Liabilities		
i. Sundry liabilities	20.00	
ii. Bonus Payable	<u>2.00</u>	22.00
c. Terminal Capital Employed (a-b)		38.00

WN # 2 : Future Maintainable Profits

Year	PAT (Given)	Weights	Weight × PAT
2011	6.0	1	6.0
2012	7.0	2	14.0
2013	8.0	3	24.0
2014	8.2	4	32.8

$$\text{Future Maintainable Profits} = \frac{6 + 14 + 24 + 32.8}{1 + 2 + 3 + 4} = \frac{₹76.8}{10} = ₹ 7.68 \text{ Lakhs}$$

WN # 3 :

Particulars	₹ in Lakhs
a. Terminal Capital Employed	38.00
b. NRR	10%
c. Normal Profit (a×b)	3.8
d. Future Maintainable Profit (WN # 2)	7.68
e. Super Profit (d-c)	3.88
f. Number of years purchase	3
g. Goodwill (e×f)	11.64

WN # 4 : Incremental goodwill to be considered for valuation of shares

An amount equal to average of book value as per valuation

Particulars	₹ in Lakhs
a. Value as per books	10.00
b. As per valuation (WN # 3)	11.64
c. Simple average of above $\left[\frac{a+b}{2} \right]$	10.82
d. Total Goodwill [b+c]	20.82

WN # 5 : Ascertainment of break- up- value

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Particulars	₹ in Lakhs
a. Net trading assets (at fair value) (WN # 1)	38.00
b. Add : Non- trading assets	NIL
c. Add: goodwill (WN # 4)	20.82
d. Net assets available to equity shareholders	48.82
e. No. of shares of ₹ 10 equivalent shares	
i. ₹ 10 Shares 2,00,000	
ii. ₹ 6 Shares <u>1,20,000</u>	3.2 Lakhs shares
f. Value of ₹ 10 shares	₹ 15.26
g. Value of ₹ 6 shares ($15.26 \times \frac{6}{10}$)	₹ 9.15

WN # 6 : Ascertainment of market value- Dividend capitalization method

(a) Dividend per share

= **weighted average dividend of last four years as the % of dividend shows as a trend**

$$= \frac{(1 \times 1) + (2 \times 2) + (3 \times 3) + (4 \times 4)}{1 + 2 + 3 + 4}$$

$$= \frac{11 + 24 + 39 + 56}{10} = \frac{130}{10} = 13\%$$

(b) Dividend per share of ₹ 10 shares = ₹ 1.30

₹ 6 shares = ₹ 0.78

(c) Market value of ₹ 10 shares = $\frac{1.30}{10\%} = ₹ 13.00$

₹ 6 shares = $\frac{0.78}{10\%} = ₹ 7.80$

WN # 7

Fair value of share if controlling interest is being sold

The fair value of share is ascertained as the simple average of net assets value per share and earning capitalization method value per share.

Particulars	₹ 10 Shares	₹ 6 Shares
a. Value as per net assets method	15.26	9.15
b. Value as per earnings capitalization method (WN # 8)	24.00	14.40
c. Fair value [(a+b)/2]	19.63	11.77

WN # 8

Value of shares as per Earnings Capitalisation Method

	Particulars	Amount ₹
a.	Future Maintainable Profit	7.68 lakhs
b.	Normal rate of return	10%

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c.	Net trading assets	76.80 lakhs
d.	Add: Non-trading assets	Nil
e.	Value of business	76.80 lakhs
f.	Number of shares [equivalent ₹ 10 shares]	3.2 lakhs
g.	Value per shares of ₹ 10 shares (e÷ f)	₹ 24.00
h.	Value per shares of ₹ 10 shares [(24÷10) X 6]	₹ 14.40

Q. 10. The following is the Balance Sheet of Utkal Ltd. on 31st December, 2010 :

(₹ in Lakhs)

Liabilities	₹	Assets	₹
5,00,000 Equity Shares of ₹ 100 each	500.00	Fixed Assets	1,701.63
12,000 9% Preference Shares of ₹ 100 each	12.00	Current Assets	1,657.60
Reserves & Surplus	1,031.50	Loans & Advances	719.50
Secured Loans	1048.73		
Unsecured Loans	382.77		
Current Liabilities & Provisions	1,103.73		
Total	4,078.73	Total	4,078.73

The Company has been granted a new industrial license for the manufacture of a product, the capital costs of the project are estimated at ₹ 9 Crores. The company desires to finance the new project to the extent of ₹ 4 Crores partly by accepting public deposits and partly from out of international resources, the balance of ₹ 5 Crores by way of issue of fresh Equity Capital at a premium of ₹ 150 per share.

You are required to submit a report to the Directors of the Company stating your reasons whether or not the premium amount of ₹ 150 per share would be justified.

The following further information is made available to you enable you to prepare the report-

i. Rate of dividends on Equity Shares for the last five years were-

Year	2006	2007	2008	2009	2010
rates	18%	20%	20%	22%	22%

ii. Turnover for the last three years were: 2008- ₹ 30 Crores; 2009- ₹ 35 Crores; 2010- ₹ 40 Crores.

iii. Anticipated annual turnover of the new project for the next three years will be ₹ 8 Crores.

iv. Net profit before Tax had remained around 5 % on sales during the last three years . It is expected that the same would go upto 7% in the future on account of internal savings and the sales of the new product.

v. Rate of income tax to be taken at 40%.

vi. The trend of market price of Equity shares of the Company as per quotation in Stock Exchange was as under-

Year	High	Low
2008	₹ 525	₹ 400
2009	₹ 535	₹ 420
2010	₹ 550	₹ 450

Answer 10.

Note: Since the Company's turnover , Dividend Rates and Share Price are on the increasing trend over the past few years, the premium of ₹ 150 per share on the new issue will be justified if –

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- Projected EPS is comparable with the past EPS earned by the Company.
- PE Ratio after premium issue is comparable with Industry Norms.

A. Computation of PE Ratio (₹ in Lakhs)

Particulars	2008	2009	2010
Sales	3000.00	3,500.00	4,000.00
Net profit at 5 % of sales	150.00	175.00	200.00
Less: Tax expense at 40% of net profit	60.00	70.00	80.00
Profit after tax	90.00	105.00	120.00
Less: Preference dividend (₹ 12,00,000 X 9%)	1.08	1.08	1.08
Residual earnings available to Equity Shareholders	88.92	103.92	118.92
Number of Equity Shares	5 lakhs	5 lakhs	5 lakhs
Earnings per share	₹ 17.78	₹ 20.78	₹ 23.78
Average Market Price = (Max + Min) ÷ 2	(525+400) ÷ 2 =462.50	(535+ 420) ÷ 2 =477.50	(550+ 450) ÷ 2 =500.00
Price Earnings Ratio (MPS ÷ EPS)	26.20	22.98	21.03

2. Computation of Future Maintainable EPS for next three years

Particulars	2011	2012	2013
Sales Turnover:			
Existing turnover (based on ₹ 5 Crore annual increase)	4,500.00	5,000.00	5,500.00
New Project.(given)	800.00	800.00	800.00
Total Sales	5,300.00	5,800.00	6,300.00
Net profit before tax at 7 % of turnover	371.00	406.00	441.00
Less: Tax expenses at 40%	148.40	162.40	176.40
Profit After Tax	222.60	243.60	264.60
Less: Preference Dividend at 9 %	(1.08)	(1.08)	(1.08)
Future earnings available to Equity Shareholders	221.52	242.52	263.52
Weights	3	2	1
Weighted Product	664.56	485.04	263.52
Weighted Average [(666.56 + 485.04 + 263.52) ÷ 6]			235.52
Number of shares [5 lakhs + (₹ 5 Crore ÷ ₹ 250)]			7 lakhs
Projected EPS [₹ 235.52 lakhs ÷ 7 lakhs shares]			₹ 33.65
Issue Price (including Premium)			₹ 250
Hence , Projected PE Ratio based on issue price			₹ 250 ÷ ₹ 33.65 =7.43

Note : Since future earnings show an increasing trend, weighted Average is more appropriate. Hence, more weightage is given to profits of near future years since these profits can be estimated with more reasonable certainty than profits of subsequent future years

Justification of Issue at Premium

Particulars	Analysis	Effect for Premium
(a) Trend of PAT , Residual Earnings available to Equity Shareholders	Increasing Trend of PAT and Residual Earnings of Shareholders	Favourable , Positive
(b) Comparison of Projected EPS with past EPS of the Company	Increasing Trend	Favourable , Positive
(c) Comparison of Projected EPS with	Assuming Industry Average PE Ratio	Favourable , Positive

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that of Industry Average	is about 7-8, the Company's projection are considered positive.	
(d) Comparison of Issue Price (₹ 100+ ₹ 150=₹ 250) with Average Market Price for the past three years	Since Issue Price is below Average Market Price, there will be sufficient takers for the Company's Shares.	Favourable , Positive

Conclusion : On the above grounds, the Issue Price of ₹ 250 (including Premium of ₹150) is justifiable. However , since the Average Market Price is substantially higher than the proposed issue price, it is advisable that the Company put its issue price nearer the average market price , by fixing a higher premium.

Q. 11. 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 :

- 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;
 - 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;
 - Goodwill of J Ltd., and K Ltd., are to be taken at ₹ 24,00,000 and ₹ 12,00,000 respectively;
 - The market value of investments of J Ltd., was ₹ 12,00,000;
 - 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 ;
 - 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.

Answer 11.

Part I: Purchase Consideration
WN # 1 : Intrinsic Value of Shares

Particulars	J Ltd. (₹)	K Ltd. (₹)
Goodwill	24,00,000	12,00,000
Fixed assets	30,00,000	45,00,000
Investment-Outside	12,00,000	1,50,000
-Inter Co [6,000 Shares @₹125 each]	-----	7,50,000
Current assets	18,00,000	15,00,000
Liabilities	(24,00,000)	(9,00,000)
Net assets	60,00,000	72,00,000

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No. of shares outstanding	48,000	36,000
Intrinsic Value per share (60,00,000/48,000); (72,00,000/36,000)	125	200

WN # 2 : Purchase Consideration

Particulars	K Ltd. (₹)
Total no. of Shares outstanding in K Ltd.	36,000
Value of Shares @₹200 each	72,00,000
No. of shares issuable on the basis of intrinsic value of share (72,00,000÷125)	57,600
Less: Shares already held	(6,000)
No. of Shares to be issued	51,600
Shares price	125
Purchase Consideration (51,600×125)	64,50,000

Part II : In the Books of J Ltd.

- Nature of Amalgamation-Purchase
- Method of Accounting-Purchase

Particulars	Debit (₹)	Credit (₹)
1. For Purchase Consideration Due Business Purchase A/C To Liquidator of K Ltd. A/C	64,50,000	64,50,000
2. For Assets and Liabilities taken over: Goodwill A/C Fixed Assets A/C Investment A/C Current Assets A/C To Liabilities A/C To Business Purchase A/C	12,00,000 45,00,000 1,50,000 15,00,000	9,00,000 64,50,000
3. For Discharge of purchase consideration Liquidator of K Ltd. A/C To Equity Share Capital A/C To Securities Premium A/c	64,50,000	51,60,000 12,90,000
4. Contra entry for statutory reserve Amalgamation adjustment A/C To Investment allowance A/c	9,00,000	9,00,000
5. For adjustment of stock reserve Goodwill A/C To Stock reserve A/C	96,000	96,000

Name of the Company: J Ltd.

Balance Sheet as at 31.03.2012

Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
			₹	₹

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I.	Equity and Liabilities	—	—
1	Shareholders' funds	—	—
	Share capital	1	99,60,000
	Reserves and surplus	2	39,90,000
	Money received against share warrants	—	—
2	Share application money pending allotment	—	—
3	Non-current liabilities	—	—
	Long-term borrowings	—	—
	Deferred tax liabilities (Net)	—	—
	Other Long term liabilities	—	—
	Long-term provisions	—	—
4	Current Liabilities	—	—
	Short-term borrowings	—	—
	Trade payables	—	—
	Other current liabilities	3	33,00,000
	Short-term provisions	—	—
	Total	—	1,72,50,000
II.	Assets	—	—
1	Non-current assets	—	—
	Fixed assets	—	—
	Tangible assets	4	69,00,000
	Intangible assets	5	42,96,000
	Capital work-in-progress	—	—
	Intangible assets under development	—	—
	Non-current investments	6	19,50,000
	Deferred tax assets (Net)	—	—
	Long-term loans and advances	—	—
	Other non-current assets	7	9,00,000
2	Current assets	—	—
	Current investments	—	—
	Inventories	—	—

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Trade receivables	—	—	
Cash and cash equivalents	—	—	
Short-term loans and advances	—	—	
Other current assets	8	32,04,000	—
Total		1,72,50,000	—

		(₹)
Note 1. Share Capital	As at 31st March, 2012	As at 31st March, 2011
Authorised, Issued, Subscribed and paid up:- 99,600 Equity Shares of ₹ 100 (of which 51,600 shares of ₹ 1,00 each issued for consideration other than cash)	99,60,000	
Total	99,60,000	

RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	As at 31st March, 2012		As at 31st March, 2011	
	Nos	Amount (₹)	Nos	Amount (₹)
Opening Balance as on 01.04.11	48,000	48,00,000	NIL	NIL
Add: Fresh Issue (Incl'd Bonus shares, Right shares, split shares, shares issued other than cash)	51,600	51,60,000	NIL	NIL
	99,600	99,60,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	99,600	99,60,000	NIL	NIL

Note 2. Reserves and Surplus	As at 31st March, 2012	As at 31st March, 2011
Securities Premium	12,90,000	
Investment allowance Reserve	9,00,000	
General Reserve	18,00,000	
Total	39,90,000	

Note 3. Other Current Liabilities	As at 31st March, 2012	As at 31st March, 2011
Current Liabilities	33,00,000	

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Total	33,00,000	
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Note 4. Tangible assets	As at 31st March, 2012	As at 31st March, 2011
Fixed Assets (24,00,000+45,00,000)	69,00,000	
Total	69,00,000	

Note 5. Intangible assets	As at 31st March, 2012	As at 31st March, 2011
Goodwill	42,96,000	
Total	42,96,000	

Note 6. Non-Current Investments	As at 31st March, 2012	As at 31st March, 2011
Investment at cost	19,50,000	
Total	19,50,000	

Note 7. Other Non Current Assets	As at 31st March, 2012	As at 31st March, 2011
Amalgamation Adjustment Accounts	9,00,000	
Total	9,00,000	

Note 8. Other Current Assets	As at 31st March, 2012	As at 31st March, 2011
Current Assets (33,00,000 – 96,000)	32,04,000	
Total	32,04,000	

Q. 12. Shiva Ltd. and Hari Ltd. decided to amalgamate as on 01.04.2014. Their Balance Sheets as on 31.03.2014 were as follows: (₹ in '000)

Particulars	Shiva Ltd.	Hari Ltd.
Source of Funds :		
Equity share capital (₹ 10 each)	150	140
9% preference share capital (₹ 100 each)	30	20
Investment allowance reserve	5	2
Profit and Loss Account	10	6
10 % Debentures	50	30
Sundry Creditors	25	15
Tax provision	7	4
Equity Dividend Proposed	30	28
Total	<u>307</u>	<u>245</u>
Application of Funds :		
Building	60	50
Plant and Machinery	80	70

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Investments	40	25
Sundry Debtors	45	35
Stock	36	40
Cash and Bank	40	25
Preliminary Expenses	<u>6</u>	<u>---</u>
Total	<u>307</u>	<u>245</u>

From the following information, you are to prepare the draft Balance Sheet as on 01.04.2014 of a new company, Indra Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

- (i) 50 % Debentures are to be converted into Equity Shares of the New Company.
- (ii) Out of the investments, 20% are non-trade investments.
- (iii) Fixed Assets of Shivas Ltd. were valued at 10% above cost and that of Hari Ltd. at 5% above cost.
- (iv) 10 % of sundry Debtors were doubtful for both the companies. Stocks to be carried at cost.
- (v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.
- (vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹ 10 each of the new company at a premium of ₹ 5 per share. Amalgamation is in the nature of purchase

Answer 12.

Draft Balance Sheet as at 1.4.2014 [as per Revised Schedule VI]

		₹ in lakhs	
Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	3,27,990	—
(b) Reserves and Surplus	2	1,45,995	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment			
		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings	3	40,000	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long –term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings	—	—	—
(b) Trade Payables	4	40,000	—
(c) Other current liabilities		—	—
(d) Short-term provisions	5	<u>11,000</u>	—
Total		<u>5,64,985</u>	—
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	6	2,80,000	—

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(ii) Intangible assets	—	—	
(iii) Capital work-in progress	—	—	
(iv) Intangible assets under development	—	—	
(b) Non-current Investment	7	65,000	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments		—	—
(b) Inventories	8	76,000	—
(c) Trade receivables	9	72,000	—
(d) Cash and Cash equivalents	10	64,985	—
(e) Short-term loans and advances		—	—
(f) Other Current assets	11	7,000	—
Total		5,64,985	—

Annexure

Note 1. Share Capital

Particulars	Amount (₹)
Share Capital 3,63,840 Equity shares of ₹ 10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	36,38,400
Total	36,38,400

Note 2. Trade Payables

Particulars	Amount (₹)
Creditors	4,50,000
Total	4,50,000

Note 3. Tangible Assets

Particulars	Amount (₹)
Other fixed Assets (12,00,000 + 3,00,000)	15,00,000
Total	15,00,000

Note 4. Intangible Assets

Particulars	Amount (₹)
Goodwill (W.N. 2) (₹ 3,19,200 + ₹ 1,21,200)	4,40,400
Total	4,40,400

Note 5. Short-term Provisions

Particulars	Amount (₹)
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Tax provision (₹ 7,000 + ₹ 4,000)	11,000
Total	11,000

Note 6. Tangible Assets

Particulars	Amount (₹)
Building (₹ 66,000 + ₹ 52,500)	1,18,500
Plant and Machinery (₹ 88,000 + ₹ 73,500)	1,61,500
Total	2,80,000

Note 7. Non-current Investments

Particulars	Amount (₹)
Investments (₹ 40,000 + ₹ 25,000)	65,000
Total	65,000

Note 8. Inventories

Particulars	Amount (₹)
Stock (₹ 36,000 + ₹ 40,000)	76,000
Total	76,000

Note 9. Trade Receivables

Particulars	Amount (₹)
Sundry Debtors	72,000
90% of (₹ 45,000 + ₹ 35,000)	
Total	72,000

Note 10. Cash and Cash Equivalent

Particulars	Amount (₹)
Cash and Bank	64,985
(₹ 40,000 + ₹ 25,000 - ₹ 15)	
Total	64,985

Note 11. Other Current Assets

Particulars	Amount (₹)
Amalgamation adjustment account	7,000
Total	7,000

Working Notes:

1. Calculation of value of equity shares issued to transferor companies

	Shiva Ltd. ₹	Hari Ltd. ₹
Assets taken over:		
Building	66,000	52,500
Plant and machinery	88,000	73,500
Investments (trade and non-trade)	40,000	25,000

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Stock	36,000		40,000
Sundry Debtors	40,500		31,500
Cash & Bank	<u>40,000</u>		<u>25,000</u>
	3,10,500		2,47,500
Less: Liabilities:			
10% Debentures	50,000	30,000	
Sundry Creditors	25,000	15,000	
Tax Provision	<u>7,000</u>	<u>4,000</u>	49,000
	2,28,500		1,98,500
Less: Preference Share Capital			
	<u>30,000</u>		<u>20,000</u>
	<u>1,98,500</u>		<u>1,78,500</u>

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	Shiva Ltd.	Hari Ltd.	Total
share (including ₹ 5 premium)			
Equity shares issued @ ₹ 15 per			
1,98,500 divided by 15	13,233 shares*		
1,78,500 divided by 15		11,900 shares	25,133 shares
Equity share capital @ ₹ 10	₹ 1,32,330	₹ 1,19,000	₹ ,51,330
Securities premium @ ₹ 5	₹ 66,165	₹ 59,500	₹ ,25,665
	<u>₹ 1,98,495</u>	<u>₹ 1,78,500</u>	<u>₹ 3,76,995</u>
50% of Debentures are converted into equity shares @ ₹ 15 per share			
25,000 divided by 15	1,666 shares**		
15,000 divided by 15		1,000 shares	2,666 shares
Equity share capital @ ₹ 10	₹ 16,660	₹ 10,000	₹ 26,660
Security premium @ ₹ 5	₹ 8,330	₹ 5,000	₹ 13,330
	<u>₹ 24,990</u>	<u>₹ 15,000</u>	<u>₹ 9,990</u>
9% Preference share capital issued	₹ 30,000	₹ 20,000	₹ 50,000

* Cash paid for fraction of shares = ₹ 1,98,500- ₹ 1,98,495 = ₹ 5.

** Cash paid for fraction of shares = ₹ 25,000- ₹ 24,990 = ₹ 10.

Q. 13. The Balance Sheet of Googly Ltd. as on 31.3.2014 is given :

(₹ in '000)

Liabilities	Amount	Assets	Amount
Share Capital :		Fixed Assets	5,400
Equity shares of ₹ 10 each	1,600	Non-trade Investments	600
Securities Premium	200	Stock	1,200
General Reserve	1,560	Sundry Debtors	720
Profit and Loss Account	240	Cash and Bank	320
10% Debenture Creditors	4,000		
	640		
	<u>8,240</u>		<u>8,240</u>

Gunshot Ltd. buy back 32,000 shares of ₹ 20 per share. For this purpose, the Company sold its all non-trade investments for ₹ 6,40,000. Give Journal Entries with full narrations effecting the buy back.

Answer 13.

Journal Entries for Buy-back of shares of Googly Ltd.

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		Dr. (₹)	Cr.(₹)
(i)	Bank A/c Dr. To Non-trade Investments To Profit & Loss A/c (Being the entry for sale of Non-trade Investments)	6,40,000	6,00,000 40,000
(ii)	Shares Buy back A/c (32,000 x ₹ 20) Dr. To Bank A/c (Being purchase of 32,000 shares @ ₹ 20 per share)	6,40,000	6,40,000
(iii)	Equity Share Capital A/c (32,000 x ₹ 10) Dr. Buy-back Premium (32,000 x ₹ 10) Dr. To Shares Buy-back A/c (Being cancellation of shares bought back)	3,20,000 3,20,000	6,40,000
(iv)	Securities Premium A/c Dr. General Reserve A/c Dr. To Buy-back Premium (Being adjustment of buy-back premium)	2,00,000 1,20,000	3,20,000
(v)	General Reserve A/c Dr. To Capital Redemption Reserve (Being the entry for transfer of General Reserve to Capital Redemption Reserve to the extent of face value of equity shares bought back)	3,20,000	3,20,000

Q. 14. Red Ltd. and Blue Ltd. propose to amalgamate. Their balance sheets as at 31st March, 2014 were as follows:

Liabilities	Red Ltd	Blue Ltd	Assets	Red Ltd.	Blue Ltd.
Share Capital	15,00,000	6,00,000	Fixed Assets:		
Equity shares of ₹ 10 each			Less: Depreciation	12,00,000	3,00,000
General Reserves	6,00,000	60,000	Investments	3,00,000	----
Profit and Loss A/c	3,00,000	90,000	(Face value of ₹ 3 lakhs, 6% Tax free G.P notes)		
Creditors	3,00,000	1,50,000	Stock		
			Debtors	6,00,000	3,90,000
			Cash and Bank balance	5,10,000	1,80,000
				90,000	30,000
	27,00,000	9,00,000		27,00,000	9,00,000

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%.

- (a) Suggest a Ratio of exchange of shares and
(b) Draft the opening balance sheet of Green Ltd.

Answer 14.

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(i) Scheme of Capitalization of Green Ltd. and ratio of exchange of shares

Computation of Net Assets of amalgamating companies

	Red Ltd.	Blue Ltd.
Goodwill (W.N 2)	3,19,200	1,21,200
Fixed Assets	12,00,000	3,00,000
6% investments (Non- trade)	3,00,000	----
Stock	6,12,000	4,26,000
Debtors	5,10,000	1,80,000
Cash and Bank Balances	90,000	30,000
	30,31,200	10,57,200
Less: Creditors	3,00,000	1,50,000
Net Assets	27,31,200	9,07,200
No. of Equity Shares	1,50,000	60,000
Intrinsic value of a share	₹ 18.208	₹ 15.12
No of shares to be issued by Green Ltd. to		
Red Ltd. $1,50,000 \times 18.208/10$	2,73,120 shares	
Blue Ltd. $60,000 \times 15.12/10$		90,720 shares

In total 2,73,120+ 90,720 i.e. 3,63,840 shares will be issued by Green Ltd.

Ratio of exchange of shares will be as follows:

A. Holders of 1,50,000 equity shares of Red Ltd. will get 2,73,120 shares in Green Ltd.

B. Similarly, holders of 60,000 equity shares of Blue Ltd. will get 90,720 shares in Green Ltd.

(ii) Opening balance sheet of Green Ltd.

[as per Revised Schedule VI]

Particulars	Note No.	₹ in lakhs	
		Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	36,38,400	—
(b) Reserves and Surplus	—	—	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings	—	—	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long –term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings	—	—	—
(b) Trade Payables	2	4,50,000	—
(c) Other current liabilities		—	—
(d) Short-term provisions	—	—	—

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	Total	<u>40,88,400</u>	—
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II. ASSETS

(1) Non-current assets :

(a) Fixed assets

(i) Tangible assets	3	15,00,000	—
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(ii) Intangible assets	4	4,40,400	—
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(iii) Capital work-in progress		—	—
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(iv) Intangible assets under development		—	—
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(b) Non-current Investment	5	3,00,000	—
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(c) Deferred tax assets (net)		—	—
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(d) Long-term loans and advances		—	—
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(e) Other non-current assets		—	—
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(2) Current assets :

(a) Current investments		—	—
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(b) Inventories	6	10,38,000	—
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(c) Trade receivables	7	6,90,000	—
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(d) Cash and Cash equivalents	8	1,20,000	—
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(e) Short-term loans and advances		—	—
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(f) Other Current assets	—	—	—
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	Total	<u>40,88,400</u>	—
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Annexure

Note 1. Share Capital

Particulars	Amount (₹)
Share Capital 3,63,840 Equity shares of ₹ 10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	36,38,400
Total	36,38,400

Note 2. Trade Payable

Particulars	Amount (₹)
Creditors	4,50,000
Total	4,50,000

Note 3. Tangible Assets

Particulars	Amount (₹)
Other Fixed Assets (₹ 12,00,000 + ₹ 3,00,000)	15,00,000

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Total	15,00,000
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Note 4. Intangible Assets

Particulars	Amount (₹)
Goodwill (W.N. 2) (₹ 3,19,200 + ₹ 1,21,200)	4,40,400
Total	4,40,400

Note 5. Non-Current Investments

Particulars	Amount (₹)
Investments in 6% Tax free G.P. Notes	3,00,000
Total	3,00,000

Note 6. Inventories

Particulars	Amount (₹)
Stock (₹ 6,12,000 + ₹ 4,26,000)	10,38,000
Total	10,38,000

Note 7. Trade Receivables

Particulars	Amount (₹)
Debtors (₹ 5,10,000 + ₹ 1,80,000)	6,90,000
Total	6,90,000

Note 8. Cash and Cash Equivalents

Particulars	Amount (₹)
Cash and Bank balance (₹ 90,000 + ₹ 30,000)	1,20,000
Total	1,20,000

Working Notes :

1. Calculation of Closing trading capital employed on the basis of net assets

	Red Ltd. ₹	Blue Ltd. ₹
Fixed Assets	12,00,000	3,00,000
Stock	6,12,000	4,26,000
Debtors	5,10,000	1,80,000
Cash and Bank Balance	90,000	30,000
	24,12,000	9,36,000
Less: Creditors	3,00,000	1,50,000
Net Assets	21,12,000	7,86,000

2. Calculation of value of Goodwill

A. Average trading profit

	Red Ltd. (₹)	Blue Ltd. (₹)
2011-12	3,90,000	1,35,000

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2012-13	3,75,000	1,20,000
2013-14	4,50,000	1,68,000
Profit after tax	12,15,000	4,23,000
Profit before tax	20,25,000	7,05,000
Add: Under valuation of closing stock	12,000	36,000
	20,37,000	7,41,000
Average of 3 years' profit before tax	6,79,000	2,47,000
Less: Income from non-trade investments (3,00,000 X 6%)	18,000	--
Average profit before tax	6,61,000	2,47,000
Less: 40% tax	2,64,400	98,800
Average profit after tax	3,96,600	1,48,200

(B) Super Profits

	Red Ltd. (₹)	Blue Ltd. (₹)
Average trading profit	3,96,600	1,48,200
Less: Normal Profit		
Red Ltd. ₹ 21,12,000 X 15%	3,16,800	--
Blue Ltd. ₹ 7,86,000 X 15%	--	1,17,900
	79,800	30,300

(C)

	Red Ltd. (₹)	Blue Ltd. (₹)
Value of Goodwill at 4 years' purchase of super profits	3,19,200	1,21,200

Q. 15. The following are the Balance Sheet of Anurag Ltd. and Farhan Ltd.as at 31.12.2014

Anurag Ltd.

Liabilities	₹ '000	Assets	₹ '000
Share Capital		Fixed Assets	3,400
3,00,000 Equity shares of ₹ 10 each	3,000	Stock (pledge with secured loan creditors)	18,400
10,000 Preference shares of ₹ 10 each	400	Other Current Assets	3,600
General Reserves	16,000	Profit and Loss Account	16,600
Secured Loans (secured against pledge of stocks)	8,600		
Unsecured Loans	13,000		
Current Liabilities			
	42,000		42,000

Farhan Ltd.

Liabilities	₹ '000	Assets	₹ '000
Share Capital		Fixed Assets	6,800
1,00,000 Equity shares of ₹ 10 each	1,000	Current Assets	9,600
General Reserves	2,800		
Secured Loans	8,000		
Current Liabilities	4,600		
	16,400		16,400

Both the companies go into liquidation and Oscar Ltd. is formed to take over their businesses. The following information is given-

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(a) All current Assets of two companies, except pledged stock are taken over by Oscar Ltd. The realizable value of all Current Assets are 80% of book values in case of Anurag Ltd. and 70% for Farhan Ltd. , Fixed assets are taken over at book value .

(b) The break up of Current liabilities ₹ -

Particulars	Anurag Ltd.	Farhan Ltd.
Statutory Liabilities (including ₹ 22 lakhs in case of Anurag Ltd. , in case of claim not having been admitted shown as contingent liability)	72,00,000	10,00,000
Liabilities to employees	30,00,000	18,00,000

Balance of Current liability is miscellaneous creditors

(c) Secured Loan include ₹ 16,00,000 accrued interest in case of Farhan Ltd.

(d) 2,00,000 equity shares of ₹ 10 each are allotted by Oscar Ltd., at par against cash payment of entire face value to the shareholders of Anurag Ltd. and Farhan Ltd. in the ratio of shares held by them in Anurag Ltd. and Farhan Ltd.

(e) Preference shareholders are issued Equity shares worth ₹ 2,00 in lieu of present holding

(f) Secured Loan Creditors agree to continue the balance amount of their loans to Oscar Ltd. , after adjusting value of pledged security in case of Anurag Ltd. and after waiving 50% of interest due in the case of Farhan Ltd.

(g) Unsecured Loans are taken over by Oscar Ltd. at 25% of loan amount.

(h) Employees are issued fully paid Equity Shares in Oscar Ltd. in full settlement of their dues

(i) Statutory liabilities are taken over by Oscar Ltd. at full values and miscellaneous creditors are taken over at 80% of the book value.

Answer 15.

WN 1 Value of miscellaneous creditors taken over by Oscar Ltd.

	Anurag Ltd. ₹	Farhan Ltd. ₹
Given in balance sheet	13,000	4,600
Less:		
Statutory Liabilities	5,000	1,000
Liability to employees	<u>3,000</u>	<u>1,800</u>
Miscellaneous creditors	<u>5,000</u>	<u>1,800</u>
80% thereof	<u>4,000</u>	<u>1,440</u>

WN 2 Value of total liabilities taken over by Oscar Ltd.

	Anurag Ltd.		Farhan Ltd.	
	₹	₹	₹	₹
Current liabilities				
Statutory liabilities	7,200		1,000	
Liabilities to employees	3,000		1,800	
Miscellaneous liabilities (WN 1)	<u>4,000</u>	14,200	<u>1,440</u>	4,240
Secured Loans				
Given in Balance Sheet	16,000		8,000	7,200
Interest waived	-		<u>800</u>	
Value of Stock (80% of ₹184 lakhs)	<u>14,720</u>	1,280		
Unsecured Loans (25% of ₹86 lakhs)		2,150		--
		17,630		11,440

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WN 3 Assets taken over by Oscar Ltd.

	Anurag Ltd.	Farhan Ltd.
Fixed Assets (at Book Value)	3,400	6,800
Current Assets	2,880 (3,600 × 80%)	6,720 (9,600 × 70%)
Total of Assets Taken Over	6,280	13,520

WN 4 Goodwill/Capital Reserve on amalgamation

	Anurag Ltd.	Farhan Ltd.
Liabilities taken over (WN 2)	17,630	11,440
Equity shares to be issued to Preference shareholders	200	--
A	17,830	11,440
Less: total assets taken over (W.N 3) B	6,280	13,520
A-B	11,550	(2080)
	Goodwill	Capital Reserve
Net Goodwill		9,470

D. Balance Sheet of Oscar Ltd. as at 31.12.2014

[as per Revised Schedule VI]

₹ in '000

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	7,000	—
(b) Reserves and Surplus	—	—	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings	—	—	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long-term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings	2	10,630	—
(b) Trade Payables	3	5,440	—
(c) Other current liabilities	4	8,200	—
(d) Short-term provisions	—	—	—
Total		31,270	—
II. ASSETS			
(1) Non-current assets :			

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(a) Fixed assets			
(i) Tangible assets	5	10,200	—
(ii) Intangible assets	6	9,470	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—
(b) Non-current Investment		—	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments		—	—
(b) Inventories		—	—
(c) Trade receivables		—	—
(d) Cash and Cash equivalents	7	2,000	—
(e) Short-term loans and advances		—	—
(f) Other Current assets	8	9,600	—
Total		31,270	—

Annexure

Note 1. Share Capital

Particulars	Amount (₹)
7,00,000 Equity Shares of ₹10 each , fully paid (5,00,000 Equity Shares issued for consideration other than cash)	7,000
Total	7,000

Note 2. Short term Borrowings

Particulars	Amount (₹)
Secured Loans (₹ 1,280 + ₹ 7,200)	8,480
Unsecured Loans	2,150
Total	10,630

Note 3. Trade Payables

Particulars	Amount (₹)
Miscellaneous Creditors (₹ 4,000 + ₹ 1,440)	5,440
Total	5,440

Note 4. Other Current Liabilities

Particulars	Amount (₹)
Statutory Liabilities (₹ 5,000 + ₹ 2,200 + ₹ 1,000)	8,200
Total	8,200

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Note 5. Tangible Assets

Particulars	Amount (₹)
Fixed assets (₹ 6,800 + ₹ 3,400)	10,200
Total	10,200

Note 6. Intangible Assets

Particulars	Amount (₹)
Goodwill	9,470
Total	9,470

Note 7. Cash and Cash Equivalents

Particulars	Amount (₹)
Cash/ Bank (from raising Equity)	2,000
Total	2,000

Note 8. Other Current Assets

Particulars	Amount (₹)
Current assets (₹ 2,880 + ₹ 6,720)	9,600
Total	9,600

Q. 16. Tips and Toes Ltd. has two divisions ' P' and 'Q'. the Balance Sheet as at 31st December, 2013 was as under;

	P Division (₹ Crores)	Q Division (₹ Crores)	Total (₹ Crores)
Fixed Assets:			
Cost	600	600	1,200
Depreciation	<u>500</u>	<u>200</u>	<u>700</u>
W.D.V. (written down value)	100	<u>400</u>	500
Net Current Assets:			
Current Assets	400	300	700
Less: Current Liabilities	<u>200</u>	<u>200</u>	<u>400</u>
	<u>200</u>	<u>100</u>	<u>300</u>
	300	500	800
Financed by :			
Loan Funds (secured by a charge on fixed assets)	--	100	100
Own Funds:			
Equity Capital (Fully paid up ₹ 10 shares)	----	----	50
Reserves and surplus	?	?	650
Total	300	500	800

It is decided to form a new company ' New Horizon Ltd.' for international tourism to take over the assets and liabilities of 'Q' division.

A. Accordingly 'New Horizon Ltd.' was formed to takeover at Balance Sheet figures the assets and liabilities of 'Q' Division . New Horizon Ltd. is to allot 5 crore equity shares of ₹ 10 each in the company to the members

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of Tips and Toes Ltd. in full settlement of consideration. The members of Tips and Toes Ltd. are therefore to become members of New Horizon Ltd. as well without having to make any further investment

- B. The directors of both companies ask you to find out the net asset value of equity shares pre and post demerger.
- C. Comment on the impact of demerger on "shareholders wealth".

Answer 16.

In the books of Tips and Toes Ltd.

Journals

(₹ in Crores)

Particulars		Debit ₹	Credit ₹
Current liabilities A/c	Dr.	200	
Loan Fund (secured) A/c	Dr.	100	
Provision for Depreciation A/c	Dr.	200	
Loss on reconstruction A/c	Dr.	400	
To, Fixed Assets A/c			600
To, Current Assets A/c			300
(Being the assets and liabilities of Q division taken out of the books on transfer of the division to New Horizon Ltd.; the consideration being allotment to the members of the company of one equity share of ₹ 10 each of that company at par for every share held in the company vide scheme of reorganization)			

In the books of New Horizon Ltd.

Journals

(₹ in Crores)

Particulars		Debit ₹	Credit ₹
Fixed Assets A/c	Dr.	400	
Current Assets A/c	Dr.	300	
To, Current liabilities A/c			200
To, Loan Fund (secured) A/c			100
To, Equity Share Capital A/c			50
To, Capital Reserve A/c			350
(Being the assets and liabilities of Q division of Tips and Toes Ltd. taken over by New Horizon Ltd. and allotment of 5 Crore equity shares of ₹ 10 each at par as fully paid to the members of Tips and Toes Ltd.)			

Tips and Toes Ltd.

Balance Sheet as on 1st January, 2014

[as per Revised Schedule VI]

₹ in crores

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Particulars	Note No.	After Reconstruction		Before Reconstruction	
		As at 1st January 2014	As at 1st January 2014	As at 1st January 2014	As at 1st January 2014
I EQUITY AND LIABILITIES					
(1) Shareholders' funds :					
(a) Share Capital		50	—	50	—
(b) Reserves and Surplus	1	250	—	650	—
(c) Money received against share warrants		—	—		
(2) Share application money pending allotment		—	—		
(3) Non-current liabilities :					
(a) Long-term borrowings		—	—		
(b) Deferred tax liabilities (Net)		—	—		
(c) Other long term liabilities		—	—		
(d) Long –term provisions		—	—		
(4) Current Liabilities :					
(a) Short-term borrowings	2	—	—	100	—
(b) Trade Payables		—	—		
(c) Other current liabilities	3	200	—	400	
(d) Short term provisions		—	—		
Total		<u>500</u>	—	<u>1,200</u>	—
II. ASSETS					
(1) Non-current assets :					
(a) Fixed assets					
(i) Tangible assets	4	100	—	500	—
(ii) Intangible assets		—	—		
(iii) Capital work-in progress		—	—		
(iv) Intangible assets under development		—	—		
(b) Non-current Investment		—	—		
(c) Deferred tax assets (net)		—	—		
(d) Long-term loans and advances		—	—		
(e) Other non-current assets		—	—		
(2) Current assets :					
(a) Current investments		—	—		
(b) Inventories		—	—		
(c) Trade receivables		—	—		
(d) Cash and Cash equivalents		—	—		
(e) Short-term loans and advances		—	—		
(f) Other Current assets	5	400	—	700	—
Total		<u>500</u>	—	<u>1,200</u>	—

Annexure

Note 1. Reserve and Surplus

(₹ in Crores)

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	After Reconstruction	Before Reconstruction
(A) Reserve and Surplus	650	650
Less: Loss on reconstruction	400	----
Total	250	650

Note 2. Short-term borrowing

(₹ in Crores)

	After Reconstruction	Before Reconstruction
(A) Loan : Secured Loan	-	100
Total	-	100

Note 3. Other Current Liabilities

	After Reconstruction	Before Reconstruction
Current Liabilities	200	400
Total	200	400

Note 4. Tangible Assets

(₹ in Crores)

	After Reconstruction	Before Reconstruction
Fixed Assets		
Gross Block	600	1,200
Less : Depreciation	500	700
Net Block	100	500

Note 5. Other Current Assets

(₹ in Crores)

	After Reconstruction	Before Reconstruction
Current Assets	400	700
Total	400	700

Note to Accounts : Consequent to reconstruction of the company and transfer of Q Division of Tips and Toes Ltd. to newly incorporated Company New Horizon Ltd. ; the members of the company have been allotted 5 crore equity shares of 10 each at par of New Horizon Ltd.

New Horizon Ltd.

Balance Sheet as on January 1, 2014

[as per Revised Schedule VI]

₹ in Crore

Particulars	Note No.	Figures as at the end of current	Figures as at the end of previous
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		reporting period	reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	50	—
(b) Reserves and Surplus	—	350	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings	—	—	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long –term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings	2	100	—
(b) Trade Payables	—	—	—
(c) Other current liabilities	3	200	—
(d) Short-term provisions	—	—	—
Total		700	—

II. ASSETS

(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	—	400	—
(ii) Intangible assets	—	—	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—
(b) Non-current Investment		—	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments		—	—
(b) Inventories		—	—
(c) Trade receivables		—	—
(d) Cash and Cash equivalents	—	—	—
(e) Short-term loans and advances		—	—
(f) Other Current assets	4	300	—
Total		700	—

Annexure

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Note 1. Share Capital

Particulars	Amount (₹)
Issued and paid up capital: 5 Crore equity shares of ₹ 10 each fully paid up (All the above equity shares have been issued for consideration other cash to the members of Tips and Toes Ltd. on takeover of Q Division)	50
Total	50

Note 2. Short term Borrowings

Particulars	Amount (₹)
Secured Loans	100
Total	100

Note 3. Other Current Liabilities

Particulars	Amount (₹)
Current Liabilities	200
Total	200

Note 4. Other Current Assets

Particulars	Amount (₹)
Current Assets	300
Total	300

A. Share Capital:	₹ in Crore
Issued and paid up capital: 5 Crore equity shares of ₹ 10 each fully paid up (All the above equity shares have been issued for consideration other cash to the members of Tips and Toes Ltd. on takeover of Q Division)	50

B. Net Asset Value of an equity share		
Tips and Toes Ltd.	Pre – Demerger ₹ 700 Crores 5 Crores Shares=₹ 140	Post – Demerger ₹ 300 Crores 5 Crores Shares=₹ 60
New Horizon Ltd.		.400Crores 5Crores Shares =₹ 80

- C.** Demerger into two companies has no impact on 'net asset value' of shareholders . Pre- Demerger , it was ₹ 140 per share . After Demerger, it is ₹ 60 + ₹ 80 = ₹ 140 per original share.
It is only the yield valuation that is expected to change because of separate focusing on two distinct business whereby profitability is likely to improve in account of de-merger.

Q. 17. The summarized Balance sheets of Aman Ltd. and its subsidiary Ayan Ltd. as at 31.3.2014 were as follows :

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Liabilities	Aman Ltd.	Ayan Ltd.	Assets	Aman Ltd.	Ayan Ltd.
Share capital (Share of ₹ 10 each)	50,00,000	10,00,000	Fixed assets	60,00,000	18,00,000
General reserves	50,00,000	20,00,000	Investment in Ayan Ltd. (60,000 shares)	6,00,000	---
Profit and Loss account	20,00,000	15,00,000	Sundry debtors	35,00,000	5,00,000
Secured loan	20,00,000	2,50,000	Inventories	30,00,000	25,00,000
Current liabilities	30,00,000	2,50,000	Cash and bank	39,00,000	2,00,000
	1,70,00,000	50,00,000		1,70,00,000	50,00,000

Aman Ltd. holds 60% of the paid-up capital of Ayan Ltd. and the balance is held by a foreign company. A memorandum of understanding has been entered into with the foreign company by Aman Ltd. to the following effect:

- (i) The shares held by the foreign company will be sold to Aman Ltd. at a price per share to be calculated by capitalizing the yield at 15%. Yield, for this purpose, would mean 50% of the average of pre-tax profits for the last 3 years, which were ₹ 12 lakhs, ₹ 18 lakhs and ₹ 24 lakhs respectively. (Average tax rate was 40%).
- (ii) The actual cost of shares to the foreign company was ₹ 4,40,000 only. Gains accruing to the foreign company are taxable at 20%. The tax payable will be deducted from the sale proceeds and paid to government by Aman Ltd. 50% of the consideration (after payment of tax) will be remitted to the foreign company by Aman Ltd. and also any cash for fractional shares allotted.
- (iii) For the balance of consideration, Aman Ltd. would issue its shares at their intrinsic value. It was also decided that Aman Ltd. would absorb Ayan Ltd. Simultaneously by writing down the Fixed assets of Ayan Ltd. by 10%. The Balance Sheet figures included a sum of ₹ 1,00,000 due by Ayan Ltd. to Aman Ltd. and stock of Aman Ltd. included stock of ₹ 1,50,000 purchased from Ayan Ltd., who sold them at cost plus 20%. The entire arrangement was approved and put through by all concern effective from 1.4.2014.

You are required to indicate how the above arrangements will be recorded in the books of Aman Ltd. and also prepare a Balance Sheet after absorption of Ayan Ltd. Workings should form part of your answer.

Answer 17.

Aman Ltd.

Balance Sheet as at 1st April, 2014

[as per Revised Schedule VI]

Particulars	Note No.	Figures as at the end of current reporting period	₹
			Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	53,34,660	—
(b) Reserves and Surplus	2	82,95,000	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings		—	—
(b) Deferred tax liabilities (Net)		—	—

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(c) Other long term liabilities	—		—
(d) Long –term provisions	—		—
(4) Current Liabilities :			
(a) Short-term borrowings	3	22,50,000	—
(b) Trade Payables	—	—	—
(c) Other current liabilities	4	31,50,000	—
(d) Short-term provisions	—	—	—
Total		1,96,98,980	—

II. ASSETS

(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	5	76,20,000	—
(ii) Intangible assets	—	—	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—
(b) Non-current Investment		—	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments		—	—
(b) Inventories	6	54,75,000	—
(c) Trade receivables	7	39,00,000	—
(d) Cash and Cash equivalents	8	27,03,980	—
(e) Short-term loans and advances		—	—
(f) Other Current assets	—	—	—
Total		1,96,98,980	—

Annexure

Note 1. Share Capital

Particulars	Amount (₹)
Share of ₹ 10 each 500000 shares	53,34,660
Share issued in lieu of purchase consideration 33466 shares (Share of ₹ 10 each)	
Total	53,34,660

Note 2. Reserves and Surplus

Particulars	Amount (₹)
General Reserve	50,00,000
Capital Reserve	13,20,000
Profit and Loss Account (₹ 20,00,000 – Unrealised Profit on stock ₹ 25,000)	19,75,000

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Total	82,95,000
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Note 3. Short term Borrowings

Particulars	Amount (₹)
Secured Loans (₹ 20,00,000 + ₹ 2,50,000)[assumed to be for less than 12 months]	22,50,000
Total	22,50,000

Note 4. Other Current Liabilities

Particulars	Amount (₹)
Current Liabilities [(30,00,000 + 2,50,000) – Mutual Debt 1,00,000]	31,50,000
Total	31,50,000

Note 5. Tangible Assets

Particulars	Amount (₹)
Fixed Assets (₹ 78,00,000 – Revaluation Loss ₹ 1,80,000)	76,20,000
Total	76,20,000

Note 6. Inventories

Particulars	Amount (₹)
Inventories [(₹ 30,00,000 + 25,00,000) – Unrealised Profit on stock ₹ 25,000]	54,75,000
Total	54,75,000

Note 7. Trade Receivables

Particulars	Amount (₹)
Sundry Debtors [(₹ 35,00,000 + ₹ 5,00,000) – Mutual Debt. ₹ 1,00,000]	39,00,000
Total	39,00,000

Note 8. Cash and Cash Equivalents

Particulars	Amount (₹)
Cash at Bank	27,03,980
Total	27,03,980

Working Notes :

i. **Average of Pre Tax Profit** = $\frac{12 + 18 + 24}{3} = ₹ 18 \text{ lakhs}$

Yield = $18 \times \frac{50}{100} = ₹ 9 \text{ lakhs}$

ii. **Price per share of Ayan Ltd:-**

Capitalised value of yield of Ayan Ltd. = $\frac{9 \text{ lakhs}}{15} \times 100 = 60 \text{ lakhs.}$

No. of shares = 1,00,000

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$$\text{Price per share} = \frac{60 \text{ lakhs}}{1 \text{ lakhs}} = ₹ 60 \text{ per share}$$

iii. Purchase consideration for 40% of share capital of Ayan Ltd.

$$= 1,00,000 \times 60 \times \frac{40}{100} = ₹ 24,00,000$$

iv. Calculation of intrinsic value of shares of Aman Ltd.

Total Assets excluding Investments in Ayan Ltd.		1,64,00,000
Value of Investment 60,000 × 60		36,00,000
		2,00,00,000
Less: Outside Liabilities:		
Secured Loan	20,00,000	
Current Liabilities	30,00,000	50,00,000
Net Assets		1,50,00,000

$$\text{Intrinsic value per share} = \frac{\text{Netasset}}{\text{No of shares}} = \frac{₹ 1,50,00,000}{5,00,000} = ₹ 30 \text{ per share}$$

v. Discharge of purchase consideration by Aman Ltd.

	Equity share capital ₹	Cash ₹	Total ₹
Payment of tax $(24 - 4.40) \times \frac{20}{100} =$	----	3,92,000	3,92,000
Issue of shares to foreign company <div style="border-left: 1px solid black; border-right: 1px solid black; padding-left: 5px;"> 50% of $(24 - 3.92) = 10.04$ lakhs No. of shares issued by Aman Ltd. $\frac{10,04,000}{30}$ = 33,466.666 shares </div> Value of shares capital = $33,466 \times 30$	10,03,980	----	10,03,980
Cash payment 10% of $(24 - 3.92) = 10.04$ lakhs	----	10,04,000	10,04,000
Cash for fractional shares = 0.6666×30	----	20	20
Total	10,03,980	13,96,020	24,00,000

vi. Calculation for Goodwill/Capital Reserve to Aman Ltd.

	₹
Total of Assets as per Balance Sheet of Ayan Ltd.	50,00,000
Less: 10% Reduction in the value of Fixed Assets $(\frac{10}{100} \times 18,00,000)$	1,80,000
	48,20,000
Less: Secured Loan	₹ 2,50,000

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Current Liabilities	₹ 2,50,000	5,00,000
Net Assets		43,20,000
Less: Purchase consideration (outside shareholders)		24,00,000
		19,20,000
Less: Investment in Ayan Ltd. as per Balance Sheet of Aman Ltd.		6,00,000
		13,20,000

vii. Cash and Bank Balance of Aman Ltd. after acquisition of shares

	₹
Opening Balance (Aman Ltd.)	39,00,000
Cash and Bank Balance of Ayan Ltd.	2,00,000
	41,00,000
Less: Remittance to the foreign company	10,04,020
	30,95,980
Less: T.D.S. paid to Government 3,92,000	3,92,000
	27,03,980

viii. Unrealised profit included in stock of Aman Ltd. $1,50,000 \times \frac{20}{120} = ₹ 25,000$

Q. 18. The following are the Balance Sheet of Uttar Ltd. and Dakshin Ltd. as on 31st December, 2013.

	Amount in ₹	
	Uttar Ltd	Dakshin Ltd
Assets		
Fixed Assets	7,00,000	2,50,000
Stock	2,40,000	3,20,000
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
Cash at Bank	1,10,000	40,000
Investment in :		
6000 shares of Dakshin Ltd	80,000	
5000 shares of Uttar Ltd		80,000
	15,50,000	15,50,000
Liabilities		
Share Capital :		
Equity Shares of ₹ 10each	6,00,000	3,00,000
10% preference shares of ₹ 10 each	2,00,000	1,00,000
Reserve and surplus	3,00,000	2,00,000
12 % Debentures	2,00,000	1,50,000
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	15,50,000	15,50,000

Fixed assets of both the companies are to be revalued at 15% above book value and stock and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends having been paid already.

After the above transactions are given effect to, Uttar Ltd. will absorb Dakshin Ltd. on the following terms:

- (i) 8 equity shares of ₹ 10 each will be issued by Uttar Ltd. at par against 6 shares of Dakshin Ltd.

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- (ii) 10% preference shares of Dakshin Ltd. will be paid off at 10% discount by issue of 10% preference shares of ₹ 100 each of Uttar Ltd. at par.
- (iii) 12 % Debenture holders of Dakshin Ltd. are to be paid off at a 8% premium by 12% debentures in Uttar Ltd. issued at a discount of 10%
- (iv) ₹ 30,000 to be paid by Uttar Ltd. to Dakshin Ltd. for liquidation expenses.
- (v) Sundry creditors of Dakshin Ltd. include ₹ 10,000 due to Uttar Ltd.

Answer 18.

(a) Statement of Purchase Consideration payable by Uttar Ltd.

(i) 8 Equity Shares of Uttar Ltd. for every 6 Equity Shares of Dakshin Ltd.

30,000 shares X $\frac{8}{6}$ =	40,000 shares
Less: $\frac{1}{5}$ already held by Uttar Ltd. of Dakshin Ltd.	8,000 shares
	32,000 Shares
Less: 5,000 shares of Uttar Ltd. with Dakshin Ltd.	5,000 shares
	27,000 Shares

27,000 equity shares at ₹ 10	₹ 2,70,000
(ii) payment of 10% Preference Shares at 10% discount by issue of 10% Preference Shares of Uttar Ltd. ₹ 100 each (1,00,000 X $\frac{90}{100}$)	₹ 90,000
	₹ 3,60,000

(b) Balance Sheet of Uttar Ltd. after its absorption of Dakshin Ltd.

[as per Revised Schedule VI]

Particulars	Note No.	Figures as at the end of current reporting period	₹ Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	11,60,000	—
(b) Reserves and Surplus	2	3,76,000	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings	3	3,80,000	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long –term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings	—	—	—
(b) Trade Payables	4	3,35,000	—
(c) Other current liabilities	5	55,000	—
(d) Short-term provisions	—	—	—
Total		23,06,000	—

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II. ASSETS

(1) Non-current assets :

(a) Fixed assets

(i) Tangible assets	6	10,92,500	—
(ii) Intangible assets	—	—	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—

(b) Non-current Investment

(c) Deferred tax assets (net)

(d) Long-term loans and advances

(e) Other non-current assets

(2) Current assets :

(a) Current investments

(b) Inventories	7	5,44,000	—
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(c) Trade receivables	8	6,10,500	—
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(d) Cash and Cash equivalents	9	41,000	—
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(e) Short-term loans and advances		—	—
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(f) Other Current assets	10	18,000	—
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Total		23,06,000	—
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Annexure

Note 1. Share Capital

Particulars	Amount (₹)
Equity Share of ₹ 10 each 87000 shares (Out of above- share issued in lieu of purchase consideration 27000 shares other than cash)	8,70,000
10% Preference Shares of ₹ 10 each	2,00,000
10% Preference Shares of ₹ 100 each	90,000
Total	11,60,000

Note 2. Reserves and Surplus

Particulars	Amount (₹)
Revaluation reserves (15% of ₹ 7,00,000)	1,05,000
Capital Reserve	25,000
Other Reserves	2,46,000
Total	3,76,000

Note 3. Long term Borrowings

Particulars	Amount (₹)
12% debentures	3,80,000
Total	3,80,000

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Note 4. Trade Payables

Particulars	Amount (₹)
Sundry creditors (2,20,000+1,25,000-10,000)	3,35,000
Total	3,35,000

Note 5. Other Current Liabilities

Particulars	Amount (₹)
Bills Payables (30,000+25,000)	55,000
Total	55,000

Note 6. Tangible Assets

Particulars	Amount (₹)
Fixed Assets (₹ 8,05,000+₹ 2,87,500)	10,92,500
Total	10,92,500

Note 7. Inventories

Particulars	Amount (₹)
Stock [(₹ 2,40,000 + ₹ 3,04,000)]	5,44,000
Total	5,44,000

Note 8. Trade Receivables

Particulars	Amount (₹)
Debtors [(₹ 3,60,000 + ₹ 1,80,500-10,000) – Mutual Debt. ₹ 1,00,000]	5,30,500
Total	5,30,500

Note 9. Cash and Cash Equivalents

Particulars	Amount (₹)
Cash at Bank	41,000
Total	41,000

Note 10. Other Current Assets

Particulars	Amount (₹)
Discount on Issue of debentures [1,50,000 × 108% × (10/90)]	18,000
Total	18,000

Working Notes :

1. Calculation of Capital Reserve

Net assets taken over from Dakshin Ltd.	₹
Fixed Assets (2,50,000 X 115%)	2,87,500
Stock (3,20,000 X 95%)	3,04,000

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Debtors (1,90,000 X 95%)	1,80,500
Bills Receivable	20,000
Cash at Bank	15,000
Total assets (A)	8,07,000
Less: Liabilities taken over	
Debentures (1,50,000 X 108%)	1,62,000
Sundry Creditors	1,25,000
Bills Payable	25,000
Total Liabilities (B)	3,12,000
Net Assets taken over(A-B)	4,95,000
Less: Investment Cancelled	80,000
	4,15,000
Purchase Consideration	3,60,000
Capital Reserve	55,000
Less: Liquidation expenses reimbursed to Dakshin Ltd.	30,000
	25,000

2. Cash taken over from Dakshin Ltd.

	₹
Cash balance given in Balance Sheet of Dakshin Ltd.	40,000
Add: Dividend received from Uttar Ltd.	5,000
	45,000
Less: Dividend paid	30,000
	15,000

3. Cash balance in Balance Sheet (after absorbtion)

	₹
Cash balance given in Balance Sheet of Uttar Ltd.	1,10,000
Add: Dividend received from Dakshin Ltd.	15,000
	1,25,000
Less: Dividend Paid	60,000
Expenses on liquidation	30,000
	90,000
	35,000
Less: Dividend from Dakshin Ltd.	6,000
	41,000

4. Other Reserves in the Balance Sheet (after absorption)

	₹
Reserves given in the Balance Sheet of Uttar Ltd.	3,00,000
Dividend from Dakshin Ltd.	6,000
	3,06,000
Less: Dividend declared	60,000
	2,46,000

Q. 19.The Balance Sheet of Good and Strong Limited as on 31.3.2012 are given below:

Liabilities	Good Ltd. (₹)	Strong Ltd.(₹)	Assets	Good Ltd.(₹)	Strong Ltd.(₹)
Equity share					
Capital	2,40,000	2,40,000	Fixed assets	88,000	1,68,000

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General reserve	40,000	32,000	Investment	1,80,000	10,000
Profit and Loss Account	24,000	39,000	Sundry debtors	12,000	30,000
Bills payable	4,000	10,000	Bills receivable	8,000	32,000
Sundry creditors	8,000	15,000	Stock in trade	20,000	80,000
			Cash at bank	8,000	16,000
	3,16,000	3,36,000		3,16,000	3,36,000

Note: Contingent liability of Good Ltd.: Bills discounted not yet matured at ₹ 5,000.

Additional information :

- (i) On 1.10.2003, Good 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 Strong Ltd. stood on 1.4.2009 at ₹ 60,000 and ₹ 32,000 respectively.
- (iii) Dividends have been paid @ 10% for each of the years 2009-10 and 2010-11. Dividend for the year 2009-10 was paid out of the pre-acquisition profits. No dividend has been proposed for the year 2011-12 as yet and no provision need to be made in consolidated Balance Sheet. Good Ltd. has credited all dividends received to Profit and Loss Account.
- (iv) On 1.3.2012, bonus shares were issued by Strong 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 1.4.2009.
- (v) On 1.10.2009, 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 1.4.2009 (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 Good Ltd. include ₹ 4,000 bills accepted by Strong Ltd. Bills discounted by Good Ltd., but not yet matured include ₹ 3,000 accepted by Strong Ltd.
- (ix) Sundry creditors of Good Ltd. include ₹ 4,000 due to Strong Ltd. Sundry debtors of Strong Ltd. include ₹ 8,000 due from Good Ltd.
- (x) It is found that Good Ltd. has remitted a cheque of ₹ 4,000, which has not yet been received by Strong Ltd.

Prepare consolidated Balance Sheet as at 31.3.2012 of Good Ltd. and its Subsidiary

Answer 19.

Good Ltd. and its Subsidiary Strong Ltd.

Consolidated Balance Sheet as at 31st March, 2012

[as per Revised Schedule VI]

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	2,40,000	—
(b) Reserves and Surplus	2	1,29,600	—

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(c) Money received against share warrants	—	—	
(2) Minority Interest (W.N)	60,400		
(3) Share application money pending allotment	—	—	
(4) Non-current liabilities :			
(a) Long-term borrowings	—	—	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long –term provisions		—	—
(5) Current Liabilities :			
(a) Short-term borrowings	—	—	—
(b) Trade Payables	3	19,000	—
(c) Other current liabilities	4	10,000	—
(d) Short-term provisions	—	—	—
Total		4,59,000	—

II. ASSETS

(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	5	2,47,000	—
(ii) Intangible assets	—	—	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—
(b) Non-current Investment	6	14,000	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments		—	—
(b) Inventories	7	1,00,000	—
(c) Trade receivables	8	34,000	—
(d) Cash and Cash equivalents	9	28,000	—
(e) Short-term loans and advances		—	—
(f) Other Current assets	10	36,000	—
Total		4,59,000	—

Annexure

Note 1. Share Capital

Particulars	Amount (₹)
24000 Equity Share of ₹ 10 each	2,40,000
Total	2,40,000

Note 2. Reserves and Surplus

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Particulars	Amount (₹)
Capital Reserve	53,200
General Reserve	48,000
Consolidated Profit and Loss A/c	28,400
Total	1,29,600

Note 3. Trade Payables

Particulars	Amount (₹)
Sundry creditors ₹ 23,000 less Mutual indebtedness ₹ 4,000	19,000
Total	19,000

Note 4. Other Current Liabilities

Particulars	Amount (₹)
Bills Payables ₹ 14,000 less Mutual indebtedness ₹ 4,000	10,000
Total	10,000

Note 5. Tangible Assets

Particulars	Amount (₹)
Fixed Assets [(₹ 1,68,000 - ₹ 12,000+ ₹ 3,000)]	2,47,000
Total	2,47,000

Note 6. Non-current Investments

Particulars	Amount (₹)
Investments (₹4,000 +₹10,000)	14,000
Total	14,000

Note 7. Inventories

Particulars	Amount (₹)
Stock (₹20,000 +₹80,000)	1,00,000
Total	1,00,000

Note 8. Trade Receivables

Particulars	Amount (₹)
Debtors {(₹ 12,000 +₹ 30,000 - ₹ 4,000)less Mutual indebtedness ₹ 4,000}	34,000
Total	34,000

Note 9. Cash and Cash Equivalents

Particulars	Amount (₹)
Remittance in transit	4,000
Cash at Bank (₹ 8,000+ ₹16,000)	24,000

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Total	28,000
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Note 10. Other Current Assets

Particulars	Amount (₹)
Bills Receivable {(₹ 40,000 less Mutual indebtedness ₹ 4,000)}	36,000
Total	36,000

Note: Contingent Liability of Bills discounted not yet matured for payment ₹ 2,000.

Working Notes:-

(i) Interest of Good Ltd in Strong Ltd.	₹
Share capital of Strong Ltd. on 31.3.2012	2,40,000
Less: Issue of Bonus Shares $\frac{1}{6} \times ₹.2,40,000$	40,000
Share capital before Bonus issue	2,00,000
No. of Equity Shares before Bonus issue $\frac{2,00,000}{10}$	20,000
No. of shares held by Good Ltd.	16,000
Interest of Good Ltd. in Strong Ltd $\frac{16,000}{20,000} \times 100$	
Minority shareholders' Interest	20%

(ii) Analysis of Profit of Strong Ltd.

	₹	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
General Reserve on 31.3.2012 (After Bonus issue)	32,000			
Add: Bonus issue	<u>40,000</u>			
Balance (before bonus issue)	<u>72,000</u>			
₹ 1,80,000 – (16,000 shares x ₹ 11)				
General Reserve on 1.4.2009	60,000			
Less: Bonus issue	40,000	20,000		
Increase in General Reserve (Transfer of ₹ 4000 p.a. for 3 years) (72,000 – 60,000)	12,000	2,000	10,000	
Profit and Loss Account				
Increase in Profit after Dividend 39,000 – 12,000 =	27,000	4,500		22,500
Additional depreciation written back due to revaluation of fixed assets $12,000 \times \frac{10}{100} \times 2.5$				
		<u>26,500</u>	<u>10,000</u>	<u>25,500</u>
Share of Good Ltd. (80%)		21,200	8,000	20,400
Share of Minority Shareholders (20%)		<u>5,300</u>	<u>2,000</u>	<u>5,100</u>
		26,500	10,000	25,500

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(iii) Loss on Revaluation has been calculated as follows:

	₹
Value of Assets on 1.4.2009 $(1,68,000 \times \frac{100}{70})$	2,40,000
Less : Depreciation for 6 months $(2,40,000 \times \frac{10}{100} \times \frac{1}{2})$	<u>12,000</u>
Valuation of Assets on 1.10.2009	2,28,000
Less: Re-valued value of Assets	<u>2,16,000</u>
Loss on Revaluation	<u>12,000</u>

It has been assumed that Profit of ₹ 27,000 after payment of dividend for the year 2010-2011, has been earned evenly in 3 years, (year 2009-10, 2010-11 and 2011-12) hence profit per year would be $\frac{27,000}{3} = ₹ 9,000$. Half of the profit of ₹ 9,000 for the year 2009-10 would be pre-acquisition (Capital Profit) and Remaining half i.e. ₹ 4,500 would be post-acquisition profit (Revenue profit).

(iv) Cost of Control

	₹
Cost of Investment in Strong Ltd.	1,76,000
Less: Dividend out of capital profit	16,000
Less: Paid up value of investment (including Bonus Shares) $(1,60,000 + 1,60,000 \times \frac{1}{5})$	1,92,000
Less: Capital Profit	<u>21,200</u>
Capital Reserve	<u>53,200</u>

(vi) Minority Interest

Paid-up share capital (Including Bonus Shares) $(40,000 + 40,000 \times \frac{20}{100})$	48,000
Add: Share in Capital Profit	5,300
Share in Revenue Reserve	2,000
Share in Revenue Profit	<u>5,100</u>
	<u>60,400</u>

(vii) General Reserve

Balance in Good Ltd.	40,000
Add: Share in Strong Ltd.	<u>8,000</u>
	<u>48,000</u>

(viii) Consolidated Profit and Loss Account

Balance in Good Ltd.	24,000
Less: Dividend credited out of Pre-acquisition Profit (Capital Profit)	<u>16,000</u>
	8,000
Add: Share in Profit of Strong Ltd.	<u>20,400</u>
	<u>28,400</u>

Q. 20. The following are the summarised Balance Sheets of P Co. Ltd. and S Co. Ltd. as on 31.3.2014.

Liabilities	P Co. Ltd. ₹	S Co. Ltd. ₹
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Share Capital:		
Authorised	70,00,000	30,00,000
Issued and Subscribed Capital		
Equity shares of ₹ 10 each fully paid	50,00,000	20,00,000
Capital Reserve	5,00,000	3,10,000
Revenue Reserve	8,50,000	75,000
Profit and Loss Account	4,00,000	2,80,000
Sundry Creditors	2,50,000	2,25,000
Bills Payable	1,00,000	10,000
	71,00,000	29,00,000
Assets	P Co. Ltd.	S Co. Ltd.
	₹	₹
Land and Buildings	20,00,000	15,20,000
Plant and Machinery	20,00,000	8,00,000
Furniture	5,00,000	1,60,000
Investments	16,10,000	-
Stock	3,40,000	1,00,000
Sundry Debtors	3,60,000	2,00,000
Bills Receivable	50,000	40,000
Bank	2,40,000	80,000
	71,00,000	29,00,000

P Ltd. acquired 80% shares of S Ltd. on 30.09.2013 at a cost of ₹ 18,10,000. On 1.10.2013 S Ltd. declared and paid dividend on Equity Shares. P Ltd. appropriately adjusted its share of dividend in Investment Account.

On 1.4.2013, the Capital Reserve and Profit and Loss Account stood in the books of S Ltd. at ₹ 50,000 and ₹ 2,75,000 respectively.

Land and Buildings standing in the books of S Ltd. at ₹ 16,00,000 on 1.4.2013, revalued at ₹ 20,00,000 on 1.10.2013. Furniture, which stood in the books at ₹ 2,00,000 on 1.4.2013 revalued at ₹ 1,50,000 on 1.10.2013. In both the cases the effects have not yet been given in the books.

S Ltd. bought an item of machinery from P Ltd. on hire-purchase basis. The following are the balances in respect of this machinery in the books on 31.03.2014 :

	₹
Instalment due	20,000
Instalment not due	8,000
Hire-purchase stock reserve	1,600

The above items stood included under appropriate heads in Balance Sheet.

Prepare a Consolidated Balance Sheet of P Ltd. and its subsidiary S Ltd. as at 31.03.2014, complying with the requirements of AS-21.

Answer 20.

Consolidated Balance Sheet as at 31st March, 2014

[as per Revised Schedule VI]

₹

Particulars

Note
No.

Figures as at the
end of current
reporting period

Figures as at the
end of previous
reporting period

I EQUITY AND LIABILITIES

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(1) Shareholders' funds :			
(a) Share Capital	1	50,00,000	—
(b) Reserves and Surplus	2	25,90,400	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment			
		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings	—	—	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long –term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings	—	—	—
(b) Trade Payables	3	4,47,000	—
(c) Other current liabilities	4	1,10,000	—
(d) Short-term provisions	—	—	—
Total		87,61,400	—

II. ASSETS

(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	5	73,79,400	—
(ii) Intangible assets	—	—	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—
(b) Non-current Investment	—	—	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments		—	—
(b) Inventories	6	4,32,000	—
(c) Trade receivables	7	5,40,000	—
(d) Cash and Cash equivalents	8	3,20,000	—
(e) Short-term loans and advances		—	—
(f) Other Current assets	9	90,000	—
Total		87,61,400	—

Annexure

Note 1. Share Capital

Particulars	Amount (₹)
Authorised	70,00,000

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Issued and subscribed Equity shares of ₹ 10 each, fully paid up	50,00,000
Total	50,00,000

Note 2. Reserves and Surplus

Particulars	Amount (₹)
Capital Reserve (W.N. 8)	12,18,000
Revenue Reserve (W.N. 9)	8,80,000
Profit and Loss A/c (W.N. 10)	4,92,400
Total	25,90,400

Note 3. Trade Payables

Particulars	Amount (₹)
Sundry creditors [(₹ 2,50,000 + ₹ 2,25,000) – Mutual hire purchase indebtedness ₹ 28,000]	4,47,000
Total	4,47,000

Note 4. Other Current Liabilities

Particulars	Amount (₹)
Bills Payables (₹ 1,00,000 + ₹ 10,000)	1,10,000
Total	1,10,000

Note 5. Tangible Assets

Particulars	Amount (₹)
Land and Buildings (₹ 20,00,000 + ₹ 19,50,000)	39,50,000
Plant and Machinery [(₹ 20,00,000 + ₹ 8,00,000) – Unrealised profit on Hire purchase transaction ₹ 5,600]	27,94,400
Furniture (₹ 5,00,000 + ₹ 1,35,000)	6,35,000
Total	73,79,400

Note 6. Inventories

Particulars	Amount (₹)
Stock [(₹ 3,40,000 - ₹ 1,00,000) – Hire purchase not due ₹ 8,000]	4,32,000
Total	4,32,000

Note 7. Trade Receivables

Particulars	Amount (₹)
Sundry Debtors [(₹3,60,000 + ₹ 2,00,000) – Hire purchase instalment due ₹ 20,000]	5,40,000
Total	5,40,000

Note 8. Cash and Cash Equivalents

Particulars	Amount (₹)

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Cash and Bank (₹2,40,000 + ₹ 80,000)	3,20,000
Total	3,20,000

Note 9. Other Current assets

Particulars	Amount (₹)
Bills Receivable (₹ 50,000 + ₹ 40,000)	90,000
Total	90,000

Working Notes:

1. Analysis of reserves and profits of S Co. Ltd. as on 31.03.2014.

		Pre-acquisition profit upto 30.09.2011 (Capital profits)	Post-acquisition profits (1.10.2011 – 31.3.2012) Capital Reserve Profit reserve and loss account	
Capital reserve as on 31.3.2014	3,10,000			
Less: Balance as on 1.4.2013	50,000	50,000		
Created during the year	<u>2,60,000</u>	1,30,000	1,30,000	
Revenue reserve as on 31.3.2014	75,000			
Less: balance as on 1.4.2013	-			
Created during the year	<u>75,000</u>	37,500	37,500	
Profit and loss account as on 31.3.2014	<u>2,80,000</u>			
Add: Dividend paid on 1.10.2013 (out of pre-acquisition profits)	2,50,000			
	<u>5,30,000</u>			
Less: balance as on 1.4.2013	2,75,000			
Earned during the year	<u>2,55,000</u>	1,27,500		1,27,500
Profit as on 1.4.2013	2,75,000			
Less: Dividend paid [(₹ 18,10,000 – ₹ 16,10,000) × 5/4]	2,50,000			
Balance of pre-acquisition profit as on 31.3.2014	25,000	25,000		
Revaluation reserves as on 1.10.2013:				
Profit on land and buildings (W.N. 2)		4,40,000		
Loss on furniture (W.N. 2)		(30,000)		
Difference in depreciation (for 6 months) due to revaluation:				
Short depreciation on land and building (W.N. 3)				(10,000)
Excess depreciation on furniture (W.N. 3)				5,000
Total		<u>7,80,000</u>	<u>1,30,000</u>	<u>37,500</u>
Minority Interest (20%)		1,56,000	26,000	7,500
Share of P Co. Ltd. (80%)		6,24,000	1,04,000	30,000
				<u>98,000</u>

2. Profit or loss on revaluation of assets in the books of S Ltd. and their book values

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as on 31.3.2014

	₹
Land and buildings	
Book value as on 1.4.2013	16,00,000
Depreciation at 5% p.a. $[(80,000 \times 100)/16,00,000]$ for 6 months	40,000
	15,60,000
Revalued on 1.10.2013	20,00,000
Profit on revaluation	4,40,000
Value as per balance sheet on 31.3.2014	15,20,000
Add: Profit on revaluation	4,40,000
	19,60,000
Less: Short Depreciation (W.N. 3)	10,000
Value as on 31.3.2014	19,50,000
Furniture:	
Book value as on 1.4.2013	2,00,000
Less: Depreciation @ 20% p.a. $[(40,000 \times 100)/2,00,000]$ for 6 months	20,000
	1,80,000
Revalued on 1.10.2013	1,50,000
Loss on revaluation	30,000
Value as per balance sheet on 31.3.2014	1,60,000
Less: Loss on revaluation	30,000
	1,30,000
Add: Excess depreciation written back (W.N. 3)	5,000
Value as on 31.3.2014	1,35,000

3. Calculation of short/excess depreciation

	Building	Furniture
Revalued figure as on 1.10.2013	20,00,000	1,50,000
Rate of depreciation	5% p.a.	20% p.a.
Depreciation for 6 months on revalued figure (1.10.2013 to 31.3.2014)	50,000	15,000
Depreciation already provided	40,000	20,000
Difference [(short)/excess]	(10,000)	5,000

4. Calculation of cost of control

	₹
Share capital in S Ltd.	16,00,000
Add: Capital profit	6,24,000
	22,24,000
Less: Cost of Investments	16,10,000
Capital Reserve	6,14,000

5. Calculation of minority interest

	₹	₹
Share capital		4,00,000
Capital (pre-acquisition) profits		1,56,000
Revenue (post-acquisition) profits:		
Capital Reserve	26,000	

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Revenue reserve	7,500	
Profit and loss	24,500	58,000
		6,14,000

6. Stock reserve (plant and machinery)

Percentage of profit on hire purchase transaction $\frac{1,600 \times 100}{8,000} = 20\%$

20% on ₹ 20,000 = ₹ 4,000

Total unrealized profit = ₹ (4,000 + 1,600) = Rs.5600

7. Elimination of mutual indebtedness

Elimination of mutual indebtedness in respect of sale of machinery on hire purchase basis will be made as under in the Consolidated Balance Sheet.

	Creditors	Debtors	Stock	Plant and machinery
	₹	₹	₹	Rs
Total (P Ltd. and S Ltd.)	4,75,000	5,60,000	4,40,000	28,00,000
Less: Instalment due	20,000	20,000	-	-
Less: Instalment not due	8,000	-	8,000	-
Less: Profit on plant purchased by S Ltd. from P Ltd. on hire purchase	-	-	-	5,600
	4, 47,000	5,40,000	4,32,000	27,94,400

For consolidated balance sheet purpose, the unrealised profits will be eliminated by deducting ₹ 5,600 from Plant & Machinery and from profit and loss account.

8. Consolidated capital reserve as on 31.3.2014

	₹
Capital reserve of P Ltd. as on 31.3.2014	5,00,000
Add: Share in post acquisition capital reserve of S Ltd. (W.N. 1)	1,04,000
Add: Cost of control (W.N. 4)	6,14,000
	12,18,000

9. Consolidated revenue reserve as on 31.3.2014

	₹
Revenue reserve of P Ltd. as on 31.3.2014	8,50,000
Add: Share in post acquisition revenue reserve of S Ltd. (W.N. 1)	30,000
	8,80,000

10. Consolidated profit and loss account as on 31.3.2014

	₹
Profit and loss account balance of P Ltd. as on 31.3.2014	4,00,000
Add: Share in post acquisition profit and loss account of S Ltd. (W.N. 1)	98,000
Less: Unrealised profit on hire purchase	(5,600)
	4,92,400

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Note : In the question, the balance of capital reserve and profit and loss account of S Ltd., as on 1.4.2013 only has been given and not of revenue reserve. Hence, it has been assumed in the above solution that the revenue reserve is created during the year from current year's profits.

Q. 21.

On 31st March, 2011 BA Ltd. became the holding company of CA Ltd. and DA Ltd. by acquiring 1,800 lakhs fully paid shares in CA Ltd. for ` 27,000 lakhs and 960 lakhs fully paid shares in DA Ltd. for ` 8,640 lakhs. On that date, CA Ltd. showed a balance of ` 10,200 lakhs in General Reserve and a credit balance of ` 3,600 lakhs in Profit and Loss Account. On the same date, DA Ltd. showed a debit balance of ` 1,440 lakhs in Profit and Loss Account. While its Preliminary Expenses Account showed a balance of ` 120 lakhs.

After one year, on 31st March, 2012 the Balance Sheets of three companies stood as follows:

	(` in lakhs)		
	BA Ltd.	CA Ltd.	DA Ltd.
Liabilities			
Fully paid equity shares of ` 10 each	1,08,000	30,000	12,000
General Reserve	1,32,000	12,600	-
Profit and Loss Account	36,000	4,800	3,000
60 lakh fully paid 9.5%			
Debentures of ` 100 each	-	-	6,000
Loan from CA Ltd.	-	-	300
Bills Payable	-	-	600
Sundry Creditors	<u>56,400</u>	<u>10,800</u>	<u>3,720</u>
	<u>3,32,400</u>	<u>58,200</u>	<u>25,620</u>
Assets			
Machinery	1,56,000	30,000	8,400
Furniture and Fixtures	24,000	6,000	2,400
Investments:			
1,800 lakhs shares in CA Ltd.	27,000	-	-
960 lakhs shares in DA Ltd.	8,640	-	-
12 lakhs debentures in DA Ltd.	1,176	-	-
Stocks	66,000	12,000	6,000
Sundry Debtors	36,000	5,400	5,160
Cash and Bank balances	12,804	4,200	3,600
Loan to DA Ltd.	-	360	-
Bills Receivable	780	240	-
Preliminary Expenses	-	-	<u>60</u>
	<u>3,32,400</u>	<u>58,200</u>	<u>25,620</u>

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The following points relating to the above mentioned Balance Sheets are to be noted:

- (i) All the bills payable appearing in DA Ltd.'s Balance Sheet were accepted in favour of CA Ltd. out of which bills amounting to ₹ 300 lakhs were endorsed by CA Ltd. in favour of BA Ltd. and bills amounting to ₹ 180 lakhs had been discounted by CA Ltd. with its bank.
- (ii) On 29th March, 2012 DA Ltd. remitted ₹ 60 lakhs by means of a cheque to CA Ltd. to return part of the loan; CA Ltd. received the cheque only after 31st March, 2012.
- (iii) Stocks with CA Ltd. includes goods purchased from BA Ltd. for ₹ 800 lakhs. BA Ltd. invoiced the goods at cost plus 25%.
- (iv) In August, 2011 CA Ltd. declared and distributed dividend @ 10% for the year ended 31st March, 2011. BA Ltd. credited the dividend received to its Profit and Loss Account.

You are required to prepare a Consolidated Balance Sheet of BA Ltd. and its subsidiaries CA Ltd. and DA Ltd. as at 31st March, 2012.

Answer 21.

Consolidated Balance Sheet of BA Ltd. and its subsidiaries CA Ltd. and DA Ltd. as at 31st March, 2012

Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
			—	—
1	EQUITY AND LIABILITIES		—	—
	(a) Share capital	1	1,08,000	—
	(b) Reserves and surplus	2	1,73,600	—
	(c) Money received against share warrants		—	—
2	Minority Interest (W.N.2)		21,948	—
3	Share application money pending allotment		—	—
4	Non-current liabilities		—	—
	(a) Long-term borrowings	3	4,800	—
	(b) Deferred tax liabilities (Net)		—	—
	(c) Other Long term liabilities		—	—
	(d) Long-term provisions		—	—
5	Current Liabilities		—	—
	(a) Short-term borrowings		—	—
	(b) Trade payables	4	70,920	—
	(c) Other current liabilities	5	180	—
	(d) Short-term provisions		—	—
	Total (1+2+3+4+5)		<u>3,79,448</u>	—

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II	ASSETS	—	—
1	Non-current assets	—	—
	(a) Fixed assets	—	—
	(i) Tangible assets	6	2,26,800
	(ii) Intangible assets	7	984
	(iii) Capital work-in-progress	—	—
	(iv) Intangible assets under development	—	—
	(b) Non-current investments	—	—
	(c) Deferred tax assets (Net)	—	—
	(d) Long-term loans and advances	—	—
	(e) Other non-current assets	—	—
2	Current assets	—	—
	(a) Current investments	—	—
	(b) inventories	8	83,840
	(c) trade receivables	9	46,560
	(d) Cash and cash equivalents	10	20,664
	(e) Short-term loans and advances	—	—
	(f) Other current assets	11	<u>600</u>
	Total (1+2)	3,79,448	—

₹ In lakhs

Note 1. Share Capital	As at 31 st March, 2012	As at 31 st March, 2011
Authorized, Issued, Subscribed and fully paid-up Share capital:-		
5400 Lakhs Equity share of ₹10 each	1,08,000	
	1,08,000	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	As at 31 st March, 2012		As at 31 st March, 2011	
	Nos.	Amount(₹)	Nos.	Amount(₹)
Opening Balance as on 01.04.11	10,800	1,08,000		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)				
	10,800	1,08,000		

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Less: Buy Back of share				
Total	10,800	1,08,000		

Note 2. Reserve & Surplus	As at 31 st March,2012	As at 31 st March,2011
General Reserve (WN.4)	1,33,440	
Profit & Loss A/c (WN.4)	40,160	
Total	1,73,600	

Note 3. Long- term borrowings	As at 31 st March,2012	As at 31 st March,2011
9.5% Debentures	4,800	
Total	4,800	

Note 4. Trade Payables	As at 31 st March,2012	As at 31 st March,2011
Sundry Creditors (56,400+10,800+3,720)	70,920	
Total	70,920	

Note 5. Other Current liabilities	As at 31 st March,2012	As at 31 st March,2011
Bills Payable	180	
Total	180	

Note 6. Tangible Assets	As at 31 st March,2012	As at 31 st March,2011
Machinery	1,94,400	
Furniture & Fixture	32,400	
Total	2,26,800	

Note 7.Intangible assets	As at 31 st March,2012	As at 31 st March,2011
Goodwill (WN.3)	984	

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Total	984	
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Note 8. Inventories	As at 31 st March,2012	As at 31 st March,2011
Stock	84,000	
Less: unrealized profit	160	
Total	83,840	

Note 9. Trade Receivables	As at 31 st March,2012	As at 31 st March,2011
Debtors (more than six months considered good) – (36,000+5,400+5,160)	46,560	
Total	46,560	

Note 10. Cash and cash equivalents	As at 31 st March,2012	As at 31 st March,2011
Cash and bank	20,604	
Cash-in-transit	60	
Total	20,664	

Note 11. Other current assets	As at 31 st March,2012	As at 31 st March,2011
Bills receivables	1,020	
Less: mutual debts(WN.5)	420	
Total	600	

Working Notes:

(i) Calculation of pre and post acquisition profits of subsidiaries:

(₹ in lakhs)			
	Pre-acquisition capital profit	Post-acquisition	
		General Reserve	Profit/Loss A/c
CA Ltd.			

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General Reserve (Cr.)		10,200	2,400	
Profit and Loss A/c (Cr.)	3,600			
(-) Dividend	3,000	600		4,200
		10,800	2,400	4,200
Holding (60%)		6,480	1,440	2,520
Subsidiary (40%)		4,320	960	1,680

		(₹ in lakhs)		
		Pre-acquisition capital profit	Post-acquisition	
			Preliminary expenses	Profit / Loss A/c
DA Ltd.				
Profit and Loss A/c (Cr.)		(1,440)		4,440
Preliminary expenses (Dr.)		(120)	60	
		(1,560)	60	4,440
Holding (80%)		(1,248)	48	3,552
Subsidiary (20%)		(312)	12	888

(ii) Minority Interest

(₹ in lakhs)

CA Ltd.				
Share capital			12,000	
Capital profit		4,320		
Revenue General Reserve		960		
Profit/Loss		1,680	6,960	18,960
DA Ltd.				
Share capital			2,400	
Capital profit		(312)		
Revenue profit (Cr.)	888			
Add: Preliminary expenses written off	12	900	588	2,988

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				21,948
--	--	--	--	--------

(iii) Cost of Control

(₹ in lakhs)

CA Ltd.			
Investment	27,000		
Less: Dividend received and wrongly credited to Profit and Loss	<u>1,800</u>	25,200	
Less: Paid-up share capital (60%)	18,000		
Capital profit	<u>6,480</u>	24,480	720
Dee Ltd.			
Investment in Shares	8,640		
in debentures	<u>1,176</u>	9,816	
Less: Paid-up share capital (80%)	9,600		
Nominal value of debentures	1,200		
Capital profit	<u>(1,248)</u>	9,552	264
Goodwill			984

(iv) Consolidated General Reserve and Profit and Loss Account

(₹ in Lakhs)

	General Reserve ₹	Profit and Loss A/c ₹
BA Ltd.	1,32,000	36,000
Less: Wrong dividend credited	-	1,800
	1,32,000	34,200
CA Ltd.	1,440	2,520
DA Ltd. (3,552 + 48)	-	<u>3,600</u>
	1,33,440	40,320
Less: Unrealised profit on stock	-	160
	1,33,440	40,160

(v) Mutual owing regarding bills = ₹ (600 – 180) lakhs = ₹ 420 lakhs.

(vi) Unrealised profit

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$$= 800 \times \frac{25}{125} \text{ Lakhs}$$

= ₹ 160 lakhs

- (vii) Amount of dividend wrongly credited to Profit and Loss A/c
= 60% of ₹ 3,000 lakhs = ₹1,800 lakhs.

Q. 22. Sky Ltd., as listed company, entered into an expansion programme on 1st October, 2011. On that date the company purchased from Cloud Ltd. its investments in two Private Limited Companies. The purchase was of
(a) the entire share capital of Sun Ltd.

And

(b) 50% of the share capital of Moon Ltd.

Both the investments were previously owned by Cloud Ltd. after acquisition by Sky Ltd., Moon Dry Ltd. was to be run by Sky Ltd. and Cloud Ltd. as a jointly controlled entity.

Sky Ltd. makes its financial statements up to 30th September each year. The terms of acquisition were :

Sun Ltd.

The total consideration was based on price earning ratio (P/E) of 12 applied to the reported profit of ₹ 20 Lakhs of Sun Ltd. for the 30th Sept. 2011. The consideration was settled by Sky Ltd. issuing 8% debentures for ₹ 140 lakhs (at par) and the balance by a new issue of ₹ 1 equity shares, based on its market value of ₹ 2.50 each.

Moon Ltd.

The market value of Moon Ltd. on first Oct, 2011 was mutually agreed as ₹ 375 lakhs. Sky Ltd. satisfied its share of 50% of this amount by issuing 75 lakhs ₹ 1 equity shares (market value ₹ 2.50 each) to Cloud Ltd.

Sky Ltd. has not recorded in its books the acquisition of the acquisition of the above investments or the discharge of the consideration.

The summarized statements of financial position of the three entities at 30st Sept, 2012 are:

₹ in thousands

Assets	Sky Ltd.	Sun Ltd.	Moon Ltd.
Tangible Assets	34,260	27,000	21,060
Inventories	9,640	7,200	18,640
Debtors	11,200	5,060	4,620
Cash	--	3,410	40
	55,100	42,670	44,360
Liabilities			
Equity Capital: ₹ 1 each	10,000	20,000	25,000
Retained earnings	20,800	15,000	4,500
Trade and other payables	18,660	5,270	14,100
Provision for taxes	5,640	2,400	760
	55,100	42,670	44,360

The following information is relevant.

- (a) The book values of net assets of Sun Ltd. and Moon Ltd. on the date of acquisition were considered to be a reasonable approximation to their fair values.

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- (b) The current profits of Sun Ltd. and Moon Ltd. for the year ended 30th Sept, 2012 were ₹ 80 lakhs and ₹ 20 lakhs respectively. No dividends were paid by any of the companies during the year.
- (c) Moon Ltd., the jointly controlled entity, is to be accounted for using proportional consolidation, in accordance with AS 27 "Interests in joint venture".
- (d) Goodwill in respect of the acquisition of Moon Ltd. has been impaired by ₹ 10 lakhs at 30th Sept, 2012. Gain on acquisition, if any, will be separately accounted.

Prepare the consolidated Balance Sheet of Sky Ltd. and its subsidiaries as at 30th Sept, 2012.

Answer 22.

Consolidated Balance Sheet of Sky Ltd.

With its Subsidiary Sun Ltd. and Jointly controlled Moon Ltd.

As at 30th Sept, 2012

Particulars	Note No.	[as per Revised Schedule VI]	
		Figures as at the end of current reporting period	Figures as at the end of previous reporting period
		₹	
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	21,500	—
(b) Reserves and Surplus	2	49,050	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings	3	14,000	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long-term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings	—	—	—
(b) Trade Payables	4	30,980	—
(c) Other current liabilities		—	—
(d) Short-term provisions	5	8,420	—
Total		1,23,950	—
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	6	71,790	—
(ii) Intangible assets	7	4,000	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—

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(b) Non-current Investment	—	—	
(c) Deferred tax assets (net)	—	—	
(d) Long-term loans and advances	—	—	
(e) Other non-current assets	—	—	
(2) Current assets :			
(a) Current investments	—	—	
(b) Inventories	8	26,160	—
(c) Trade receivables	9	18,570	—
(d) Cash and Cash equivalents	10	3,430	—
(e) Short-term loans and advances	—	—	—
(f) Other Current assets	—	—	—
Total		1,23,950	—

Annexure

Note 1. Share Capital

Particulars	Amount (₹)
Equity Share Capital (₹ 10,000+ ₹ 4,000+ ₹ 7,500) (Out of the above 11,500 thousand shares have been issued for consideration other than cash)	21,500
Total	21,500

Note 2. Reserves and Surplus

Particulars	Amount (₹)
Retained Earnings (W.N 4)	28,800
Capital Reserve (W.N 5)	3,000
Securities Premium	17,250
Total	49,050

Note 3. Long term Borrowings

Particulars	Amount (₹)
8% debentures	14,000
Total	14,000

Note 4. Trade Payables

Particulars	Amount (₹)
Trade and other payables (₹ 18,660+ ₹ 5,270 + ₹ 7,050)	30,980
Total	30,980

Note 5. Short term Provision

Particulars	Amount (₹)
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Provision for taxes (₹ 5,680+ ₹ 2,400 + ₹ 380)	8,420
Total	8,420

Note 6. Tangible assets

Particulars	Amount (₹)
Tangible assets (₹ 34,260+ ₹ 27,000+ ₹ 10,530)	71,790
Total	71,790

Note 7. Intangible Assets

Particulars	Amount (₹)
Goodwill (W.N 6)	4,000
Total	4,000

Note 8. Inventories

Particulars	Amount (₹)
Inventories (₹ 9,640 + ₹ 7,200 + ₹ 9,320)	26,160
Total	26,160

Note 9. Trade Receivables

Particulars	Amount (₹)
Debtors (₹ 11,200 + ₹ 5,060 + ₹ 2,310)	18,570
Total	18,570

Note 10. Cash and Cash Equivalents

Particulars	Amount (₹)
Cash [(₹ 3,412 + ₹ 20) Less Overdraft ₹ 1,540]	1,890
Total	1,890

Working Notes :

1. Purchase consideration paid to Sun Ltd.

Earnings per share for the year 30th Sept. ,2011

$$= \frac{20,00,000}{2,00,00,000} = ₹0.10 \text{ per share}$$

Market price per share = ₹ 0.10 x 12 (i.e. P/E ratio) = ₹ 1.20 per share

Purchase consideration to be paid as under:

8% Debentures	₹14,000 thousand
Equity Shares	₹10,000 thousand
Purchase consideration paid to Sun Ltd. will be	₹ 24,000 thousands.

2. Consideration Paid to Moon Ltd.

	₹ in thousands
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Total market value (as given)	37,500
50% Shares acquired by Sky Ltd. (75,00,000shares @ ₹ 2.50 each)	18,750

3. Analysis of retained earnings of Sun Ltd. as on 30.09.2012

	₹ in thousands
Retained earnings given in balance sheet on 30.09.2012	15,000
Less: Current profits for the year ended 30.09.2012 (Post acquisition)	8,000
Pre acquisition retained earnings	7,000

Sky Ltd. has 100% share in pre acquisition profits of Sun Ltd.

4. Retained earnings in the consolidated Balance Sheet

	₹ in thousands
Balance in Sky Ltd. balance sheet	20,800
Add: Share in post acquisition profits of Sun Ltd.	8,000
Add: Share in post acquisition profits of Moon Ltd. (joint venture)	1,000
	29,800
Less: Goodwill (written off)	1,000
	28,800

5. Capital Reserve

	₹ in thousands
Amount Paid	24,000
Less: Paid up value of shares	20,000
Pre-acquisition profit	7,000
Capital Reserve	3,000

6. Goodwill

	₹ in thousands
Amount paid for shares of Moon Ltd. (₹ 37,500 × 50%)	18,750
Less: Paid up value of shares (₹ 25,000 × 50%)	12,500
Pre- acquisition profit (₹ 2,500 × 50%)	1,250
Goodwill	5,000
Less: Impairment (Written off)	1,000
	4,000

Q. 23. The consolidated Balance Sheet of Sagar Ltd. and its subsidiary Pahar Ltd. and Balance Sheet of Joint Venture Pahar Ltd. as at 31.12.2013 are as follows

Liabilities	Sagar Ltd.	Pahar Ltd.	Assets	Sagar Ltd.	Pahar Ltd.
Equity Share Capital (₹ 100)	6,00,000	2,00,000	Fixed Assets	4,50,000	1,50,000
General Reserve	2,00,000	--	Investment in Pahar Ltd.		
Profit & Loss A/c	80,000	--	- 6% Debentures	90,000	-
6% debentures	--	1,50,000	at par		
Trade Creditors	75,000	67,500	- 1,500 Equity Shares at ₹ 80	1,20,000	-
			Stock in Trade	1,40,000	60,000

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		Debtors	80,000	45,000
		Cash at Bank	75,000	12,500
		Profit & Loss A/c	-	1,50,000
	9,55,000	4,17,500	9,55,00	4,17,500

Sagar Ltd. acquired the shares on 01.05.2013. The Profit & Loss Account of Pahar Ltd showed a debit balance of ₹ 2,25,000 on 01.01.2013. During March 2013, goods costing ₹ 9,000 were destroyed against which the insurer paid only ₹ 3,000. Trade Creditors of Pahar Ltd. include ₹ 30,000 for goods supplied by Sagar Ltd. on which Sagar Ltd. made a profit of ₹ 3,000. Half of the goods were still in stock on 31.12.2013.

Prepare a Consolidated Balance Sheet incorporating the Joint Venture Entity operation using Proportionate Consolidation method.

Answer 23.

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = Sagar Ltd	Acquisition : 01.05.2013	% of Holding by Sagar Ltd in Joint Venture = $1,500 \div 2,000 = 80\%$ Outsiders' Interest = 20%
Subsidiary = Pahar Ltd	Consolidation: 31.12.2013	
Joint Venture with = Little Ltd		

2. Analysis of Profit Loss Account of Little Ltd.

On 01.01.2013 (₹ 2,25,000) Capital Profit	Profit for the year ₹ 75,000 (Bal. figure) Add: Abnormal Loss ₹ 6,000 ₹ 81,000	
Upto Acquisition 01.01.2013 to 30.04.2013 $81,000 \times 4/12 = ₹ 27,000$	Acquisition to Consolidation 01.05.2013 to 31.12.2013 $81,000 \times 8/12 = ₹ 54,000$	
Less: Abnormal Loss ₹ 6,000 Capital Profit ₹ 21,000	Revenue Profit	
Total Capital Profits = (₹ 2,25,000) + ₹ 21,000 = (₹ 2,04,000) ; Total Revenue Profit = ₹ 54,000		

3. Goodwill / Capital Reserve on Consolidation

Particulars	₹	₹
Cost of Investment in Equity Shares of Pahar Ltd.		1,20,000
Less: Share of Net Assets		
(1) Nominal value of Equity Capital	1,50,000	
(2) Share in Capital Profit of Pahar Ltd. [(₹ 2,04,000) X 75%]	(1,53,000)	3,000
Goodwill on Consolidation		1,23,000

4. Consolidation of Reserves & Surplus

Particulars	Gen. Res.	P& L A/c
Balance as per Balance Sheet of Sagar Ltd.	2,00,000	80,000
Add: Share of Revenue Profits / Reserves of Pahar Ltd.		40,500
Less: Stock Reserve (50% X Profit of ₹ 3,000 X Sagar Ltd's share of 75%)		(1,125)
Consolidated Balance	2,00,000	1,19,375

5. Consolidated Balance Sheet of Sagar Ltd, Subsidiary Pahar Ltd. and Joint Venturer Pahar Ltd. as at 31.12.2013

[as per Revised Schedule VI]

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Particulars	Note No.	Figures as at the end of current reporting period	₹ Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	6,00,000	—
(b) Reserves and Surplus	2	3,19,375	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings	3	1,12,500	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long –term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings	—	—	—
(b) Trade Payables	4	1,25,625	—
(c) Other current liabilities	—	—	—
(d) Short-term provisions	—	—	—
Total		11,57,500	—
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	5	5,62,500	—
(ii) Intangible assets	6	1,23,000	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—
(b) Non-current Investment	7	90,000	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments		—	—
(b) Inventories	8	1,83,875	—
(c) Trade receivables	9	1,13,750	—
(d) Cash and Cash equivalents	10	84,375	—
(e) Short-term loans and advances		—	—
(f) Other Current assets	—	—	—
Total		11,57,500	—

Annexure

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Note 1. Share Capital

Particulars	Amount (₹)
Equity Share Capital	6,00,000
Total	6,00,000

Note 2. Reserves and Surplus

Particulars	Amount (₹)
General Reserve	2,00,000
Profit and Loss A/c	1,19,375
Total	3,19,375

Note 3. Long Term Borrowings

Particulars	Amount (₹)
Debentures	1,12,500
Total	1,12,500

Note 4. Trade payables

Particulars	Amount (₹)
Creditors (75,000 +75% of 67,500)	1,25,625
Total	1,25,625

Note 5. Tangible Assets

Particulars	Amount (₹)
Fixed Assets (₹ 4,50,000 + 70% of ₹ 1,50,000)	5,62,500
Total	5,62,500

Note 6. Intangible Assets

Particulars	Amount (₹)
Goodwill on Proportionate Consolidation	1,23,000
Total	1,23,000

Note 7. Non current Investments

Particulars	Amount (₹)
Debentures	90,000
Total	90,000

Note 8. Inventories

Particulars	Amount (₹)
Inventories (₹1,40,000 +75% of ₹ 60,000 - ₹ 1,125)	1,83,875
Total	1,83,875

Note 9. Trade Receivables

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Particulars	Amount (₹)
Debtors (₹80,000 +75% of ₹ 45,000)	1,13,750
Total	1,13,750

Note 10. Cash and Cash Equivalents

Particulars	Amount (₹)
Cash at Bank (₹ 75,000 + 75% of ₹ 12,500)	84,375
Total	84,375

Notes: Balance Sheet items are added on line by line basis but only to the extent of share in the Co- Venture Company.

Q. 24. The summarized Balance Sheet of Akash Ltd. and Barish Ltd. are as Follows:

Balance Sheet as at 31 December,2013

	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 1 st 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,2013 and sold 10,000 of them at the same price on 1st Oct, 2013 . The sale is cum dividend. An interim dividend of 10% was paid by Barish Ltd. on 1st July , 2013.

Answer 24.

Consolidated Balance Sheet of Akash Ltd. and its subsidiary Barish Ltd

Balance Sheet as at 31.12.2013

[as per Revised Schedule VI]

Particulars	Note No.	₹	
		Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	20,00,000	—
(b) Reserves and Surplus	2	6,38,000	—

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(c) Money received against share warrants	—	—	
(2) Minority Interest	2,72,000	—	
(3) Non-current liabilities :			
(a) Long-term borrowings	—	—	—
(b) Deferred tax liabilities (Net)	—	—	—
(c) Other long term liabilities	—	—	—
(d) Long –term provisions	—	—	—
(4) Current Liabilities :			
(a) Short-term borrowings	—	—	—
(b) Trade Payables	3	5,00,000	—
(c) Other current liabilities	—	—	—
(d) Short-term provisions	—	—	—
Total	—	<u>34,10,000</u>	—

II. ASSETS

(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets	4	28,00,000	—
(ii) Intangible assets	5	2,10,000	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—
(b) Non-current Investment	—	—	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments			
(b) Inventories	—	—	—
(c) Trade receivables	—	—	—
(d) Cash and Cash equivalents	—	—	—
(e) Short-term loans and advances		—	—
(f) Other Current assets	6	4,00,000	—
Total	—	<u>34,10,000</u>	—

Annexure

Note 1. Share Capital

Particulars	Amount (₹)
Share Capital in Equity Shares of ₹ 10 each	20,00,000
Total	20,00,000

Note 2. Reserves and Surplus

Particulars	Amount (₹)
-------------	------------

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Reserves	2,00,000
Profit and Loss A/c	4,38,000
Total	6,38,000

Note 3. Trade Payables

Particulars	Amount (₹)
Creditors	5,00,000
Total	5,00,000

Note 4. Tangible Assets

Particulars	Amount (₹)
Fixed Assets	28,00,000
Total	28,00,000

Note 5. Intangible Assets

Particulars	Amount (₹)
Goodwill	2,10,000
Total	2,10,000

Note 6. Other Current Assets

Particulars	Amount (₹)
Current Assets[3,20,000+80,000]	4,00,000
Total	4,00,000

Working Notes:

(1) Analysis of Profit of Barish Ltd.	Capital Profits ₹	Revenue Profits ₹
Reserves	50,000	
Profit and Loss A/c on 1.1.2013	1,00,000	
Profit for the year (80,000-50,000)		30,000
	1,50,000	30,000

(2) Minority Interest	₹
Share Capital	2,00,000
Capital Profits	60,000
Revenue Profits	12,000
	2,72,000

(3) Cost of Control	₹	₹
Investment in Barish Ltd.		6,00,000
Less: Face of Investment	3,00,000	
Capital Profits	90,000	3,90,000
		2,10,000

(4) Profit and Loss Account- Akash Ltd.	₹

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Balance on 1.1.2013	3,00,000
Profit for the year	80,000
	3,80,000
Add; Dividends from Barish Ltd.	40,000
	4,20,000
Profit or Loss on sale of shares	----
	4,20,000
Add: Share in Barish Ltd.	18,000
	4,38,000

Q. 25. (a) Radhika Corporation had been preparing value added statements for the past five year. 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 bonusto 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 2014

	₹ '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	5,760
Profit		1,540

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Answer 25. (a)

Statement Showing Added Value and Amount of Bonus Paid to Employees

(₹ '000)

Year	2009	2010	2011	2012	2013
Employees Cost	650	760	840	984	1,120
Added Value	1,520	1,800	2,100	2,400	2,800
Percentage	42.76%	42.20%	40%	41%	40%
Target Index=40%					

Working Note:

Value Added Statement

		(₹ '000)
Sales		730
Less: Cost of bought –out goods and services:		
Materials	2,500	
Production Expenses	700	
Admn. Expenses	300	
Selling Expenses	200	3,700
Added Value		3,600
Employees Costs:		
Wages	700	
Production salaries	200	
Admn. Cost	300	
Selling Salaries	60	1,260

Working showing the bonus for 2012	₹ '000
Employees cost as per Target Index (3,600 × 40%)	1,440
Annual Employees Cost	1,260
Saving/ Improvement	180
Employees share = ₹ 1,80,000 × $\frac{2}{3}$ = ₹ 1,20,000	

Q. 25. (b)

Equity Share Capital	₹ 10,00,000
Reserves & Surplus	₹ 3,00,000
12% Preference Share Capital	₹ 2,00,000
10% Debenture	₹ 4,00,000
Immovable property (held as investment)	₹ 1,00,000
Profit after tax	₹ 2,00,000
Rate of tax	40%

Companies with Beta factor of 1 in similar business have market rate of return 15% . Beta factor of Anant Ltd. is 1.1 calculate EVA assuming Risk Free Return-7%.

Answer 25. (b)

EVA = (Return on operating capital – weighted average cost of capital) X Operating Capital
 =(12.44%-13.33%) X 18,00,000 = (16,020)

Working Note – 1

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Operating Capital	₹
Equity Share Capital	10,00,000
Reserves & Surplus	3,00,000
12% Preference Share Capital	2,00,000
10% Debenture	4,00,000
Total	19,00,000
Less: Non operating Investment	1,00,000
Operating Capital	18,00,000

Working Note – 2

Calculation of Return on operating Capital

	₹
NOPAT = Profit after Tax	2,00,000
+ Taxes $(4,00,000 \times 40 / 60)$	1,33,333
	3,33,333
+Interest Expense	40,000
Operating EBIT	3,73,333
(-) Economic taxes @ 40%	1,49,333
NOPAT	2,24,000

Working Note – 3

Calculation of WACC
$K_d = 10\% (1-0.40) \times 4,00,000 / 19,00,000 = 1.26$
$K_p = 12\% \times 2,00,000 / 19,00,000 = 1.26\%$
$K_e = 7\% + 1.1(15\% - 7\%) = 15.8\% \times 13 / 19 = 10.81 = 13.33\%$

26. (a) From the following information in respect of Upkar Ltd., prepare a value added statement for the year 2012

	₹ '000
Turnover	2,300
Plant and Machinery (net)	1,080
Depreciation on Plant and Machinery	275
Dividends to ordinary shareholders	146
Debtors	195
Creditors	127
Total stock of all materials, WIP and finished goods	
Opening Stock	160
Closing Stock	200
Raw materials purchased	625
Cash at Bank	98
Printing and Stationary	22
Auditor's remuneration	28
Retained Profits (Opening balance)	994
Retained Profits for the year	288
Rent, Rates and Taxes	165
Other expenses	85
Ordinary share capital issued	1,500
Interest on borrowing	40
Income tax for the year	276

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Wage and Salaries	327
Employees State Insurance	35
PF- Contribution	28

Calculate the Value added per employee, average earning per employee and sales per employee on the basis that 95 employees work in Upkar Ltd.

Answer 26. (a)

Gross Value Added Statement

	₹ '000			₹ '000
Sales				2,300
Add: Increase in Stock (200-160)				40
		Total (A)		2,340
Cost of B/M				
Raw materials	625			
Printing & Stationary	22			
Rent	165			
Other Expenses	85			
Auditor's remuneration	<u>28</u>			925
		GVA		1,415
Application Towards				
Employee (28+35+327)	390			
P/ Finance	40			
Government-tax	276			
Share Holder	146			
Entity(275+288)	<u>563</u>			1,415

(i) Value Added = $\frac{1,415}{95} = 14.89$ (₹ '000)

(ii) Average earning per employee = $\frac{288}{95} = ₹3.03$ (₹ '000)

(iii) Sales per employee = $\frac{2,300}{95} = ₹24.21$ (₹ '000)

Q. 26. (b) The following is the Profit and Loss Account of Morning Glory Ltd. for the year ended 31.03.2014. Prepare a Gross Value Added Statement of Morning Glory Ltd. and show also the reconciliation between Gross Value Added and Profit before taxation.

Profit and Loss Account for the year ended 31.03.2014

(₹ in lakhs)

	Notes			Amount
Income:				
Sales		-		890
Other Income		-		<u>55</u>
				945
Expenditure:				
Production and operational expenses	(a)	641		-
Administration expenses (Factory)	(b)	33		-
Interest	(c)	29		-
Depreciation		<u>17</u>		<u>720</u>
Profit before taxes		-		225
Provision for taxes	(d)	-		<u>30</u>
Profit after tax		-		195

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Balance as per last Balance Sheet		-	<u>10</u>
			<u>205</u>
Transferred to General Reserve		45	-
Dividend paid		<u>95</u>	-
		140	-
Surplus carried to Balance Sheet		<u>65</u>	-
		205	-

Notes :

(a) Production and Operational expenses	₹ in lakhs
Consumption of raw materials	293
Consumption of stores	59
Salaries, Wages, Gratuities etc. (Admn.)	82
Cess and Local taxes	98
Other manufacturing expenses	109
	<u>641</u>

(b) Administration expenses include salaries, commission to Directors ₹ 9.00 lakhs .Provision for doubtful debts ₹6.30 lakhs.

(c)

	₹ in lakhs
Interest on loan from ICICI Bank for working capital	9
Interest on loan from ICICI Bank for fixed loan	10
Interest on loan from IFCI for fixed loan	8
Interest on Debentures	2
	<u>29</u>

(d) The charges for taxation include a transfer of ₹3.00 lakhs to the credit of Deferred Tax Account.

(e) Cess and Local taxes include Excise Duty, which is equal to 10% of cost of bought-in material.

Answer 26. (b)

Morning Glory Ltd.

Gross Value Added Statement for the year ended 31st March, 2014

	₹ in lakhs	₹ in lakhs
Sales		890
Less: Cost of bought in materials and services:		
Production and operational expenses (293 + 59 + 109)	461	
Administration expenses (33 – 9)	24	
Interest on working capital loan	9	
Excise duty (Refer working note)	55	549
Value added by manufacturing and trading activities		341
Add: Other income		55
Total value added		<u>396</u>

Application of Value Added

		%
To Employees		
Salaries, wages, gratuities etc.	82	20.71%
To Directors	9	2.27%
Salaries and commission		
To Government		
Cess and local taxes (98 – 55)	43	

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Income tax	27	70	17.68%
To Providers of capital			
Interest on debentures	2		
Interest on fixed loan	18		
Dividends	95	115	29.04%
To Provide for maintenance and expansion of the company			
Depreciation	17		
General reserve	45		
Deferred tax	3		
Retained profits (65 – 10)	55	120	30.30%
		396	100%

Statement showing reconciliation of Gross Value Added with Profits before taxation

₹ in lakhs

Profits before taxes		225
<i>Add:</i>		
Depreciation	17	
Directors' remuneration	9	
Salaries, wages & gratuities etc.	82	
Cess and local taxes	43	
Interest on debentures	2	
Interest on fixed loan	18	171
Total value added		396

Working Note:

Calculation of Excise Duty

Say cost of bought in materials and services is 'x'

Excise Duty is 10% of x = x/10

$$x = 461 + 24 + 9 + x/10$$

$$x = 494 + x/10 = 549 \text{ (approx.)}^*$$

$$\text{Excise Duty} = 549 - 494 = ₹55$$

* The above calculated excise duty is not exactly 10% of cost of bought in material amounting ₹549. The difference is due to approximation.

Q. 27. (a) ABC Ltd. needs \$ 6,00,000 on May 1,2012 for repayment of loan installment and interest. As on December 1, 2011 , it appears to the company that the dollar may be dearer as compared to the exchange rate prevailing on that date, \$ 1= ₹43.50. Accordingly, ABC Ltd. entered into a forward contract with a banker for \$ 6,00,000 . Assume forward rate as on December 1,2011 was \$ 1= ₹44 as against the spot rate of ₹43.50. Assume the spot rate as on as on 1st May , 2012 is \$ 1= ₹44.80. Journalize in the books of ABC Ltd.

Answer 27. (a)

Journal entries in the books of ABC Ltd.

Date	Particulars	Debit	Credit
1.12.2011	Premium on FEC A/c To, SWAP Bank A/c (Being Premium Recognised) [6,00,000 × (44 – 43.50)]	3,00,000	3,00,000
	Profit & Loss A/c To, Premium on FEC (Being Premium written off)	2,39,216	2,39,216

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	$[3,00,000 \times \frac{122}{153}]$		
1.05.2012	Loan A/c Dr. Exchange Difference A/c Dr. To, Bank (Being liability settled)	2,61,00,000 7,80,000	2,68,80,000
1.05.2012	SWAP Bank A/c Dr. To, Exchange (Being amount of exchange difference transfer)	7,80,000	7,80,000
1.05.2012	Bank A/c Dr. To, SWAP Bank A/c (Being SWAP settled)	4,80,000	4,80,000
1.05.2012	Profit & Loss A/c Dr. To, Premium on FEC (Being Premium written off)	60,784	60,784

Q. 27. (b) Mr.Dey buys a stock option of PQR 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.**

Answer 27. (b)

Journals

Date	Particulars	Debit ₹	Credit ₹
	At the time of inception		
2014. July	Stock option premium account Dr. To Bank account (Being premium paid to buy a stock option)	2,000	2,000
	Deposit for margin money account Dr. To Bank account (Being margin money paid on stock option)	12,000	12,000
	At the time of settlement		
August	(i) Option is settled by delivery of the asset Shares of PQR Ltd. account Dr. To Deposit for margin money account To Bank account (Being option exercised and shares acquired, ₹ 12,000 margin money adjusted and the balance amount was paid)	25,000	12,000 13,000
	Profit and loss account Dr. To Stock option premium account (Being the premium transferred to profit and loss account on exercise of option)	2,000	2,000
	(ii) Option is settled in cash		

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	Profit and loss account To Stock option premium account (Being the premium transferred to profit and loss account)	Dr.	2,000	2,000
	Bank account (100 × 10) To Profit and loss account (Being profit on exercise of option)	Dr.	1,000	1,000
	Bank account To Deposit for margin money account (Being margin on equity stock option received back on exercise of option)	Dr.	12,000	12,000

Q. 28. On February 1, 2013, 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 31-01-2014 in exchange for payment of ₹ 1,04,000 in cash i.e. ₹ 104 per share. The contract will be settled in net cash on 31.01.2014. The fair value of this forward contract on the different dates were:

(i) Fair value value of forward on 01-02-2013	NIL
(ii) Fair value value of forward on 31-12-2013	₹ 6,300
(iii) Fair value value of forward on 01-02-2014	₹ 2,000

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

(i) If net settled is in cash

(ii) If net is settled by Sun Ltd. by delivering shares of Purushottam Ltd.

Answer 28.

Date	If net is settled in cash		Debit ₹	Credit ₹
	Particulars			
(i) 1.2.2013	No entry is required because fair value of derivative is zero and no cash is paid or received			
(ii) 31.12.2013	Forward Contract (asset) A/c	Dr.	6,300	6,300
	To, Profit and Loss A/c (Loss recorded due to increase in fair value of the forward contract)			
(iii) 31.01.2014	Profit and Loss A/c	Dr.	4,300	4,300
	To, Forward Contract (Asset) A/c (Loss recorded due to decrease in fair value of the forward contract)			
(iv)	Cash A/c	Dr.	2,000	2,000
	To, Forward Contract (Asset) A/c (Being forward contract settled in cash)			
	If net settled by delivery of shares			
	First three entries will be same. Entry no. (iv) will change as under:			
	Equity A/c	Dr.	2,000	2,000
	To, Forward Contract (Asset) A/c (Being forward contract settled by delivery of			

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	shares)		
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Q. 29. Write short note on following :

- (a) Reversal of an Impairment Loss.
- (b) What are Timing differences and Permanent differences?
- (c) Human Resources Accounting
- (d) Major issues in environmental accounting

Answer 29. (a)

Reversal of an Impairment Loss

As per AS 28 on Impairment of Assets, an enterprise should assess at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased. If there is any such indication, the enterprise should estimate the recoverable amount of that asset. In assessing whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased, an enterprise should consider, as a minimum, the following indications:

External sources of information

- (a) the asset's market value has increased significantly during the period;
- (b) there are significant changes with a favourable effect on the enterprise have taken place during the period, or will take place in the near future, in the technological market, economic or legal environment in which the enterprise operates or in the market to which the asset is dedicated;
- (c) market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

Internal sources of information

- (d) significant changes with a favourable effect on the enterprise have taken place during the period, or are expected to take place in the near future, to the extent to which, or manner in which, the asset is used or is expected to be used. These changes include capital expenditure that has been incurred during the period to improve or enhance an asset in excess of its originally assessed standard of performance or a commitment to discontinue or restructure the operation to which the asset belongs;
- (e) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected

Answer 29. (b)

Timing and Permanent Differences

As per AS 22 states that timing differences are those differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods. Unabsorbed depreciation and carry forward of losses which can be set off against future taxable income are also considered as timing differences and result in deferred tax assets subject to consideration of prudence i.e., deferred tax assets should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Permanent differences are the differences between taxable income and accounting income for a period that originate in one period and do not reverse subsequently. For instance, if for the purpose of computing taxable

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income, the tax laws allow only a part of an item of expenditure, the disallowed amount would result in a permanent difference.

Answer 29. (c)

Human Resource Accounting (HRA)

Human Resource Accounting (HRA) is an attempt to identify, quantify and report investments made in human resources of an organization. Leading public sector units like OIL, BHEL, and NTPC etc. have started reporting human resources in their annual reports as additional information. Although human beings are considered as the prime mover for achieving productivity, and are placed above technology, equipment and money, the conventional accounting practice does not assign significance to the human resource. Human resources are not thus recognized as 'assets' in the Balance Sheet. While investments in human resources are not considered as assets and not amortised over the economic service life, the result is that the income and expenditure statement comprising current revenue and expenditure gives an incorrect picture of the real affairs of the organization. Accountants have been severely criticized by the Behavioural Scientists for their failure to value human resources, as this has come out as a handicap for effective management. Human resource accounting provides scope for planning and decision making in relation to proper manpower planning. Also, such accounting can bring out the effect of various new rules, procedures and incentives relating to work force, and in turn, can act as an eye opener for modifications of existing laws and statutes.

Answer 29. (d)

Major accounting issues involved in environmental accounting can be explained as follows :

- (i) Distinction between environmental expenditure and normal business expenditure: Many new machines may incorporate state-of-the-art environmental technology and accordingly, portion of such capital costs and also the running and maintenance expenditure may be treated as environmental expenditure. It is necessary to frame guidelines indicating whether the reporting entity should properly allocate the capital and revenue expenditures between environmental expenditure and normal business expenditure.
- (ii) Whether to capitalise environmental expenditures or expensing them during the current accounting period: Environmental protection costs relating to prior periods and current period are generally very high and if expensed in one year as and when a reporting entity is persuaded to follow environmental accounting, the adverse impact in EPS is a major concern. Accordingly many Western Corporations prefer to capitalize environment costs instead of immediate expensing and adopt an amortization policy extending up to 10 year. Although this accounting practice has no theoretical support and rather contradicts the well established accounting concept of "prudence", it is considered as a practical solution to off-load burden of accumulated environmental costs without abruptly disturbing the cash flows attributable to the lenders, Government and finally to the shareholder. However, recognition of environmental costs should not necessarily be restricted to the expenses accrued in view of the applicable environmental laws. It should be guided by ethical consideration.
- (i) Recognition of environment related contingent liabilities: Environmental contingent liabilities are a matter of increasing concern throughout the world. Recognizing a liability of hazardous waste remediation frequently depends on the ability to estimate remediation costs reasonably.

In fact, identification and measurement of contingent liabilities are highly debatable accounting aspects. The United Nations Conference on Environment and Development (UNCEAD) papers raise the basic question why environmental contingencies should not be merged with other business contingencies. There is an urgent need for tightening the reporting rules on contingencies incorporating specific requirements for disclosure of environmental contingencies along with other contingencies.

Q. 30. Write short notes:

- (a) Discuss the concept of Cost v/s Fair value with reference to Indian Accounting Standards.
- (b) What are the advantages of preparation of Value Added (VA) statements?
- (c) Impairment of asset and its application to inventory.
- (d) Briefly describe the significance of Environmental Accounting

Answer 30. (a)

Cost vs. Fair value

Meaning of Cost basis: The term cost refers to cost of purchase, costs of conversion on other costs incurred in bringing the goods to its present condition and location. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Meaning of Fair value: Fair value of an asset is the amount at which an enterprise expects to exchange an asset between knowledgeable and willing parties in an arm's length transaction.

Indian Accounting Standards are generally based on historical cost with a very few exceptions:

AS 2 "Valuation of Inventories" – Inventories are valued at lower of net realizable value (NRV) and cost of inventories .

AS 10 "Accounting for Fixed Assets" – Items of fixed assets that have been retired from active use and are held for disposal are stated at net realizable value if their net book value is more than NRV.

AS 13 "Accounting for Investments" – Current investments are carried at lower of cost and fair value. The carrying amount of long term investments is reduced to recognise the permanent decline in value.

AS 15 "Employee Benefits" – The provision for defined benefits is made at fair value of the obligations.

AS 26 "Intangible Assets" – If an intangible asset is acquired in exchange for shares or other securities of the reporting enterprise, the asset is recorded at its fair value, or the fair value of the securities issued, whichever is more clearly evident.

AS 28 "Impairment of Assets" – Provision is made for impairment of assets. On the other hand IFRS and US GAAPs are more towards fair value. Fair value concept requires a lot of estimation and to the extent, it is subjective in nature.

Answer 30. (b)

The various advantages of preparation of Value Added (VA) Statements are as under:

- (i) Reporting on VA helps to improve the attitude of employees towards their employing companies. This is because the VA statement reflects a broader view of the company's objectives and responsibilities.
- (ii) VA statement helps the company to introduce a productivity linked bonus scheme for employees based on VA. The employees may be given productivity bonus on the basis of VA / Payroll Ratio.
- (iii) VA based ratios (e.g. VA / Payroll, taxation / VA, VA / Sales etc.) are useful diagnostic and predictive tools. Trends in VA ratios, comparisons with other companies and international comparisons may be useful.
- (iv) VA provides a very good measure of the size and importance of a company. To use sales figure or capital employed figures as a basis for company's rankings can cause distortion. This is because sales may be inflated by large bought-in expenses or a capital-intensive company with a few employees may appear to be more important than a highly skilled labour-intensive company.
- (v) (v) VA statement links a company's financial accounts to national income. A company's VA indicates the company's contribution to national income.
- (vi) (vi). VA statement is built on the basic conceptual foundations which are currently accepted in balance sheets and income statements. Concepts such as going concern, matching, consistency and substance over form are equally applicable to VA statement.

Answer 30. (c)

The objective of AS 28 'Impairment of Assets' is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at not more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Statement requires the enterprise to recognize an

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impairment loss. This standard should be applied in accounting for the impairment of all assets, except the following

- (i) inventories (AS 2, Valuation of Inventories);
- (ii) assets arising out of a construction contracts (AS 7, Accounting for Construction Contracts);
- (iii) financial assets, including investments which are included in the scope of AS 13, Accounting for Investments;
- (iv) deferred tax assets (AS 22, Accounting for Taxes on Income). AS 28 does not apply to inventories, assets arising out of a construction contracts, deferred tax assets or investments because other accounting standards applicable to these assets already contain specific requirements for recognizing and measuring the impairment related to these assets

Answer 30. (d)

Environmental Accounting can be defined as a system for measuring environmental performance and communicating the results of these measurements to user. It helps in presenting the utilization of natural resources by an enterprise, the costs incurred to use them and the income earned therefrom in a transparent manner. Environmental accounting is entirely a new concept and a faithful attempt to identify the resources exhausted and the costs rendered reciprocally to the enterprise by a business corporation. Thus environmental accounting stands for recording and documenting environmental performance to facilitate effectiveness of Environmental Management System with reference to compliance, safety and quality control. It provides a data base for taking corrective steps and future action for developing organisation's environmental strategy and for identifying environmentally based opportunities for gaining an edge over one's competitions. If proper environmental accounting system is established, the enterprise will be able to anticipate environmental damage and therefore can prevent it from happening.