

FINAL EXAMINATION

June 2015

F-P16(AFA)

Syllabus 2008

Advanced Financial Accounting & Reporting

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Part A questions are compulsory. Attempt all of them.

Part B has seven questions. Attempt any five of them.

Please: (1) Write answers to all parts of a question together.

(2) Open a new page for answer to a new question.

(3) Attempt the required number of questions only.

(4) Indicate in the front page of the answer book the questions attempted.

Working notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidate.

PART A (25 Marks)

1. (a) In each of the cases given below, one out of four alternatives is correct. Indicate the correct answer (= 1 mark) and give your workings/reasons briefly in support of your answer (= 1 mark): $2 \times 8 = 16$
- (i) NIKITA Ltd. purchased 2000 shares of PIYUSH Ltd. in January 2014 at ₹ 120 each and paid brokerage at 0.50%. In November 2014, Piyush Ltd. issued bonus shares at one share for every four shares held by the shareholders. If Nikita Ltd. sold 1500 shares in March, 2015 at ₹ 140 per share and paid a brokerage of 1%, what would be the carrying cost of investment in Piyush Ltd. after the sale of shares as per AS-13?
- (A) ₹ 31,200
(B) ₹ 63,400
(C) ₹ 96,480
(D) None of (A), (B), (C)
- (ii) SRIJAN Ltd. issued certain callable convertible debentures at ₹ 80. The value of similar debentures without call or equity conversion option is ₹ 70. The value of call as determined using Black and Scholes Model for option pricing is ₹ 5. What will be the value of liability and equity component?
- (A) ₹ 65, ₹ 15
(B) ₹ 70, ₹ 10
(C) ₹ 80, ₹ 5
(D) None of the above
- (iii) AKASH Ltd. reported net Income (attributable to equity shareholders) of ₹ 15 lakh for the year 2014-15 and had 1,00,000 equity shares during the entire year ended March 31, 2015. Akash Ltd. also had outstanding 10,000, 8% convertible preference shares of ₹ 100, each share convertible into 10 equity shares during the year 2014-15. The DILUTED EPS of Akash Ltd. as per AS-20 will be
- (A) ₹ 5.80
(B) ₹ 6.30
(C) ₹ 7.90
(D) ₹ 14.36

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- (iv) Ms. NABANITA, CEO of Laxmi Bank Ltd. reports quarterly and estimates an annual income of ₹ 125 crores. Assume tax rates on first ₹ 50 crores at 30% and on the balance income at 40%. The estimated quarterly incomes are ₹ 15 crores, ₹ 25 crores, ₹ 45 crores and ₹ 40 crores respectively. The tax expenses to be recognized in the last quarter as per AS-25 is.
- (A) ₹ 12.50 crores
(B) ₹ 14.00 crores
(C) ₹ 14.40 crores
(D) None of the above.

- (v) BANSAL Ltd. reports the following information regarding Pension Plan assets:

	₹
Fair market value of Plan Assets (as on 1.4.2014)	7,00,000
Actual Return on Plan assets	50,000
Benefit payment to Retirees	40,000
Fair market value of Plan Assets (as on 31.3.2015)	8,10,000

What will be the Employer contribution to Plan assets as per AS-15?

- (A) ₹ 1,00,000
(B) ₹ 80,000
(C) ₹ 60,000
(D) Insufficient information.
- (vi) WEALTH Ltd. acquired 75,000 shares of SILVER Ltd. on August 1, 2014. The Equity Capital of Silver Ltd. is ₹ 10 lakh of ₹ 10 per share. The machinery of Silver Ltd. is revalued upwards by ₹ 2,00,000. The minority group interest shown in the Consolidated Balance Sheet as at March 31, 2015 was
- (A) ₹ 3,00,000
(B) ₹ 2,00,000
(C) ₹ 50,000
(D) None of (A), (B) and (C)

- (vii) JINDAL Ltd. provides the following information for the year ended March 31, 2015.

Accounting Profit :	₹ 7,00,000
Book Profit as per MAT :	₹ 4,00,000
Profit as per Income Tax Act :	₹ 1,00,000
Effective Tax Rate	30%
MAT Rate	17%

What will be the Deferred Tax Asset (DTA)/Liability (DTL) as per AS-22?

- (A) ₹ 1,80,000 (DTL)
(B) ₹ 1,62,000 (DTL)
(C) ₹ 1,80,000 (DTA)
(D) ₹ 1,62,000 (DTA)

(viii) X Ltd. bought a trademark on 1st January, 2014 from Y Ltd. for ₹ 10,00,000. An independent consultant retained by X Ltd. estimated the trademark's remaining life to be 15 years. Its unamortised cost in the books of Y Ltd. was ₹ 8,50,000. X Ltd. decided to amortize the trademark over the maximum period allowed. What amount should be reported as amortization expense in the Balance Sheet of X Ltd. as on 31st December, 2014 as per AS-26?

- (A) ₹ 15,000
- (B) ₹ 20,00,000
- (C) ₹ 1,00,000
- (D) ₹ 50,000

(b) Choose the most appropriate one from the stated options and write it down (only indicate A or B or C or D as you think correct). 1×5=5

(i) X Ltd. decided to write off fixed assets costing ₹ 40,000 on which depreciation of ₹ 30,000 has been provided. As per AS-3 (Revised), this transaction will be classified as Cash Flow from

- (A) Operating Activities
- (B) Financing Activities
- (C) Investing Activities
- (D) None of the above

(ii) Which one of the following is within the purview of AS-6?

- (A) Goodwill
- (B) Plantations
- (C) Plant and Machinery
- (D) Live Stock

(iii) A company acquired assets for ₹ 200 lakhs with a subsidy of ₹ 20 lakhs received from Central Government for setting up a factory in a backward area. As per AS-12, this government grant will be treated in the accounts as

- (A) Grant amount to be deducted from Fixed Assets
- (B) Grant amount to be treated as income
- (C) Grant amount to be credited to Capital Reserve
- (D) Grant amount to be treated as deferred Income

(iv) Which one of the following items is not a prior period item as per AS-5?

- (A) Calculation error in providing expenditure
- (B) Omission to account for income
- (C) Loss due to earthquake
- (D) Application of incorrect rate of depreciation

(v) As per AS-28, Impairment loss means:

- (A) Value in use of the asset—Net selling price
- (B) Carrying amount of the asset—Recoverable amount
- (C) Recoverable amount of the asset—Net selling price
- (D) Book value of the asset—Net selling price

(c) From the following information, determine the possible value of Brand under the potential earning model.

	(₹ in lakh)
(i) Profit before Tax	6.50
(ii) Income Tax	1.50
(iii) Tangible Fixed Asset	10.00
(iv) Identifiable intangible other than brand model	5.00
(v) Expected return on Tangible Fixed Assets	3.00

Appropriate capitalization factor for intangibles is 25%.

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PART B (75 Marks)

Attempt any five questions.

2. The following are the Balance Sheets of Sun Ltd. and Moon Ltd. as on 31.3.2015:

Liabilities	Sun Ltd. (₹)	Moon Ltd. (₹)	Assets	Sun Ltd. (₹)	Moon Ltd. (₹)
Share Capital:			Fixed Assets:		
Equity Shares of ₹ 10 each	6,00,000	2,00,000	Goodwill	70,000	80,000
12% Preference Shares of ₹ 100 each	1,00,000	50,000	Machinery	3,30,000	2,00,000
Reserves and Surplus:			Furniture	40,000	30,000
General Reserve	2,00,000	60,000	Investment:		
Profit and Loss Account	1,00,000	90,000	Shares in Moon Ltd. (at cost)	3,80,000	—
Current Liabilities & Provisions:			Current Assets:		
Creditors	80,000	90,000	Stock	80,000	70,000
Income Tax	60,000	50,000	Debtors	2,10,000	1,40,000
			Bank Balance	30,000	20,000
	11,40,000	5,40,000		11,40,000	5,40,000

The following further information is furnished:

- Sun Ltd. acquired 12,000 equity shares and 400 preference shares on 1.4.2014 at a cost of ₹ 2,80,000 and ₹ 1,00,000 respectively.
- The Profit and Loss Account of Moon Ltd. had a credit balance of ₹ 30,000 as on 1.4.2014 and that of General Reserve on that date was ₹ 50,000.
- On 1.7.2014, Moon Ltd. declared dividend out of its pre-acquisition profit, 12% on its Equity Share Capital. Sun Ltd. credited the receipt of dividend to its Profit & Loss Account.

- (d) On 1.10.2014, Moon Ltd. issued one equity share for every three shares held, as Bonus Shares at a face value of ₹ 10 per share out of its General Reserve. No entry has been made in the books of Sun Ltd. for the receipt of these bonus shares.
- (e) Moon Ltd. owed Sun Ltd. ₹ 20,000 for purchase of stock from Sun Ltd. The entire stock of goods is held by Moon Ltd. on 31.3.2015. Sun Ltd. made a profit of 25% on cost.

Prepare a Consolidated Balance Sheet of the group as at 31.3.2015 as per Revised Schedule VI. 15

3. R. Ltd. and S Ltd. decide to amalgamate and to form a new company T Ltd. The following are the summarised Balance Sheets of R Ltd. and S Ltd. as at 31.3.2015:

Liabilities	R Ltd. (₹)	S Ltd. (₹)	Assets	R Ltd. (₹)	S Ltd. (₹)
Share Capital			Fixed Assets:		
Equity Shares of ₹ 100 each	80,00,000	75,00,000	Land and Building	45,00,000	40,00,000
12% Preference Shares of ₹ 100 each	30,00,000	20,00,000	Plant & Machinery	30,00,000	20,00,000
Investment Allowance Reserve			Current assets, Loans & Advances:		
General Reserve	5,00,000	5,00,000	Stock	35,00,000	30,00,000
Profit & Loss Account	13,00,000	10,00,000	Sundry Debtors	54,00,000	36,00,000
10% Debentures (₹ 100 each)	7,00,000	4,00,000	Cash and Bank	2,00,000	1,00,000
Sundry Creditors	6,00,000	3,00,000			
	25,00,000	10,00,000			
	166,00,000	127,00,000		166,00,000	127,00,000

Additional Information:

- (a) T. Ltd. will issue 5 equity shares for each equity share of R Ltd. and 4 equity shares for each share of S Ltd. @ ₹ 30 each, having a face values of ₹ 10 per share.
- (b) Preference Share holders of the two companies are issued equivalent number of 15% preference shares of T Ltd., at a price of ₹ 150 per share (face value of ₹ 100).
- (c) 10% Debenture holders of R Ltd. and S Ltd. are discharged by T Ltd. issuing such number of its 15% Debentures of ₹ 100 each, so as to maintain the same amount of interest.
- (d) Investment allowance reserve to be maintained for 3 more years.

Calculate the amount of purchase consideration for R Ltd. and S Ltd. and draw up the Balance Sheet of T Ltd. as on 1st April, 2015 after the amalgamation has been carried on the basis of amalgamation in the nature of purchase.

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4. Beta Ltd. furnishes the following summarized Balance Sheet as at 31.3.2015:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets	22,50,000
Authorised Capital:	80,00,000	Non-Current investments at cost	40,00,000
Issued and Subscribed Capital:		Current assets, loans and advances	30,00,000
2,00,000 Equity Shares of ₹ 10 each fully paid up	20,00,000	(including cash and bank balances)	
15,000, 9% Preference Shares of ₹ 100 each	15,00,000		
Reserves and Surplus:			
Capital Reserve	5,00,000		
Revenue Reserve	30,00,000		
Securities Premium	4,00,000		
Profit and Loss Account	12,00,000		
Non-Current Liabilities – 10% Debentures	6,00,000		
Current Liabilities and Provisions	50,000		
	92,50,000		92,50,000

- The Company passed a resolution to buy back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹ 25 lakhs for ₹ 20 lakhs.
- The Company redeemed the preference shares at a premium of 10% on 1st April, 2015.
- Included in its investments were 'investments in own debentures' costing ₹ 4 lakhs (face value ₹ 4.50 lakhs). These debentures were cancelled on 1st April, 2015.
- It is assumed that buy-back of shares has been done out of the proceeds of issue of preference shares.

You are required to pass necessary journal entries of all the above mentioned transactions and prepare the Company's Balance Sheet on 1.4.2015. 15

5. (a) Choice Ltd. grants 1000 employees stock options on 1.4.2011 at ₹ 60, when the market price is ₹ 170. The vesting period is $2\frac{1}{2}$ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2013. 600 options are exercised on 30.6.2014. 100 vested options lapse at the end of the exercise period.

Pass Journal Entries in the books of Choice Ltd. giving suitable narrations. 10

- (b) D.C. Private Ltd. has taken machinery on lease from A.D. Ltd. The following additional information is given:

Lease term	=	4 years
Fair Value at inception of lease	=	₹ 20,00,000
Lease rent	=	₹ 6,25,000 p.a. at the end of year
Guaranteed residual value	=	₹ 1,25,000
Expected residual value	=	₹ 3,75,000
Implicit interest rate	=	15%

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively. Calculate the value of the lease liability as per AS 19. 5

6. (a) The following details are given for SMITH Ltd. for the year ended March 31, 2015:

<i>Particulars</i>	<i>(Amount in ₹ Lakh)</i>
Sales	3,680
Other Income	40
Raw materials purchased	1,000
Total Stock of all materials, WIP and Finished goods:	
Opening Stock	256
Closing Stock	320
Salaries, Wages, Gratuities etc.	520
Employees State Insurance	56
P.F. Contribution	45
Consumption of Stores	136
Printing and Stationary	35
Rent, Rates and Taxes	264
Other expenses	138
Auditor's remuneration	44
Plant and Machinery (Net)	1,720
Depreciation on Plant and Machinery	346
Dividend to Ordinary Shareholders	240
Debtors	300
Creditors	200
Share Capital (Equity shares of ₹ 10 each)	2,500
Retained Profits (opening balance)	1,500
Retained Profits for the year	460
Interest on borrowings	60
Income Tax for the year	440

Required:

- (i) Prepare a Value Added Statement for the year ended March 31, 2015.
 - (ii) Calculate the Value Added per Employee and average earning per employee on the basis that 120 employees work in SMITH LTD. 8+2=10
- (b) On 1st June, a registered dealer purchased a machinery for ₹ 83,20,000 which includes State VAT of ₹ 3,20,000. As per the State VAT Laws, the input VAT on Capital Goods is adjustable in 36 equal monthly instalments beginning from 1st July of the year. During the financial year, the dealer has set-off a sum of ₹ 25,000 from the VAT Credit Receivable on Capital Goods, against VAT payable on the sales made by him. The dealer charges depreciation @ 10% p.a. on Machinery.

Show the Journal entries describing VAT Credit Treatment in the books of the dealer.

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Please Turn Over

7. (a) The following details pertaining to RAJASTHALI LTD. are given for the year ended March 31, 2015.

	(Amount in ₹ Lakh)	
Sales:		
Food Products	5,600	
Health and Scientific	340	
Others	150	6,090
Expenses:		
Food Products	3,250	
Health and Scientific	200	
Others	150	3,600
Other items:		
General Corporate Expenses		550
Income from Investments		130
Interest expenses		60
Identified Assets:		
Food Products	7,300	
Health and Scientific	1,000	
Others	650	8,950
General Corporate Assets		720

Other Information:

(i) Inter-Segment Sales are as below:

	₹ Lakhs
Food Products	50
Health and Scientific	20
Others	5

(ii) Operating profit includes ₹ 30 Lakh on Inter-Segment Sales.

(iii) Inter-Segment Expenses are to the tune of ₹ 45 Lakh.

Required:

Prepare a Statement showing financial information relating to operations of Rajasthali Ltd. in different Industry Segments, keeping in view the relevant Accounting Standard (AS-17). 6

(b) ANURAG LTD. and SMITH LTD. have set up a Joint Venture JOVENI LTD. in the ratio of 40% and 60% respectively. Both Anurag Ltd. and Smith Ltd. are required to prepare Consolidated Financial Statements. The Balance Sheets of both co-ventures and Joveni Ltd. are given below:

	Anurag Ltd. ₹	Smith Ltd. ₹	Joveni Ltd. ₹
Share Capital	5,00,000	3,00,000	1,00,000
Reserves	3,00,000	1,00,000	50,000
Loans	2,00,000	1,00,000	30,000
	<u>10,00,000</u>	<u>5,00,000</u>	<u>1,80,000</u>
Fixed Assets	8,00,000	3,50,000	1,20,000
Investment in Joveni Ltd	40,000	60,000	—
Net Working Capital	1,60,000	90,000	60,000
	<u>10,00,000</u>	<u>5,00,000</u>	<u>1,80,000</u>

Show how the interest in JOVENI LTD. will be reported in the Consolidated Balance Sheets of Anurag Ltd. and Smith Ltd. as per AS-27.

- (c) Suman Ltd. has signed at 31.3.2015, Balance Sheet date, a contract where the total revenue is estimated at ₹ 40 lakhs and total cost is estimated at ₹ 50 lakhs. No work began on the contract. Is contractor required to give any accounting effect for the year ended 31st March, 2015 in his accounts? 4

8. Write short notes on (*any three*): 5×3=15

- (a) Major issues in Environment Accounting
- (b) Market Value Added
- (c) Objections to Segmental Reporting
- (d) Qualified and Independent Audit Committee
- (e) General principles of Government Accounting