# Paper-16: Advanced Financial Accounting & Reporting

**Time Allowed: 3 Hours** **Full Marks: 100**

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

**Working Notes should form part of the answer.**

**"Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates."**

**Part A questions are compulsory. Attempt all of them.**

**Part B has seven question. Attempt any five of them.**

## Part A (25 marks)

1. **(a) In each of the cases given below, one out of four alternatives is correct. Indicate the correct answer (= 1 mark)and give workings/reasons briefly in support of your answer ( = 1 mark): [10×2=20]**

**(i)** R. Chandra Ltd. has provided the following information:
Depreciation as per accounting records ₹ 20,00,000, Depreciation as per income tax records ₹ 8,00,000. There is adequate evidence of future profit sufficiency. As per AS 22 Deferred Tax Asset/ Liability to be recognized will be
(A) ₹ 6,00,000 (DTA)
(B) ₹ 5,40,000 (DTL)
(C) ₹ 60,000 (Net DTL)
(D) None of these

**(ii)** Quick Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2014 at ₹ 600 lakh. As at that date value in use is ₹ 400 lakh. If the net selling price is ₹ 450 lakh, the recoverable amount of the Asset as per AS-28 will be:
(A) ₹ 200 lakh
(B) ₹150 lakh
(C) ₹450 lakh
(D) None of (A), (B), (C)

**(iii)** A company follows a policy of refunding money to the dissatisfied customers if they claim within thirty days from the date of purchase and return the goods. It appears from the past experience that in a month only 0.75 of the customers do not claim refunds. The company sold goods amounting to ₹150 lakhs during the last month of the financial year. The amount of contingency is:
(A) ₹37.5 lakhs;
(B) ₹112.5 lakhs;
(C) ₹1.125 lakhs;
(D) None of the above.

**(iv)** X Ltd. holds 69% of Y Ltd., Y Ltd. holds 51% of W Ltd., Z Ltd. holds 49% of W. Ltd. As per AS 18, Related Parties are :

(A) X Ltd., Y Ltd. & W Ltd;
(B) X Ltd. & Z Ltd;
(C) Y Ltd. & Z Ltd;
(D) X Ltd. & Y Ltd. only.

**(v)** On January 2, 2014 E Ltd. bought a trademark from M Ltd. for ₹ 20,00,000. Ekta retained an independent consultant, who estimated the trademark's remaining life to be 20 years. Its unamortised cost on Maccounting records was ₹17,60,000. E decided to amortize the trademark over the maximum period allowed. In E December 31, 2014 balance sheet, what amount should be reported as expenses to be amortisedin this regard?
(A) ₹ 17,60,000
(B) ₹ 88,000
(C) ₹ 1,00,000
(D) ₹ 2,00,000.

**(vi)** Vivek Ltd. bought a forward contract for three months of US $ 4,00,000 on 1st March at 1 US $ = ₹ 50.10 when spot exhange rate was US $ 1 = ₹ 50.11. On 31 st March when the books were closed forward exchange rate for two months was US $ 1 = ₹ 50.15. On 30th April, the contract was sold at ₹ 50.18 per dollar. As per AS 30, the profits from sale of contract to be recognized in the P & L A/c will be :
(A) ₹ 2,000
(B) ₹ 10,000
(C) ₹ 12,000
(D) None of these

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

**(viii)** A&B Ltd. obtained a Loan from a bank for ₹ 240 lakhs on 30.04.2012. It was utilized for : Construction of a shed ₹ 120 lakhs, Purchase of a machinery ₹ 80 lakhs, Working Capital ₹ 40 lakhs, Construction of shed was completed in March 2014. The machinery was installed on the same date. Delivery truck was not received. Total interest charged by the bank for the year ending 31.03.2014 was ₹ 36 lakhs. As per AS 16, Interest to be debited to Profit & Loss Account will be :
(A) ₹ 36 lakhs
(B) ₹ 18 lakhs
(C) ₹ 9 lakhs
(D) None of these

**(ix)** Montana Ltd. is having a plant (asset), carrying amount of which is ₹ 120 lakh on March 31, 2012. Its balance useful life is 3 years and residual value at the end of 3 years is ₹ 9 lakh. Estimated future cash flow from using the plant will be ₹ 30 lakh per annum for 3 years. If the discount rate is 10% "the Value in Use" for the plant as per AS-28 will be
[Given: PVIFA (10%, 3 yrs) = 2.487 and PVIF (10%, 3 yrs) = 0.7513]
(A) ₹ 81.37 lakh
(B) ₹ 66.00 lakh

(C) ₹ 65.61lakh
(D) Insufficient Information

**(x)** PQR Ltd. acquire 40% of ABC Ltd.'s shares on April 2, 2013, the price paid was ₹ 70,000. ABC Ltd.'s Shareholder equity shares are as follows:

| | ₹ |
|---|---|
| Equity Shares (Paid up) | 25,000 |
| Share premium | 75,000 |
| Retained Earning | 25,000 |
| | 1,25,000 |

Further ABC Ltd. reported a net income of ₹ 15,000 and paid dividends of ₹ 5,000. PQR Ltd. has subsidiary on 31-03-2014. Calculate the amount at which the investment in ABC Ltd. should be shown in the consolidated Balance Sheet of PQR Ltd. as on 31.03.2014.
(A)₹54,000
(B)₹20,000
(C)₹74,000
(D)₹70,000

**(b)** A Limited company has been including interest in the valuation of closing stock. In 2012 -2013, the management of the company decided to follow AS 2 and accordingly interest has been excluded from the valuation of closing stock. This has resulted in a decrease in profits by ₹ 3,00,000. Is a disclosure necessary? If so, draft the same. **[5]**

**Part B (75 marks)**

**2.** The following was the Balance Sheet of V Ltd as on 31st March 2014:

| Particulars | | Note No. | Amount (₹ in Lakhs) |
|---|---|---|---|
| Equity and Liabilities | | | |
| (1) Shareholders' Funds | (a) Share Capital | 1 | 1,150 |
| | (b) Reserves and Surplus | 2 | (87) |
| (2) Non-Current Liabilities | Long-Term Borrowings | 3 | 630 |
| (3) Current Liabilities | Trade Payables | | 170 |
| Total | | | 1,863 |
| Assets | | | |
| (1) Non-Current Assets | Tangible Assets | 4 | 1,152 |
| (2) Current Assets | Inventories | | 380 |
| | Trade Receivables | | 256 |
| | Cash and Cash Equivalents | 5 | 75 |
| Total | | | 1,863 |

Notes:

| | |
|---|---|
| (1) Share Capital | ₹ |
| Authorised: | |
| Issued, Subscribed and Paid up: | 800 |
| 80 Lakh Equity Shares of ₹ 10 each, fully paid up | 350 |
| 35 Lakh 12% Cumulative Preference Shares of ₹ 10 each, fully paid up | |
| Total | 1,150 |

| | |
|---|---|
| (2) Reserves and Surplus: Debit Balance of Profit & Loss Account | (87) |
| Total | (87) |

| | |
|---|---|
| (3) Long-Term Borrowings | |
| 10% Secured Cumulative Debentures of ₹ 100 each, fully paid up | 600 |
| Outstanding Debenture Interest | 30 |
| Total | 630 |

| | |
|---|---|
| (4) Tangible Assets | |
| Land and Buildings | 445 |
| Plant and Machinery | 593 |
| Furniture, Fixtures and Fittings | 114 |
| Total | 1,152 |

| | |
|---|---|
| (5) Cash and Cash | |
| Equivalents Balance at Bank | 69 |
| Cash in Hand | 6 |
| Total | 75 |

On 1st April 2014, P Ltd took over the entire business of V Ltd on the following terms:

- V Ltd's Equity Shareholders would receive 4 fully paid Equity Shares of P Ltd of ₹ 10 each issued at a Premium of ₹ 2.50 each for every Five Shares held by them in V Ltd.
- Preference Shareholders of V Ltd would get 35 Lakh 13% Cumulative Preference Shares of ₹ 10 each fully paid up in P Ltd, in lieu of their present holding.
- All the Debentures of V Ltd would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹ 100 each, fully paid up after the takeover by P Ltd, which would also pay Outstanding Debenture Interest in cash.
- Expenses of Amalgamation would be borne by P Ltd. Expenses came to be ₹ 2 Lakh. P Ltd discovered that its Creditors included ₹ 7 Lakh due to V Ltd for goods purchased.
- Also P Ltd's Stock included goods of the Invoice Price of ₹ 5 Lakh earlier purchased from V Ltd, which had charged profit at 20% of the Invoice Price.
-

You are required to:

(i) Prepare Realisation A/c in the books of V Ltd.

(ii) Pass Journal Entries in the books of P Ltd, assuming it to be an amalgamation in the nature of Merger. **[15]**

**3.** On 31.03.2013, R Ltd. acquired 1,05,000 Shares of S Ltd. for ₹ 12,00,000. The Trial Balance of S Ltd. on that date was as under -

Trial Balance
as at 31.03.2013

| | Dr. Amount | Cr Amount |
|---|---|---|

| Particulars | (₹) | (₹) |
|---|---|---|
| Equity Shares (1,50,000 @ ₹ 10) | - | 15,00,000 |
| Pre – incorporation Profits | - | 30,000 |
| Profit and Loss Account | - | 60,000 |
| Creditors | - | 75,000 |
| Fixed Assets (Tangible) | 10,50,000 | - |
| Current Assets | 6,15,000 | |
| | 16,65,000 | 16,65,000 |

On 31.03.2014, the Trial Balance of the two Companies were as follows -

Trial Balance
as at 31.03.2014

| Particulars | R Ltd. | | S Ltd. | |
|---|---|---|---|---|
| | Amount (₹) | Amount (₹) | Amount (₹) | Amount (₹) |
| Equity Shares of ₹ 10 each fully paid (before Bonus Paid) | - | 45,00,000 | - | 15,00,000 |
| Securities Premium | - | 9,00,000 | - | - |
| Pre – incorporation Profits | - | - | - | 30,000 |
| General Reserve | - | 60,00,000 | - | 19,05,000 |
| Profit and Loss Account | - | 15,75,000 | - | 4,20,000 |
| Creditors | - | 5,55,000 | - | 2,10,000 |
| Fixed Assets (Tangible) | 79,20,000 | - | 23,10,000 | - |
| Investments (1,05,000 Equity Shares in S Ltd at cost) | 12,00,000 | - | - | - |
| Current Assets | 44,10,000 | - | 17,55,000 | - |
| | 1,35,30,000 | 1,35,30,000 | 40,65,000 | 40,65,000 |

Directors of S Ltd. made a bonus issue on 31.03.2014 in the ratio of one Equity Share of ₹ 10 each fully paid for every two Equity Shares held on that date.

Calculate as on 31.3.2014 (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases: (1) Before issue of Bonus Shares; (2) Immediately after the issue of Bonus Shares. It may be assumed that Bonus Shares were issued out of Post-Acquisition Profits by using General Reserve.
Prepare a Consolidated Balance Sheet after the Bonus Issue. **[15]**

**4. (a)** The capital structure of A Ltd. is as under:

- 80,00,000 Equity shares of ₹10 each
- 1,00,000 12% Preference shares of ₹250 each
- 1,00,000 10% Debentures of ₹500 each
- Term loan from Bank (at 10%) = ₹450 lakhs.

The Company's Profit and Loss Account for the year showed a balance PAT of ₹100 lakhs, after appropriating Equity Dividend at 20%. The company is in the 40% tax bracket. Treasury Bonds carry 6.5% interest, beta factor for the company may be taken at 1.5. The long run market rate of return may be taken at 16.5%. Calculate EVA. **[8]**

**(b)** Write a note on "Integral Foreign Operation and its translation" as per AS – 11. **[7]**

**5.** Following are the balances of Priya Ltd. (Extracts)

| | | (₹ in lakhs) |
|---|---|---|
| Particulars | As at 31.3.2012 | As at 31.3.2013 |
| Share Capital | 1,000.00 | 1,000.00 |
| General Reserve | 800.00 | 850.00 |
| Profit and Loss Account | 120.00 | 175.00 |
| Term Loans | 370.00 | 330.00 |
| Sundry Creditors | 70.00 | 90.00 |
| Provision for Tax | 22.50 | 25.00 |
| Proposed Dividend | 200.00 | 250.00 |
| Fixed Assets and Investments (Non-trade) | 1,600.00 | 1,800.00 |
| Stock | 550.00 | 600.00 |
| Debtors | 340.00 | 220.00 |
| Cash and Bank | 92.50 | 100.00 |

Other Information:

i. Current cost of fixed assets excluding non-trade investments on 31.3.2012 ₹ 2,200 lakhs and on 31.3.2013 ₹ 2,532.8 lakhs.

ii. Current cost of stock on 31.3.2012 ₹ 670 lakhs and on 31.3.2013 ₹ 750 lakhs.

iii. Non-trade investments in 10% government securities ₹ 490 lakhs.

iv. Debtors include foreign exchange debtors amounting to $ 70,000 recorded at the rate of $ 1 = ₹ 43.50 but the closing exchange rate was $ 1 = ₹ 47.50.

v. Creditors include foreign exchange creditors amounting to $ 1,20,000 recorded at the rate of $ 1 = ₹ 42.50 but the closing exchange rate was $ 1 = ₹ 47.50.

vi. Profit included ₹ 120 lakhs being government subsidy which is not likely to recur.

vii. ₹ 247 lakhs being the last installment of R and D cost were written off the profit and loss account. This expenditure is not likely to recur.

viii. Tax rate during 2012 - 13 was 50% effective future tax rate is estimated at 35%.

ix. Normal rate of return is expected at 14%.

Based on the information furnished, Mr. K, a director contends that the company does not have any goodwill. Examine his contention. **[15]**

**6.(a)** Ajay Ltd acquired 70% of the Shares of Vijay Ltd on 1st January Year 1 when Vijay's Net Worth was ₹ 21,60,000, represented by ₹ 20,00,000 in Equity Capital and ₹ 1,60,000 in Reserves. Cost of Investment to Ajay was ₹ 12,00,000. The subsidiary reported the following Losses/Profits (after acquisition) -

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| Loss ₹ 5,00,000 | Loss ₹ 8,00,000 | Loss ₹ 10,00,000 | Loss ₹ 2,40,000 | Profit ₹ 1,00,000 | Profit ₹ 2,00,000 | Profit ₹ 3,00,000 |

Calculate the amount to be shown as Minority Interest and Goodwill / Capital Reserve at the end of every year. **[9]**

**(b)** P Ltd is considering the acquisition of R ltd. The financial data at the time of acquisition being-

| Particulars | P Ltd | R Ltd |
|---|---|---|
| Net Profit after Taxes | ₹ 60 Lakhs | ₹ 12 Lakhs |
| Number of Shares | 12 Lakhs | 5 Lakhs |
| Earnings Per Share | ₹ 5 per Share | ₹ 2.40 per Share |
| Market Price per Share Price | ₹ 150 per Share | ₹ 48 per Share |
| Earning Ratio | 30 | 20 |

It is expected that the Net Profit after Tax of the two Companies would continue to be ₹ 72 Lakhs, even after the amalgamation. Explain the effect on EPS of the merged Company under each of the following situations -

- P Ltd offers to pay ₹ 60 per Share to the Shareholders of R Ltd.
- P Ltd offers to pay ₹ 78 per Share to the Shareholders of R Ltd.

The amount in both cases is to be paid in the form of Shares of P Ltd. **[6]**

**7. (a)** On 24th January, 2013 Chinnaswamy of Chennai sold goods to Watson of Washington, U.S.A. for an invoice price of $ 40,000 when the spot market rate was ₹54.20 per US $. Payment was to be received after three months on 24th April, 2013. To mitigate the risk of loss from decline in the exchange-rate on the date of receipt of payment, Chinnnaswamy immediately acquired a forward contract to sell on 24th April, 2013 US $ 40,000 @ ₹ 53.70. Chinnaswamy closed his books of account on 31st March, 2013 when the spot rate was ₹ 53.20 per US $. On 24th April, 2013, the date of receipt of money by Chinnaswamy, the spot rate was ₹ 52.70 per US $.

Pass journal entries in the books of Chinnaswamy to record the effect of all the above mentioned effects. **[10]**

**(b)** On April 1, 2013, a company Sky Blue Ltd. offered 100 shares to each of its 1,500 employees at ₹60 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan 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 date is ₹70 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹68 per share.

On April 30, 2013, 1,200 employees accepted the offer and paid ₹60 per share purchased. Nominal value of each share is ₹10.

Record the issue of shares in book of the Sky Blue Ltd. under the aforesaid plan. **[5]**

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

**(a)** Economic value added (EVA for short) and its uses;
**(b)** Growing scope of Human Capital Reporting;
**(c)** Aspects covered in Corporate Environmental Accounting System;

**(d)** Role of the Comptroller and Auditor General of India in relation to.