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 ₹ 10,00,000, Depreciation as per income tax records ₹ 4,00,000. There is adequate evidence of future profit sufficiency. As per AS-22 Deferred Tax Asset/ Liability to be recognized will be
(A) ₹ 3,00,000 (DTA)
(B) ₹ 2,70,000 (DTL)
(C) ₹ 30,000 (Net DTL)
(D) None of these

(ii) DING-DONG CONSTRUCTION Ltd. undertook a contract on January 1, 2013 to construct a building for ₹ 140 lakh. The Company found on March 31, 2013 that it had already spent ₹ 104 lakh on the construction. Prudent estimate of additional cost for completion was ₹ 56 lakhs. Contract value to be recognized as Turnover in the final accounts for the year ended March 31, 2013 as per AS-7 (revised) will be
(A) ₹ 105 lakh
(B) ₹ 100 lakh
(C) ₹ 91 lakh
(D) None of these

(iii) Master Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2015 at ₹ 600 lakhs. As at that date value in use is ₹ 400 lakhs. If the net selling price is ₹ 450 lakhs, the recoverable amount and the impairment loss of the Asset as per AS-28 will be:
(A) ₹200 lakhs, ₹400 lakhs
(B) ₹150 lakh, ₹450 lakhs
(C) ₹450 lakh, ₹150 lakhs
(D) None of (A), (B), (C)

(iv) Ramayana Ltd. presents interim financial report quarterly. On 01-04-2013. Ramayana Ltd. has carried forward loss of ₹ 800 lakhs for income-tax purpose for which deferred tax asset has not been recognized. The Ramayana Ltd. earns ₹1,000 lakhs in each for quarter ending on 30. 06.2013, 30.09.2013, 31.12.2013 and 31.03.2014 excluding the loss carried forward. Income-tax rate is expected to be 40%. The amount of tax expense to be reported in each quarter will be:

(A) ₹1,000 lakhs;
(B) ₹1,280 lakhs;
(C) ₹320 lakhs;
(D) ₹4,000 lakhs.

(v) In a production process, normal waste is 5% of input. 10,000 MT of input were put in process resulting in a wastage of 600 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end. If waste has Nil realizable value. The cost per unit is:
(A) ₹1,05,263;
(B) ₹1063.83;
(C) ₹105.26;
(D) ₹1052.63.

(vi) Akash Ltd. wants to re-classify its investments in accordance with AS-13.

A portion of current investments purchased for ₹30 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 13 lakhs. After transfer the investment should be carried at :
(A) ₹30 lakhs;
(B) ₹13 lakhs;
(C) ₹17 lakhs;
(D) None of the above.

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

(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) 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 0.30% of the customers claim refunds. The company sold goods amounting to ₹50 lakhs during the last month of the financial year. The amount of contingency is:
(A) ₹50 lakhs;
(B) ₹15 lakhs;
(C) ₹35 lakhs;
(D) None of the above.

(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) State the classification criteria of IFRS 5 (Non-current assets held for sale and discontinued operations). **[5]**

Part B (75 marks)

2. Rajesh Ltd carried on Manufacturing Business. Its products were sold to wholesalers and the Company had its own Retail Shop.
Sujesh Ltd carried on similar Manufacturing Business, but all Goods produced were sold through the Company's own Retail Shop.

The summarized Balance Sheet of the two Companies as at 31st March were as follows

Equity and Liabilities	Rajesh(`)	Sujesh(`)
Shareholders' Funds:		
Authorised: Eq. Shares of ₹10	40,00,000	6,00,000
Share Capital (issued & paid up)		
Equity Shares of ₹10	25,00,000	6,00,000
Reserves & Surplus		
– Profit & Loss Account	3,40,000	90,000
Current Liabilities:		
Trade Payables - Creditors	4,20,000	70,000
Total	32,60,000	7,60,000
Assets		
Non- Current Assets:		
Fixed Assets (i) Tangible		
Freehold Properties (as cost)	10,00,000	2,50,000
Plant & Machinery (Net Block)	13,00,000	1,00,000
Current Assets:		
Inventories	4,80,000	1,20,000
Trade receivables – Debtors	2,30,000	80,000

Cash & cash Equivalents	2,50,000	2,10,000
Total	32,60,000	7,60,000

Original Cost of Plant & Machinery was as follows: Rajesh Ltd – ₹26,00,000, and Sujesh Ltd ₹ 2,00,000.

The following arrangements were made and carried out on April:

Rajesh Ltd purchased from the Shareholders of Sujesh Ltd all the issued Shares @ ₹ 14 per Share.
Shareholders of Sujesh Ltd took over Freehold Properties of the Company for ₹60,000 at the Book Value of the same. It was agreed that the amount should be set off against the amount due to them under (1) above and the balance due to them to be satisfied by the issue of an appropriate number of Equity Shares in Rajesh Ltd at ₹ 19.50 per share.

The necessary transfer in regard to the setting off the Price of the Property taken over by the Shareholders against the amount due to them from Rajesh Ltd were made in the books of the two Companies.

All the manufacturing was to be carried on by Rajesh Ltd and all retail Business is to be carried on by Sujesh Ltd In this connection.

Rajesh Ltd purchased the whole of Sujesh Ltd's Plant and Machinery for ₹1,50,000 and certain of their Freehold Property (Cost ₹1,00,000) at ₹1,20,000.

Sujesh Ltd purchased Rajesh Ltd's Freehold Retail Shop Buildings (Cost to Rajesh Ltd ₹75,000) at ₹ 60,000 and took over the retail stock at ₹80,000 at the Book Value.

Rajesh Ltd drew cheque in favour of Sujesh Ltd for the net amount due, taking into account all the matters mentioned above.

Immediately after the transfer of Shares as in (1) above, Sujesh Ltd declared and paid Dividend of ₹ 60,000 (Ignore Income Tax)

Prepare the Balance Sheet of Rajesh Ltd. immediately after the completion of the above transaction. **[15]**

3. The summarized Balance Sheets of Kush Ltd and Shuk Ltd as at 31st March 2015 are as follows:

(₹ lakhs)

Equity and Liabilities	Kush	Shuk
(1) Shareholders' Funds:		
(a) Share Capital		
- Equity Shares of ₹10 each	216.0	108.0
(a) Reserves & Surplus		

(i) Share Premium	32.4	---
(ii) Capital Reserve – on 01.04.2014	---	7.2
(iii) General Reserve – on 01.04.2014	13.5	9.0
(iv) Profit & Loss Account	70.2	21.6
(2) Current Liabilities:		
Trade Payables – Sundry Creditors	29.7	19.7
Total	361.8	165.5
Assets		
(1) Non-Current Assets:		
(a) Fixed Assets – (i) Tangible		
- Plant at cost Less: Depreciation	86.4	72.9
- Furniture, Fixtures & Fittings	23.4	7.2
(ii)Intangible –Goodwill	45.0	13.6
(b)Non-Current Investments 8.64 lakh Shares of Shuk at Cost	97.2	---
(2)Current Assets:		
(a)Current Investments	---	2.7
(b)Inventories	18.0	13.5
(c)trade Receivables – Debtors	73.8	47.6
(d)Cash & Cash Equivalents	18.0	8.0
Total	361.8	165.5

Additional Information –

(i) On 1st April, 2014 Kush Ltd. acquired from the Shareholders of Shuk Ltd. 8.64 lakhs Shares of ₹ 10 each. In Shuk Ltd. and allotted in consideration thereof 6.48 lakhs of its own Shares of ₹ 10 each at a premium of ₹ 5 per share.

(ii) The Consideration for the Shares of Shuk Ltd was arrived at inter-alia by valuing certain Assets of Shuk Ltd on 1st April, 2014 as under –

(a) Plant at ₹ 90 lakhs.
(b) Furniture, Fixtures, and fittings at ₹ 8 lakhs.
(c) No. of value of trade Investment and Goodwill.

No adjustments were made in the books of account of Shuk Ltd. in respect of the above valuation. During 2014-2015 there was no Purchase or Sale of these Assets. It is desired that such adjustments should however be made in the Consolidated Accounts.

(iii) The figures of Plant and Furniture, Fixtures and Fittings at 31.03.2015 shown in the Balance Sheet are after providing depreciation for 2014-2015 at the rate of 10% p.a. and 20% p.a. respectively, on the Book values as at 01.04.2014.

(iv) The Profit and Loss Account of Shuk Ltd. showed a Credit balance of ₹ 27 lakhs on 01.04.14. A dividend of 10% was paid in January, 2015 for the year 2013-2014. This dividend was credited to Profit and Loss A/c of Kush Ltd.

(v) The following point was not considered in making out the accounts:

In the year expenses at ₹ 4,500 per month were incurred by Kush ltd on behalf of Shuk Ltd. it was by mistake debited to Profit and Loss Account of Kush Ltd and nothing has been done in the accounts of Shuk Ltd.

(vi) The Stock of Shuk Ltd included ₹ 4.5 lakhs of Goods received from Kush Ltd invoiced at cost plus 25%.

(vii) Debtors of Shuk Ltd. include ₹ 3.5 lakhs due from Kush Ltd were as Creditors of Kush Ltd include ₹ 3.1 lakhs due to Shuk Ltd the difference being represented by a cheque in transit.

You are requested to show the analysis of Reserves and Surplus and Minority Interest as at 31st March,2015. **[15]**

4. **(a)** Rama Ltd and Radha Ltd are to be amalgamated into Rama Radha Ltd. (RRL). The new company is to take over all the assets and liabilities of the amalgamating companies. The new company is to take over all the assets and liabilities of the amalgamating companies.

Assets and Liabilities of Rama Ltd are to be taken over at book values in exchange of shares in RRL. Three shares in the new company are to be issued at a premium of 20% for two shares of Rama Ltd.

The scheme for Radha Ltd is as follows:

- 10% preference shareholders are to be allowed two 15% preference shares of ₹100 each in RRL for three preference shares held in Radha Ltd.
- The debentures of Radha Ltd are to be paid off at 5% discount by the issue of Debentures at par.
- The equity shareholders of Radha Ltd. are to be allowed as many shares at par in RRL as will cover the balance on their account and for this purpose, Plant and Machinery is to be valued less by 15% and obsolete stock forming 10% of the overall stock value is to be treated as worthless.

Show the Journal Entries in the Amalgamating Companies.

The Balance Sheets of the two companies Rama Ltd and Radha Ltd prior to amalgamation are as under

Equity and Liabilities	Rama (`)	Radha (`)
(1) Shareholders' Funds		
(a) Share Capital		
(i) Equity Capital (shares of ₹10)	6,40,000	12,50,000
(ii) 10% Preference shares of ₹100	-	7,50,000
(b) Reserves & Surplus		
(i) General Reserve	8,80,000	-
(ii) Profit & Loss Account	-	(3,50,000)
(2) Non-current Liabilities		
Long term borrowings		
-Secured Debentures	-	5,00,000
(3) Current Liabilities:		

Trade Payables – Sundry Creditors	1,20,000	2,25,000
Total	16,40,000	23,75,000
Assets		
(1) Non-Current Assets:		
Fixed Assets		
- Tangible Assets (P&M)	12,80,000	20,00,000
(2) Current assets:		
(a) Inventories	1,00,000	1,50,000
(b) Trade receivables - Drs	1,52,000	1,25,000
(c) Cash & cash equivalents	1,08,000	1,00,000
Total	16,40,000	23,75,000

[12]

(b) An airline is required by law to overhaul its aircraft once every three years. The expenses to be incurred as classified as 'refurbishment costs'. Is there any provision to be recognized? **[3]**

5. (a) The Balance Sheet as at 31st March of Maharishi Ltd. was as under (₹000's) –

Equity and Liabilities			₹
(1) Shareholders' Funds:			
(a) Share Capital			
- 8,000 Equity Sh of ₹100 each, ₹50 per Sh pd up			4,00
- 4,000 11% Cum Pref. Shares ₹100 each, fully pd.			4,00
(b) Reserves & Surplus			
(i) General Reserve			60
(ii) Securities Premium (received on Pref. Shares)			40
(2) Current Liabilities:			3,10
Total			1,210
Assets			
(1) Non- Current Assets:			
(a) Fixed Assets			
- Tangible	850		
- Intangible Assets			
(Goodwill at cost)		40	
Less:Depreciation	(2,70)		6,20
(b) Non –current Investments			25
(2) Current Assets:			
(a) Inventories			2,10
(b) Trade receivables – Sundry Debtors			2,55
(c) Cash & cash Equivalents			1,00
Total			1,210

Note: Preference Dividends are in arrears for three years including the year ended 31st March as above.

The funds of the Company are sufficient to discharge its Liabilities including Preference Dividends in arrears. However, the Company does not want to deplete its resources. It would also like to reflect the values of some of its Assets in a realistic manner. The Board of Directors of the Company decided and proposed the following scheme of rehabilitation / reconstruction to be effective from 1st April:

(i) The Cumulative Preference Shareholders are to be issued, in exchange of their holdings 13% Debentures of the Face Value of ₹100 each at a Premium of 10%. Fractional holdings are to be paid off in Cash.

(ii) Arrears in Preference Dividends to be converted into Equity Shares of ₹100, ₹50 per Share paid up.

(iii) After the issue of the Equity Shares mentioned in (2) above, the Paid Up Value of all the Equity Shares is to be reduced to ₹ 25 each.

(iv) Face Value of all Equity Shares to be reduced to ₹50 each and the balance of the unpaid portion is to be called up fully.

(v) Goodwill has lost its value and has to be written off. Market Value of other Fixed Assets is determined, as at 31st March, at ₹ 5,00,000.

(vi) Investments have no Market Value and have to be written off.

(vii) Stock In Trade is to be valued at 110% of its Book Value and Sundry Debtors are to be discounted by 5%.

The scheme as approved by the Directors, is duly accepted by all authorities and put into effect.

During the working for the half ended 30th September it is noticed that the trading for the period has resulted in an increase of Bank balances by ₹55,100, Sundry Debtors by ₹40,000, Trade Creditors by ₹26,000 and a decrease in Stock by ₹8,000. Depreciation for the half year on Fixed Assets at 10% per annum is to be provided. The increase in the Bank Balances was prior to the Company paying the half yearly Interest on Debentures and redeeming one half of the Debentures on 30th September.

From the above information, you are required to prepare Journal Entries, Ledger Accounts. All working notes are to form part of your answer. **[10]**

(b) Discuss 'discontinuing operations' as per AS-24? **[5]**

6. Given below is the Balance Sheet of M Ltd as on 31.12.2014 —

Equity and Liabilities	₹ (Lakhs)
(1) Shareholders' Funds:	
(a) Share Capital	50.00
(b) Reserves & Surplus (i) Reserve	32.00
(ii) P&L A/c	3.00
(2) Current Liabilities:	
(a) Trade payables – Sundry Creditors	8.20

(b) Other Current Liabilities – Proposed Dividend	10.00
Total	103.20
Assets	
(1) Non-Current Assets:	
(a) Fixed Assets (Sundry):	72.00
(b) Non-Current Investments (Non-Trade)	12.00
(2) Current Assets:	
(a) Inventories	7.80
(b) Trade Receivables – Sundry Debtors	6.20
(c) Cash & Cash Equivalents	5.20
Total	103.20

Other Information –

- Profit Before Tax and other relevant information: (₹ lakhs)

Year	Profit Before Tax	Provision for Gratuity required	Gratuity Paid	Loss of uninsured stock
2010	42.00	2.20	--	--
2011	39.00	2.30	1.67	0.62
2012	44.00	2.50	0.32	--
2013	42.00	2.60	1.42	--
2014	37.00	2.70	0.12	--

- Past Tax rate is 51% while Expected Tax Rate is 45%
- The Company wants to switch over towards maintaining gratuity provision on actuarial calculation rather than accounting on payment basis. The company's non-Trade investments fetched 11%.

Find out value of Goodwill. It may be assumed that Super Profit. If any, is maintainable for 5 years. 20% should be the appropriate discount factor. Normal Rate of return may be taken as 16%. **[15]**

7. (a) Compute EVA of Santhi Ltd. for 3 years from the information given -

(in ₹ Lakhs)

Year	1	2	3
Average Capital Employed	3,000.00	3,500.00	4,000.00
Operating Profit before Interest (adjusted for Tax Effect)	850.00	1250.00	1600.00
Corporate Income Taxes	80.00	70.00	120.00
Average Debt + Total Capital Employed (in %)	40.00	35.00	13.00
Beta Variant	1.10	1.20	1.30
Risk Free Rate (%)	12.50	12.50	12.50
Equity Risk Premium (%)	10.00	10.00	10.00
Cost of Debt (Post Tax) (%)	19.00	19.00	20.00

[10]

(b) From the following details, compute according to Lev and Schwartz (1971) model, the value of human resources of skilled employees group.

(i)	Annual average earning of an employee till the retirement age	₹2,00,000
(ii)	Age of Retirement	65 years
(iii)	Discount rate	15%
(iv)	No. of employees in the group	20
(v)	Average age	62 years

[5]

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

(a) Growing scope of Human Capital Reporting;
(b) Aspects covered in Corporate Environmental Accounting System;
(c) Responsibilities of the Comptroller and Auditor General of India;
(d) Treatment of refund of Government grants.