

FINAL EXAMINATION

June 2014

F-P16(AFA)

Syllabus 2008

Subject : Advanced Financial Accounting and 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.

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): 2×8=16

- (i) ANKITA LTD. has three segments with their assets inclusive of Deferred Tax Assets as shown below:

Segment	Total Assets (₹ in lakh)	Deferred Tax Assets (₹ in lakh)
M	20	10
N	60	8
P	120	6

Reportable segments as per AS-17 are

- A. M, N and P
- B. M and N only
- C. M and P only
- D. P and N only

- (ii) ARYAN LTD. acquired 80% shares of SUNNY LTD. on April 01, 2013 for a price of ₹ 4,50,000. The Share Capital of SUNNY LTD. consists of 5,000 equity shares of ₹ 100 each. During the consolidation of accounts, it is noticed that the Sundry Creditors of ARYAN LTD. include ₹ 20,000 for goods purchased from SUNNY LTD. on which it made profit of ₹ 5,000. If half of the goods were still in the stock of ARYAN LTD. as on March 31, 2014, the unrealised profit in the Consolidated Balance Sheet as on March 31, 2014 as per AS-21 will be:

- A. ₹ 2,000
- B. ₹ 2,500
- C. ₹ 4,000
- D. ₹ 16,000

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(iii) PRAKASH LTD. declares the following information:

	Exchange Rate (₹./US \$)
Purchased goods on 12.3.2013 of US \$ 1,00,000	56.60
Exchange rate as on 31.3.2013	57.00
Date of actual payment is 12.4.2013	57.50

What will be the gain/loss to be booked in the financial year 2013-14?

- A. ₹ 90,000 (loss)
- B. ₹ 40,000 (loss)
- C. ₹ 50,000 (loss)
- D. ₹ 1,30,000 (loss)

(iv) Mr. P bought a forward contract for three months of US \$ 1,00,000 on 1st December, at 1 US \$ = ₹ 57.10, when exchange rate was 1 US \$ = ₹ 57.02. On 31st December, when he closed his accounts, exchange rate was 1 US \$ = ₹ 57.15. On 31st January, he decided to sell the contract at ₹ 57.18 per US \$. What amount of profit will be recognised from this contract?

- A. ₹ 8,000
- B. ₹ 3,000
- C. ₹ 16,000
- D. ₹ 5,000

(v) NUPUR LTD. has equity share capital of ₹ 30 lakhs consisting of fully paid equity shares of ₹ 10 each. Net profit for the year 2013-14 was ₹ 45 lakhs. It has also issued 27,000, 10% convertible Debentures of ₹ 50 each. Each Debenture is convertible into 5 equity shares. The applicable tax rate is 30%. Compute the diluted earnings.

- A. ₹ 46,35,000
- B. ₹ 44,59,500
- C. ₹ 45,94,500
- D. ₹ 45,00,000

(vi) RAM LTD. acquired a machine for ₹ 6.40 crores on 1st January, 2011. It has a life of 5 years with a Salvage value of ₹ 80 lakhs. Calculate the impairment loss as on 31.3.2014, if any, when the present value of future cash flow is ₹ 2.60 crores and net selling price is ₹ 2.40 crores.

- A. No impairment loss
- B. ₹ 16 lakhs
- C. ₹ 8 lakhs
- D. ₹ 20 lakhs

(vii) A firm obtained a contract for construction of a fly-over. Following information is available for the year ended 31.3.2014:

Total contract Price	= ₹ 1500 lakhs
Work certified	= ₹ 800 lakhs
Work not certified	= ₹ 460 lakhs
Estimated further cost to completion	= ₹ 380 lakhs
Progress payment received	= ₹ 700 lakhs

What will be the foreseeable loss to be shown in the accounts of 2013-14 as per AS-7?

- A. No effect in 2013-14
- B. ₹ 100 lakhs
- C. ₹ 560 lakhs
- D. ₹ 140 lakhs

- (viii) From the following information of X LTD. for the year ended 31.3.2014, compute the actual return on plan assets.

Benefits paid	= ₹ 4,20,000
Employer contribution	= ₹ 3,00,000
Fair market value of plan assets as on 31.3.2014	= ₹ 15,75,000
Fair market value of plan assets as on 31.3.2013	= ₹ 12,50,000
A. ₹ 4,45,000	
B. ₹ 3,25,000	
C. ₹ 25,000	
D. ₹ 7,45,000	

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

- (i) According to AS-3 (Revised), cash flows arising from interest paid in the case of a financial enterprise is classified as cash flow from

- A. Operating Activities
- B. Financing Activities.
- C. Both (A) and (B)
- D. Investing Activities

- (ii) A Ltd. holds 51% of B Ltd.; B Ltd. holds 51% of O Ltd.; and Z Ltd. holds 49% of O Ltd. Which of the following is not related party to each other as per AS-18?

- A. A Ltd. to O Ltd.
- B. B Ltd. to O Ltd.
- C. B Ltd. to Z Ltd.
- D. Z Ltd. to O Ltd.

- (iii) Which one of the following is within the purview of AS-13?

- A. Mutual Fund
- B. Investment of retirement benefit plans
- C. Investment in shares
- D. Finance Lease

- (iv) According to AS-29, Restructuring Cost does not include

- A. The cost of retraining or relocating continuing staff
- B. Marketing cost
- C. Both (A) and (B)
- D. Cost of sale or termination of line of business

- (v) A sale is recognised

- A. When cash is collected from customer
- B. When goods sent to customer
- C. When the seller raised the invoice
- D. When certainty of collection is confirmed

- (c) X Ltd. purchased a plant from Y Ltd. on 30.9.2013 with a quoted price of ₹ 250 lakhs. Y Ltd. offer 3 months credit with a condition that discount of 1.5% will be allowed, if the payment was made within 1 month. VAT is 12% on the quoted price. Company incurred 5% of quoted price on transportation and erection costs. Pre-operative cost amount to ₹ 2.50 lakhs. Company took a term loan of ₹ 180 lakhs at an interest rate of 12.50% per annum to finance the purchase of the machinery. The machine was ready for use on 31.12.2013; however, it was put to use only on 1.2.2014:

- Find out the original cost of the machine
- Suggest the accounting treatment for the cost incurred during the period between the date the machine was ready for use and the actual date the machine was put to use.

3+1=4

PART B : (75 Marks)

Attempt any five questions.

2. (a) Neel Company has provided the following Profit and Loss A/c for the year ended 31st March, 2014. You are required to prepare Gross Value Added Statement.

Particulars	₹ 000	₹ 000
Income: Sales	28,500	
Other Income	750	29,250
Expenditure: Operating Cost	25,600	
Excise Duty	1,700	
Interest on Bank Overdraft	100	
Interest on 12% Debentures	1,150	28,550
Profit before Depreciation		700
Less: Depreciation		250
Profit before Tax		450
Less: Tax Provision		270
Net profit after Tax		180
Less: Transfer to Replacement Reserve		30
Balance of profit		150
Less: Dividend		50
Retained profit		100

Additional Information:

- Sales are net sales after deducting Discounts, Returns and Sales Tax.
- Operating cost includes ₹ 10,200(000) towards wages, salaries and other benefits to employees.
- Bank Overdraft is a temporary source of finance.
- Provision for tax includes ₹ 70(000) for Deferred Tax.

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- (b) An equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair value of the equipment are ₹ 3,00,000. The amount will be paid in 3 installments and at the termination of lease, lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is ₹ 40,000. The Internal Rate of Return (IRR) of the investment is 10%. The present value of annuity factor of ₹ 1 due at the end of 3rd year at 10% IRR is 2.4868. The present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is 0.7513.

- State with reason whether the lease constitutes finance lease.
- Calculate unearned finance income.

4+4=8

3. R Ltd. and S Ltd. propose to amalgamate. Their Balance Sheets as at 31st March, 2014 are as follows:

Liabilities	R Ltd. ₹	S Ltd. ₹	Assets	R Ltd. ₹	S Ltd. ₹
Share Capital:			Fixed Assets less		
Equity Shares of ₹ 10 each	20,00,000	8,00,000	Depreciation	15,00,000	6,00,000
General Reserve	8,00,000	60,000	Investments (Non-trade)	6,00,000	—
			(Face value of ₹ 6 lakhs, 5% tax free G.P. Notes)		
Profit & Loss A/c	2,00,000	40,000	Stock	7,00,000	2,00,000
Creditors	4,00,000	1,00,000	Debtors	5,00,000	1,00,000
			Cash and Bank	1,00,000	1,00,000
Total	34,00,000	10,00,000	Total	34,00,000	10,00,000

The details of Net Profit (after taxation) are as follows:

Year	R Ltd. ₹	S Ltd. ₹
2011-12	3,50,000	1,20,000
2012-13	3,90,000	1,45,000
2013-14	4,60,000	1,55,000

Nominal trading profit may be considered as 15% on closing capital employed. Closing capital employed be calculated by equity method for the purpose of goodwill, which may be taken as 4 years purchase of average super profits. The stock of R Ltd. and S Ltd. are to be taken at ₹ 8,60,000 and ₹ 2,40,000 respectively for the purpose of amalgamation. T Ltd. is formed for the purpose of amalgamation of two companies.

(a) Suggest a scheme of capitalization of T Ltd. and ratio of exchange of shares; and

(b) Draft the opening Balance Sheet of T Ltd. (Schedules are not required).

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4. The summarised Balance Sheet of Apple Ltd., Orange Ltd. and Banana Ltd. as on 31st March, 2014 are given below:

(₹ in, 000)

Liabilities	Apple Ltd.	Orange Ltd.	Banana Ltd.	Assets	Apple Ltd.	Orange Ltd.	Banana Ltd.
Share Capital : Equity Shares of ₹ 10 each fully paid up	300	200	120	Fixed Assets	140	240	206
Reserves	100	80	60	<u>Investment (at cost):</u> Shares in Orange Ltd. Shares in Banana Ltd.	180 80	 100	
Profit & Loss A/c	120	100	80	Stock-in-trade	80	60	40
Sundry Creditors	60	70	50	Sundry Debtors	40	50	60
Apple Ltd.	—	20	16	Due from:			
				Orange Ltd.	24		
				Banana Ltd.	16		
				Cash in Hand	20	20	20
Total	580	470	326	Total	580	470	326

Additional information:

- (i) Apple Ltd., held 16,000 shares of Orange Ltd. and 3,600 shares of Banana Ltd.
- (ii) Orange Ltd. held 7,200 shares of Banana Ltd.
- (iii) All investments were made on 1st July, 2013
- (iv) The following were the balances on 1st July, 2013:

	Orange Ltd.	Banana Ltd.
Reserves	50,000	30,000
Profit & Loss A/c	40,000	50,000

- (v) Orange Ltd. invoiced goods to Apple Ltd. for ₹ 8,000 at a cost plus 25% in December, 2013. The closing stock of Apple Ltd. includes such goods valued at ₹ 10,000.

(vi) Apple Ltd. proposed dividend at 15%.

Prepare the consolidated Balance Sheet as per Revised Schedule VI of the group as on 31st March, 2014. Working notes should form part of the answer.

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5. (a) The following details are given for TROMA LTD. for the year ended March 31, 2014:

(Amount in ₹ lakhs)

MP Division:

Sales to PQ Division	916
Other Domestic Sales	18
Export Sales	1,226
	<u>2,160</u>

PQ Division:

Sales to HN Division	10
Export Sales to Europe	60
	<u>70</u>

HN Division:

Export Sales to USA	54
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Amount in ₹ Lakh

Particulars	Head Office	MP Division	PQ Division	HN Division
Pre-tax Operating Result	—	48	6	(2)
Head Office Cost Reallocated	—	14	8	6
Interest Costs	—	2	2	2
Fixed Assets	16	60	12	36
Net Current Assets	14	36	12	26
Long-term Liabilities	12	6	4	36

Require:

Prepare a SEGMENTAL Report of TROMA LTD. for publication for the year ended March 31, 2014, keeping in view the relevant Accounting Standard (AS-17).

(b) Konkan Ltd. provides the following Balance Sheet as at 31.03.2014:

₹ in Crores		
Sources of Funds:		
Share Capital: Authorised		<u>100</u>
Issued: 12% Redeemable Pref. Shares of ₹ 100 each fully paid up	75	
Equity Shares of ₹ 10 each fully paid	<u>25</u>	100
Reserves and Surplus: Capital Reserves	15	
Securities Premium	25	
Revenue Reserves	<u>260</u>	<u>300</u>
		<u>400</u>
Application of Funds:		
Fixed Asset: Cost	100	
Less: Provision for Depreciation	<u>100</u>	Nil
Investments at cost: (Market Value ₹ 400 crores)		100
Current Assets:	340	
Less: Current Liabilities	<u>40</u>	<u>300</u>
		<u>400</u>

Additional Information:

The company redeemed preference shares on 01.04.2014. It also bought back 50 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances which appeared in the accounts at Current Assets.

You are required to:

- Pass the necessary Journal Entries for recording the above transactions;
- Compute the value of Equity Share on Net Asset Basis; and
- Prepare the modified Balance Sheet.

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6. (a) Srihari Ltd. granted 500 options to each of its 2,500 employees in 2005 at an exercise price of ₹ 50 when the market price was the same. The contractual life (vesting and exercise period) of the options granted is 6 years with the vesting period and exercise period being 3 years each. The expected life is 5 years and the annual forfeitures are expected at 3%. The fair value per option is arrived at ₹ 15. Actual forfeitures in 2005 were 5%. However at the end of 2005, the management of Srihari Ltd. still expects that the actual forfeiture would average only 3% over the entire vesting period. During 2006, the management decide to revise its estimated forfeiture rate at 10% per annum. Of the 2,500 employees, 1,900 employees have completed the 3 year vesting period, 1,000 employees exercise their right to obtain shares vested in them in pursuance of ESOP at the end of 2009 and 500 employees exercise their right at the end of 2010. The rights of the remaining employees expire unexercised at the end of 2010. The face value per share is ₹ 10.

Show the necessary journal entries with suitable narrations. Working should form part of your answer. 10

- (b) An enterprise reports quarterly, estimates an annual income ₹ 10 lakhs. Assume tax rates on 1st ₹ 5,00,000 at 30% and on the balance at 40%. The estimated quarterly incomes are ₹ 75,000; ₹ 2,50,000; ₹ 3,00,000 and ₹ 3,75,000.

Calculate the tax expense to be recognised in each quarter as per AS-25.

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7. (a) The summarised Balance Sheet of Golden Ltd. as at 31st March, 2014 is as follows:

(₹ in Lakhs)

Liabilities		Assets	
Share Capital		Goodwill, at cost	210
90 lakhs equity shares of ₹ 10 each fully paid up	900	Other Fixed Assets	5,583
45 lakhs equity shares of ₹ 10 each, ₹ 8 paid up	360	Current Assets	1,455
75 lakhs equity shares of ₹ 5 each, fully paid up	375	Loans and Advances	466
Reserve and Surplus	2,728		
Secured Loans	2,250		
Current Liabilities	621		
Provisions	480		
Total	7,714	Total	7,714

You are required to calculate the following for each one of the three categories of equity shares appearing in the above mentioned Balance Sheet:

- Intrinsic value per share on the basis of book values of Assets and Liabilities including goodwill;
- Value per share on the basis of dividend yield,

Normal rate of dividend in the concerned industry is 12%, whereas Golden Ltd. has been paying 16% dividend for the last four years and is expected to maintain it in the next few years; and

- Value per share on the basis of EPS.

For the year ended 31st March, 2014 the company has earned ₹ 685 lakhs as profit after tax, which can be considered to be normal for the company. Average EPS for a fully paid share of ₹ 10 of a company in the same industry is ₹ 3. 10

- A company purchased at Plant for ₹ 100 lakhs during the financial year 2013-14 and installed it immediately. The price charged by the Vendor included excise duty (CENVAT credit available) of ₹ 8 lakhs. During the year, the company also produced excisable goods on which Excise Duty chargeable is ₹ 7 lakhs. Show the journal entries describing CENVAT credit treatment. At what amount should the Plant be capitalised? 5

8. Write short notes on *any three* of the following:

5×3=15

- Role of Public Accounts Committee;
- Corporate Social Reporting;
- Human Resource Accounting;
- Reporting Requirements of Environmental Accounting.