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 your workings/reasons briefly (= 1 mark) : [10×2=20]

(i) M/s. XYZ Ltd. has three segments namely X, Y, Z. The total assets of the Company are: Segment X ₹ 2.00 crore, Segment Y ₹ 6.00 crores and Segment Z ₹ 12.00 crores. Deferred tax assets included in the assets of each Segments are: X ₹ 1.00 crore, Y ₹ 0.80 crore and Z ₹ 0.60 crore. As per AS 17

A. X, Y and Z are reportable segments
B. Only X and Y are reportable segments
C. Only X and Z are reportable segments
D. Only Z and Y are reportable segments

(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) P&P Ltd. bought a forward contract for three months of US $ 2,00,000 on 1st March at 1 US $ = ₹ 50.10 when spot exchange 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. ₹ 6,000
D. None of these

(iv) A&B Ltd. obtained a Loan from a bank for ₹ 240 lakhs on 30.04.2012. It was utilized for : Construction of a shed ₹ 100 lakhs, Purchase of a machinery ₹ 80 lakhs, Working Capital ₹ 40 lakhs, Advance for purchase of truck ₹ 20 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. ₹ 21 lakhs
C. ₹ 9 lakhs
D. None of these

(v) Amrit Ltd. has provided depreciation in accounts for ₹ 160 lakhs, but as per tax records it is ₹240 lakhs. Unamortized preliminary expenses, as per tax records is ₹80,000. There is adequate evidence of future profit sufficiently. Tax rate is 30%. How much deferred tax assets/liability should be recognized as per AS-22?
A. ₹ 24.00 lakhs
B. ₹ 23.76 lakhs
C. ₹ 11.88 lakhs
D. Nil

(vi) PARTHAN LTD. reports quarterly and estimates an annual income of ₹ 200 crores. Assume Tax rates on first ₹ 100 crores at 30% and on the balance income at 40%. The estimated quarterly incomes are ₹ 15 crores, ₹ 50 crores, ₹ 75 crores and ₹ 60 crores respectively. The Tax expenses to be recognized in the last quarter as per AS-25 is
A. ₹ 24 crores
B. ₹ 21 crores
C. ₹ 19 crores
D. Insufficient Information

(vii) RAJRSHII Ltd. ordered 16,000 kg. of certain material at ₹160 per unit. The purchase price includes excise duty ₹10 per kg. in respect of which full CENVAT credit admissible. Freight incurred amounted to ₹1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg. and consumed 13,600 kg. of material. The cost of inventory as per AS 2 will be
A. ₹ 3,20,644
B. ₹ 3,01,644
C. ₹ 3,07,800
D. None of these

(viii) As per records of PELF FIN STOCK Ltd. Net Profit for the current year ₹ 199.20 lakhs, No. of Equity Shares outstanding 100 lakhs, No. of 12% Convertible Debentures of ₹ 100 each 2 lakhs, Each Debenture is convertible into 10 equity shares, Tax Rate 30%, As per AS 20, Diluted
Earnings Per Share is :
A. ₹ 1.66
B. ₹ 1.86
C. ₹ 1.80
D. None of these

(ix) PRARTHANA Ltd. is in engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ` 6 lakhs. It contributes ` 5 lakhs annually for its pension schemes. The average remaining life of the employee is estimated to be 6 years. As per AS 15 (Revised)

A. Surplus of ₹ 6 lakhs in the pension scheme on its actuarial valuation is required to be credited to the Profit and Loss Statement for the current year
B. Surplus of ₹ 6 lakhs can be spread over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs
C. Surplus of ₹ 6 lakhs is to be spread over the average remaining life of the employees of 6 years by crediting to the Profit and Loss Statement of each year
D. None of these

(x) S. S. CORPORATE SECURITIES Ltd. is showing an intangible asset at ₹ 72 lakhs as on 01.04.2013 and that an item was acquired for ₹ 96 lakhs on 01.04.2010 and that the item was available for use from that date. It has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. As per AS 26
A. ₹ 4.8 lakhs should be adjusted against the current year's profits
B. ₹ 4.8 lakhs should be adjusted against the opening balance of revenue reserves
C. ₹ 9.6 lakhs should be adjusted against the opening balance of revenue reserves
D. None of these

(b) Five Star Ltd. expects that a plant has become useless which is appearing in the books at ₹20 lakhs gross value. The Company charges SLM depreciation on a period of 10 years estimated scarp value of 3%. At the end of 7^{th} year the plant has been assessed as useless. Its estimated net realizable value is ₹6,20,000. Determine the loss/gain on retirement of the fixed assets. [5]

Part B (75 marks)

2. Techno Ltd. has 2 divisions Laptops and Mobiles.

Division Laptops has been making constant profits while division Mobiles has been invariably suffering losses.

On 31st March 2012 the division-wise draft Balance Sheet was: (₹ in crores)

		Laptops	Mobiles	Total
Fixed assets cost		250	500	750
Depreciation		(225)	(400)	(625)
Net Assets	(A)	25	100	125
Current assets:		200	500	700
Less: Current liabilities		(25)	(400)	(425)
	(B)	175	100	275
Total (A+B)		200	200	400
Financed by:				
Loan funds		-	300	300
Capital: Equity ₹10 each		25	-	25
Surplus		175	(100)	75
		200	200	400

Division Mobiles along with its assets and liabilities was sold for ₹50 crores to Turnaround Ltd. a new company, who allotted 1 crore equity shares of ₹10 each at a premium of ₹40 per share to the members of Techno Ltd. in full settlement of the consideration, in proportion to their shareholding in the company.

Assuming that there are no other transactions, you are asked to:
(i) Pass journal entries in the books of Techno Ltd.
(ii) Prepare the Balance Sheet of Techno Ltd. after the entries in (i).
(iii) Prepare the Balance Sheet of Turnaround Ltd. [15]

3. The draft consolidated data of A Ltd., and its 100% subsidiary B Ltd. and also information of C Ltd. relating to the year end 31st March, 2012 is given below:

DRAFT BALANCE SHEET (₹ in housand)

	CBS of A Ltd. and its 100% Subsidiary B Ltd.	C Ltd.
Issued ordinary share capital	2,000	1,000
Reserves	3,450	2,000
Debentures	2,000	1,500
Current liabilities	4,550	2,500
Total	12,000	7,000
Fixed assets (net)	6,500	4,000
Investment in C Ltd. at cost	2,000	-
Current assets	3,500	3,000
Total	12,000	7,000

PROFIT AND LOSS ACCOUNT (DRAFT)

	A Ltd and its 100% Subsidiary B Ltd.	C Ltd.
Sales	2,000	1,200
Expenses	(900)	(500)
Trading profit before tax	1,100	700
Dividend from Uncertain Ltd.	100	—
Taxation	(600)	(200)
Profit after tax	600	500
Opening Balance	3,150	1,100
Dividends paid	(300)	(200)
Retained Profit	3,450	1,400

A Ltd. acquired 50% of the ordinary share capital of C Ltd. on 1st April, 2011 for ₹2,000 thousands when its reserves were ₹1,700 thousands and sold this holding on 3rd April, 2012 for ₹2,050 thousands.

You are required to prepare the 'Group' Profit and Loss account (draft) and Balance Sheet (draft) on four bases as follows:

1. When C Ltd. is treated as a subsidiary
2. When C Ltd. is treated as an associated company
3. When C Ltd. is treated as an investment
4. When C Ltd. is treated as a Joint Venture. [15]

4.(a) From the following information, calculate the value of a share if you want to buy a small lot of shares[Market Expectation is 12%]

Year	Profit (₹)	Capital Employed (₹)	Dividend %

2009	55,00,000	3,43,75,000	12
2010	1,60,00,000	8,00,00,000	15
2011	2,20,00,000	10,00,00,000	18
2012	2,50,00,000	10,00,00,000	20

[5]

(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%. [6]

(c) What is on Interest Rate Swaps? [4]

5. (a) Future maintainable profit before interest is ₹154 lakhs, normal rate of return on long term fund is 20% and on equity fund is 25%. Long term fund is of the company is ₹640 lakhs and equity fund is ₹420 lakhs. Interest on long term fund is 18% . Find out leverage effect of goodwill. [5]

(b) The following figures for a period were called out from the books of Asha Corporation:

Particulars	₹
Sales	24,80,000
Purchase of raw materials	10,00.000
Agent's commission	20,000
Consumable stores	25,000
Packing material	10,000
Stationery	10,000
Audit fees	4,000
Staff welfare expenses	1,58,000
Insurance	26,000
Rent rate & taxes	16,000
Managing director's remuneration	84,000
Traveling expenses	21,000
Fuel and oil	9,000
Electricity	5,000
Material used in repairs:	
1. Materials to plant and machinery	24,000
2. Materials to buildings	10,000
Advertisement	25,000
Salaries and wages	6,30,000
Postage and telegMadhus	14,000
Contribution to provident fund, etc.	60,000
Directors' sitting fees & traveling expenses	40,000
Subscription paid	2,000
Carriage	22,000

Interest on loans taken	18,000
Dividend to shareholders	30,000
Depreciation provided	55,000
Income-tax provided	1,00,000
Retained earnings	1,25,000
Opening stock : raw Material	85,000
Finished goods	2,00,000
Closing Stock: raw Material	1,08,000
Finished goods	2,40,000

From the above you are required to prepare a statement detailing the source and disposal to added value. [10]

6. (a) A factory started its activities on 1st April, 2012. From the following data, compute the value of closing stock on 30th April, 2012.

- Raw Materials purchased during April - 40,000 kg at ₹24 (out of which Excise Duty = ₹ 4 per kg). Stock on hand as on 30th April – 2,500 kg.
- Production during April – 7,000 units (of which 5,000 units were sold). In addition to the production, 500 units were lying as WIP on 30th April (100% complete as to Materials and 60% complete as to conversion).
- Wages and Production Overheads - ₹60
- Selling Price - ₹ 220 per unit (of which Excise Duty is ₹20 per unit). [6]

(b) A Ltd. acquired 5,000 Shares of S Ltd. at ₹ 48 per Share Cum-Dividend constituting 62.50% holding in the latter. Immediately after purchase, S Ltd. declared and distributed a dividend at ₹ 4 per Share, which S Ltd. credited to its Profit and Loss Account.

One year later, S Ltd. declared a Bonus of 1 fully paid Equity Share of ₹ 10 each for every 5 Shares held. Later on, S Ltd. proposed to raise funds and made a Rights Issue of 1 Share for 5 held at ₹ 36 per Share. A Ltd. exercised its right.
After some time, at its AGM, S Ltd. had decided to split its Equity Share of ₹ 10 into Two Equity Shares of ₹ 5 each. The necessary resolutions were passed and share certificates issued to all its existing shareholders.
To increase its stake in S Ltd. to 80%, A Ltd. acquired sufficient number of shares at ₹ 30 each.
Ascertain the Cost of Control as on 31st December if S's share in Capital Profits (duly adjusted for purchase in lots) as on that date was ₹ 3,15,000. [9]

7.(a) K Ltd. furnishes you with the following Balance Sheet as at 31st March, 2012 :

		(₹ in lakhs)
Sources of Funds		
Share capital :		
Authorised		200
Issued :		
16% Redeemable Preference shares of ₹ 100 each fully paid	150	
Equity shares of ₹ 10 each fully paid	50	200

Reserves and surplus		
Capital Reserve	30	
Securities Premium	50	
Revenue Reserves	520	600
		800
Funds employed in :		
Fixed assets (Tangible) : cost	200	
Less: Provision for depreciation	200	nil
Investments at cost (Market value ₹ 800 lakhs)		200
Current assets	680	
Less : Current liabilities	80	600
		800

The company redeemed preference shares on 1st April 2012. It also bought back 1 lakh equity shares of ₹ 10 each at ₹ 50 share. The payments for the above were made out of the huge bank balances, which appeared as a part of Current assets.

You are asked to :

i. Pass journal entries to record the above.

ii. Value equity share on net asset basis. [5+4]

(b) Kalpana Ltd. purchased an old well for $200 million. It estimates that the well contains 500 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 20,000 barrels of oil during the first year, how much depletion expense should be recognized as per IFRS 6? [6]

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

(a) Jaggi and Lau model on valuation of group basis of Human Resources;

(b) Forward Contract

(c) Significance of Environmental Accounting;

(d) Impairment of asset and its application to inventory.