FINAL EXAMINATION

GROUP IV

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2013

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.
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 question 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): 2x8=16

(i) In a production process, normal waste is 5% of input. 5000 MT of input were put in process resulting in a waste of 300 MT. Cost per MT of input is ₹ 500. What will be the cost per unit?
A. ₹ 500.00
B. ₹ 526.32
C. ₹ 531.91
D. ₹ 561.80

(ii) X Ltd. purchased certain plant and machinery for ₹ 80 lakhs. 20% of the cost, net of CENVAT credit is the subsidy component to be realised from a State Government for establishing industry in a backward district. Purchase price includes excise of ₹ 6 lakhs against which CENVAT credit can be claimed. What will be the depreciable amount when entire subsidy is adjusted against cost?
A. ₹ 64 lakhs
B. ₹ 74 lakhs
C. ₹ 59.20 lakhs
D. ₹ 75.20 lakhs

(iii) M Ltd. has equity capital of ₹ 20 crores consisting of fully paid equity shares of ₹ 10 each. The net profit for the year 2012-13 was ₹ 60 lakhs. It has also issued 40,000, 10% convertible debentures of ₹ 50 each. Each debenture is convertible into five equity shares. Applicable tax rate is 30%. What will be the diluted earnings?
A. ₹ 42,00,000
B. ₹62,00,000

C. ₹59,40,000
D. ₹ 61,40,000

(iv) Northern Ltd. took a bank loan of ₹ 125 lakhs to finance the purchase of a plant of ₹ 160 lakhs at an interest of 15% per annum on 30.09.2012. The plant was ready for use on 31.01.2013; however it was put to use only on 01.04.2013. What amount of finance cost will be added to find out the original cost of the plant?
A. ₹ 6.25 lakhs
B. ₹ 9.375 lakhs
C. ₹ 18.75 lakhs
D. ₹ 8.00 lakhs

(v) Z Ltd. has provided depreciation as per accounting records ₹ 5.00 lakhs and as per tax records it is ₹ 8.00 lakhs. An unamortised preliminary expense as per tax records is ₹ 6,500. There is adequate evidence of future profits sufficiency. How much deferred tax assets/liabilities should be recognised as per AS-22 ? Tax rate is 30%.
A ₹ 88,050 (DTL)
B ₹ 90,000 (DTL)
C ₹ 91,950 (DTL)
D ₹ 88,060 (DTL)

(vi) ASILEEN LTD. purchased a plant on 01.04.2011 for ₹ 8,00,000. It provides depreciation @ 20% on WDV during the year ended on 31.03.2013. If the Company provides inpairment loss on plant for ₹ 80,000. What would be the carrying amount of Plant on 31.03.2013 as per AS-28?
A. ₹5,92,000
B. ₹ 5,12,000
C. ₹ 4,32,000
D. None of (A), (B) and (C)

(vii) GAYATHRI Ltd. purchased 1500 shares of SAVITHA Ltd. in December, 2011 at ₹ 100 each and paid brokerage at 1%. In September, 2012 Savitha Ltd. issued bonus shares at one share for every three held by the Shareholders. If Gayathri Ltd. sold 1,000 shares in March, 2013 at ₹ 110 per share and paid a brokerage of 1%, what would be the carrying cost of investment in Savitha Ltd. after the sale of shares as per AS-13?
A. ₹ 75,750
B. ₹ 41,500
C. ₹ 42,700
D. None of the above

(viii) VENNELA Ltd. acquired 2000 equity shares of DRAVIDAN Ltd. on April, 01,2012 for a price of ₹ 3,00,000. Dravidan Ltd. made a net profit of ₹ 80,000 during the year 2012-13. Dravidan Ltd. issued bonus shares of one share for every five shares held out of the post acquisition profits earned during the year 2012-13. The Share Capital of DRAVIDAN Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the share of Vennela Ltd. in the pre-acquisition profit of Dravidan Ltd. is ₹ 56,000, the amount of Goodwill/Capital Reserve to be shown in the Consolidated Balance Sheet as on March 31, 2013 is
A. ₹ 4,000 (Goodwill)
B. ₹ 4,000 (Capital Reserve)
C. ₹ 44,000 (Goodwill)
D. ₹ 50,000 (Goodwill)

(b) Choose the most appropriate one from the stated options and write it down (only indicate A, B, C, D as you think correct). 1x5=5

(i) As per AS-16, a qualifying asset is
- **A. An asset which qualifies to be a part of reconstruction**
- **B. An asset that takes a long time to get ready for intended use or sale**
- **C. An asset which satisfies a particular condition**
- **D. An asset which qualifies for a particular rate of depreciation**

(ii) Amortization of Unidentified intangible assets is in terms of
- **A. Conservation concept**
- **B. Going concern concept**
- **C. Matching concept**
- **D. None of (A), (B) and (C)**

(iii) Which of the following combination of accounting assumptions are fundamentals as per AS-1?
- **A. Going concern, consistency and accrual**
- **B. Going concern, conservatism and historic cost**
- **C. Histric cost, consistency and conservatism**
- **D. Conservatism, consistency and accrual**

(iv) A reportable segment must exceed the quantitative thresholds mentioned in AS-17. These thresholds relate to
- **A. Revenue of segment to the revenue of Enterprise**
- **B. Profit or Loss to the combined profit or loss of all segments**
- **C. Segment assets to the total assets of all segments**
- **D. All of the above**

(v) As per AS-29 contingent Assets are
- **A. Recognized in Balance Sheet, if happening is almost certain**
- **B. Not Recognized in Balance Sheet**
- **C. Disclosed in Notes to Accounts**
- **D. None of the above**

(c) PARTHAN Ltd. took a machine on lease from ZEESLIN Ltd., the fair value being ₹ 9,00,000. The economic life of the machine as well as lease term is 3 years. At the end of each year Parthan Ltd. pays ₹ 3,50,000. Guaranteed Residual Value (GRV) is ₹ 25,000 on expiry of the lease. Implicit Rate of Return (IRR) is 15% p.a. Calculate the value of machine to be considered by Parthan Ltd. and the interest (Finance Charges) in each year.

Notes:

Extracted from the PV Table: **4**

Year	1	2	3
P.V. factor of ₹ 1 @ 15%	0.869	0.756	0.657

Answer:

1. (a) (i) B. ₹ 526.32

Normal waste=5000 x 5% =250 units

Abnormal Waste=300-250=50 units

Cost per unit (5000 x ₹ 500)/4750 =₹ 526.32

(ii) C. Rs 59.20

Purchase price	₹	80.00 lakh
Less: excise duty on which CENVAT credit is available	₹	6.00 lakh
a. Original cost of P&M for accounting purposes	₹	74.00 lakh
b. Less, Subsidy	₹	14.80 lakh
c. Depreciable Amount	₹	59.20 lakh

(iii) D. Rs 61.40.000.
Interest on debenture@10% for the year (40,000 x 50 x 10%) = ₹ 2,00,000
Tax on interest @30% ₹ 60,000
Diluted earnings (adjusted net profit) = 60,00,000 + 2,00,000 – 60,000 = ₹ 61,40,000

(iv) A. ₹ 6.25 lakhs.
Interest on loan for the period from 1.10.2012 to 31.1.2013 (4 months) =125.00x15%x1/3 = ₹ 6.25 lakhs. to be capitalized.
Interest from 1.2.2013 to 31.3.2013 will be charged to profit &Loss Account.

(v) A. ₹ 88050(DTL)
It is a case of timing difference

Excess depreciation as per tax records =₹ (8,00,000 – 5,00,000) =	₹ 3,00,000.
Less, expenses provided in taxable income	₹ 6,500.
	2,93,500

As tax expense is more than the current tax due to timing difference of Rs 293500, therefore D.T.L =30% of ₹ 2,93,500 = ₹ 88,050 shall be credited in accounts

(vi) C: ₹ 432000

Plant cost	₹ 8,00,000
Less: Depreciation upto 31.03.2013	₹ 2,88,000
	₹ 5,12,000
Less: Impairment loss	₹ 80,000
Carrying amount of plant	₹ **4,32,000**

(vii)A: ₹ 75,750

Cost of acquisition of 1500 shares : 1500 x 100	=	₹ 1,50,000
Brokerage paid @ 1 %	=	₹ 1,500
		₹ 1,51,500
Cost of acquisition of 500 bonus shares		NIL
Carrying cost of 2000 shares in Savitha Ltd.		₹ 1,51,500
Weighted average cost of 1000 shares sold (1,51,500 / 2,000) x 1000		₹ 75,750
Carrying cost of investment in Savitha Ltd.		₹ 75,750

(viii) A: ₹ 4000 (goodwill)

Cost of investments	₹ 3,00,000	
Less: Share of capital profit	₹ 56,000	2,44,000
Face value of shares (including bonus shares of 400)		2,40,000
Cost of control-Goodwill		₹ 4,000

(b) (i) B
(ii) A. Conservation concept or it may be for B. Going concern concept.
As per Conservation concept any type of expected or estimated loss is recognized immediately. The basic accounting principle of conservation leads the accountants to anticipate or disclose losses immediately but it does not allow a similar action for gains. On the other hand to carry on any business swiftly and to continue the business in foreseeable future it is required to prevent the capital erosion – this supports the Going concern concept, hence preference can be given to both A or B.

(iii) A
(iv) D
(v) B

(c) Present value of Minimum Lease Payment (MLP) from the view point of Parthan Ltd.

3,50,000 x 2.282	=	₹ 7,98,700
25,000 x 0.657	=	₹ 16,425
Value of the machine	=	**₹ 8,15,125**

Value of the machine to be considered by Parthan Ltd. in its books

Fair value at the inception of lease	₹ 9,00,000
Or Present value of MLP	₹ 8,15,125
Whichever is lower i.e.	₹ 8,15,125

Finance charge = Gross investment in the lease
Less: Present value of Gross investment
= ₹ 10,75,000- 8,15,125 = ₹ 2,59,875

PART B (75 Marks)

2. (a) Ms. AINDRILA furnishes the following information about all options at the Balance Sheet date (31.03.2013).

(Figures in ₹)

Securities	BN	DM	TZ
Details of Options bought:			
Premium paid	18,000	9,000	9,000
Premium prevailing on Balance Sheet date	27,000	4,500	7,200
Details of Options Sold:			
Premium received	9,000	27,000	9,000
Premium prevailing on Balance Sheet date	22,500	18,000	13,500

Required:
Determine the amount of Provision to be made in the Books of Ms. Aindrila. **5**

(b) PHIMPEX LTD. (PL) engaged in manufacturing business furnished the following Profit and Loss Account for the year ended March 31, 2013.

(Amount in ₹ lakh)

	Amount	
Income:		
Sales	3,120	
Other Income	27	3,147
Expenditure:		
Production and Operational Expenses	2,160	
Administration Expenses (factory)	90	
Interest and Other Charges	312	
Depreciation	8	2,570
Profit before Tax		577
Provision for Tax		27
		550
Balance as per last Balance Sheet		30
		580
Less: Transfer to Fixed Asset Replacement Reserve	200	
Dividend paid	80	280
Surplus carried to Balance Sheet		300

(Amount in ₹ lakh)

	Amount
Additional Information:	
(i) Production and Operation expenses consist of:	
Consumption of Raw materials	1,604
Consumption of stores	20

Local Taxes	**4**
Salaries to Administrative staff	**310**
Other Manufacturing Expenses	**222**
(ii) Administrative expenses include salaries and Commission to Directors	**2.50**
(iii) Interest and other charges include interest on:	
(a) **Bank overdraft (overdraft is of temporary nature)**	**54.50**
(b) **Fixed loan from SIDBI**	**25.50**
(c) **Working Capital Loan from IDBI**	**10**
(iv)Excise duty amounts to one-tenth of Total Value Added by manufacturing and trading activities.	

Required:

Prepare Gross Value Added Statement of PHIMPEX LTD. and also show the reconciliation between Gross Value Added and Profit before Taxation. **10**

Answer:

2. (a) Determination of provision required in the books of MS Aindrila

(Amount in ₹)

Particulars/Securities	BN	DM	TZ
For options bought: Premium paid on all options bought Less: Total premium prevailing on Balance Sheet date (31.03.2013)	 18,000 (27,000)	 9,000 (4,500)	 9,000 (7,200)
Total (A)	(9,000)	4,500	1,800
For options sold: Total premium prevailing on the Balance Sheet date (31.03.13) Less: Total premium on all options sold	 22,500 (9,000)	 18,000 (27,000)	 13,500 (9,000)
Total (B)	13,500	(9,000)	4,500
Provision required (A+B)	4,500	Nil	6,300

Aggregate provisions to be made: (4,500+6,300) 10,800

Note:

(1) Multiple option

At the year end a stockwise provision should be made considering all open option of any strike price and any expiry date under that stock/index taken together.

(2) The aggregate amount for stock DM constitutes an unrealized gain and therefore no provision should be made under consideration of prudence.

(b)

PHIMPEX LTD.

Gross value added statement for the year ended March 31, 2013.

Particulars	Amount in ₹ lakh	
Sales		3,120
Less: Cost of bought out materials and services:		
production and operational expenses (2160-4-310)	1,846	
Administrative expenses (90-2.5)	87.5	
Interest on Bank overdraft	54.5	
Interest on working capital loan	10	
Other charges (222-90)	132	
Excise Duty (Ref. working note)	90	2,220
Total value added by manufacturing and trading activities		900
Add: Other income		27
Gross Value added from operation		927

Application of gross value added: (Amount in Lakh)

			%
To Pay Employee-			
Salaries to Administrative Staff		310	33.44
To Pay Directors			
Salaries and Commission		2.50	0.27
To Pay Government			
Local Taxes	4		
Income Taxes	27	31	3.35
To Pay Providers of Capital			
Interest on fixed loan	25.50		
Dividend	80.00	105.50	11.38
To Provide for Maintenance and Expenses of the Company:			
Depreciation	8		
Fixed assets replacement reserve	200		
Retained profit (300-30)	270	478	51.56
Total Application of Value Added:		927	100.00

Reconciliation between gross value added and profit before taxation

		(Amount in ₹ lakh)
Profit before taxation		577
Add Back		
Depreciation	8	
Salaries to Administrative staff	310	
Directors' Salaries and commission	2.50	
Interest on fixed loan	25.50	
Local taxes	4	350
		927

Working notes	(Amount in ₹ lakh)
Sales	3,120
Less: Cost of bought out materials and services:	
Production and operational expenses (2160-4-310)	1,846
Administrative expenses (90-2.50)	87.50
Interest on Bank overdraft	54.50
Interest on working capital loan	10
Other charges	222
Total value added by manufacturing/trading Activities:	900
Excise Duty 1/10 of 900	90

3. (a) The following is an abstract of the Balance Sheet of RICHA LTD., PURU LTD. and SURA LTD. as on March 31,2013.

Particulars	RICHA Ltd. ₹	PURU Ltd. ₹	SURA Ltd. ₹
Assets:			
Fixed Assets (at cost less depreciation)	**4,00,000**	**5,00,000**	**4,00,000**
Investments:			
6,400 Equity Shares in Puru Ltd.	**7,00,000**	----	----
3,000 Equity Shares in Sura Ltd.	**4,00,000**	----	----
800 Equity Shares in Puru Ltd.	----	----	**90,000**
Current Assets:			
Debtors	**40,000**	**1,80,000**	**80,000**

Stock	40,000	1,40,000	1,00,000
Cash and Bank Balance	20,000	3,30,000	90,000
	16,00,000	11,50,000	7,60,000
Liabilities:			
Equity Share Capital (₹100 each)	10,00,000	8,00,000	5,00,000
Reserves and Surplus:			
Profit and Loss Account	5,00,000	2,00,000	60,000
Current Liabilities & Provisions:			
Sundry Creditors	92,000	1,34,000	1,60,000
Bills payable	8,000	16,000	40,000
	16,00,000	11,50,000	7,60,000

Additional Information:

(i) Profit and Loss Account of PURU Ltd. includes ₹ 50,000 as pre-acquisition Profits, the balance representing post-acquisition Profits.

(ii) The balance in the Profit and Loss Account of SURA Ltd. is arrived at after setting off ₹ 15,000 being pre-acquisition loss against the post acquisition profit of ₹ 75,000.

(iii) Richa Ltd. and Sura Ltd. acquired the shares of Puru Ltd. on the same date.

Required:
Prepare a consolidated Balance Sheet of Richa Ltd. and its subsidiaries Puru Ltd. and Sura Ltd. as on March 31, 2013. 10

(b) Who are related parties under AS-18? What are the disclosure requirements with respect to related party transactions? 5

Answer:

3. (a) Name of the Company: Richa Ltd. and its subsidiaries Puru Ltd. and Sura Ltd.
Consolidated Balance Sheet as at 31st March 2013

Ref No.	Particulars		Note No.	As at 31st March, 2013
				₹
	I	**EQUITY AND LIABILITIES**		
	1	**Shareholders' funds**		
		(a) Share capital	1	10,00,000
		(b) Reserves and surplus	2	6,74,000
				16,74,000
		Minority Interest (Working Note 3)		3,32,000
	4	**Current liabilities**		
		(b) Trade payables	3	3,86,000
		(c) Other current liabilities	4	64,000
				4,50,000
		TOTAL		24,56,000

Ref No.	Particulars		Note No.	As at 31st March, 2013
				₹
	II	ASSETS		
	1	Non-current assets		
		(a) Fixed assets		
		(i) Tangible assets	5	13,00,000
		(ii) Intangible assets	6	1,36,000
				14,36,000
	2	Current assets		
		(b) Inventories	7	2,80,000
		(c) Trade receivables	8	3,00,000
		(d) Cash and cash equivalents	9	4,40,000
				10,20,000
		TOTAL		24,56,000

Annexure :

Note 1. Share Capital	As at 31st March, 2013
Equity Shares of ₹ 100 each	**10,00,000**
Total	**10,00,000**

Note 2. Reserves and Surplus	As at 31st March, 2013
Profit & Loss A/c	**6,74,000**
Total	**6,74,000**

Note 3. Trade Payables	As at 31st March, 2013
Sundry Creditors [92,000+1,34,000+1,60,000]	**3,86,000**
Total	**3,86,000**

Note 4. Other Current Liabilities	As at 31st March, 2013
Bills Payable [8,000+16,000+40,000]	**64,000**
Total	**64,000**

Note 5. Tangible Assets	As at 31st March, 2013
Fixed Assets [4,00,000+5,00,000+4,00,000]	**13,00,000**
Total	**13,00,000**

Note 6. Intangible Assets	As at 31st March, 2013
Goodwill	1,36,000
Total	1,36,000

Note 7. Inventories	As at 31st March, 2013
Stock [40,000+1,40,000+1,00,000]	2,80,000
Total	2,80,000

Note 8. Trade Receivables	As at 31st March, 2013
Debtors [40,000+1,80,000+80,000]	3,00,000
Total	3,00,000

Note 9. Cash and Cash Equivalents	As at 31st March, 2013
Cash and Bank Balance	4,40,000
Total	4,40,000

Only relevant schedules are shown

Working notes'.	Analysis of Profits:	Capital (₹)	Revenue (₹)
(1) Analysis of Profits:			
Puru Ltd.			
Share of Richa Ltd.	(80%)	50,000	1,50,000
Share of Minority	(10%)	40,000	1,20,000
Share of Sura Ltd.	(10%)	5,000	15,000
		5,000	15,000
Profit of Sura Ltd.		-15,000	75,000
		-10,000	90,000
Share of Minority (40%)		-4,000	36,000
Share of Richa Ltd.		-6,000	54,000

(2) Cost of Control:

Cost of shares - Richa Ltd. in Puru Ltd.			₹ 7,00,000
Richa Ltd. in Sura Ltd.			₹ 4,00,000
Sura Ltd. in Puru Ltd.			₹ 90,000
			₹ 11,90,000
Less: Paid up value of shares:			
Richa Ltd. in Puru Ltd.			₹ 6,40,000
Richa Ltd. in Sura Ltd.			₹ 3,00,000
Sura Ltd. in Puru Ltd.			₹ 80,000
Less: Capital Profits			
In Puru Ltd.	₹ 40,000		
In Sura Ltd.	- ₹ 6,000	34,000	₹ 10,54,000
Goodwill			₹ 1,36,000

(3) Minority interest:

	Puru Ltd. (₹)	Sura Ltd. (₹)

Share capital	80,000	2,00,000
Capital profit	5,000	- 4,000
Revenue profit	15,000	36,000
Total - ₹ 3, 32,000	1,00,000	2,32,000

(4) Computation of Consolidated Profit and Loss A/c balance:

Particulars	Amount (₹)
Balance of Profit & Loss A/c as on 31st March,2013	5,00,000
Add: Share of post-acquisition profit or revenue profit from Puru Ltd.	1,20,000
Add: Share of post-acquisition profit or revenue profit from Sura Ltd.	54,000
Total	6,74,000

(b) Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

If there have been transaction between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following.

a) the name of the transacting related party;
b) a description of the relationship between the parties;
c) a description of the nature of transaction
d) Volume of the transactions either as an amount or as an appropriate proportion;
e) Any other elements of the related party transactions necessary for an understanding of the financial statements;
f) The amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at the date; and
g) Amounts written off or written back in the period in respect of debts due from or to related parties.

4. From the following Balance Sheets of DOLL LTD. and additional information, prepare a Cash Flow Statement as per AS-3 for the current year.

Balance Sheet of DOLL LTD.

Liabilities	Previous Year (₹)	Current Year (₹)	Assets	Previous Year (₹)	Current Year (₹)
Share Capital	2,50,000	3,50,000	Goodwill	60,000	50,000
Reserves	1,30,000	1,65,000	Fixed Assets	2,90,000	3,95,000
Proposed Dividend	20,000	35,000	Stock	70,000	1,00,000
Provision for tax	50,000	60,000	Debtors	1,00,000	1,30,000
Current Liabilities	90,000	1,20,000	Cash & Cash Equivalent	20,000	55,000
	5,40,000	7,30,000		5,40,000	7,30,000

Additional information:

(i) Depreciation on fixed assets provided during the year ₹ 30,000; Net Profit during the year ₹ 80,000; Income Tax paid ₹ 50,000; Final dividend paid ₹ 20,000; Interim dividend was also paid.

(ii) Fixed asset costing ₹ 60,000 (accumulated depreciation ₹ 35,000) sold for ₹ 30,000.

(iii) Fixed asset costing ₹ 50,000 was purchased by issue of share capital. **15**

Answer:

Cash Flow Statement for the current year

(amount in ₹)

Cash flow from operating activities:		
Net profit for the year	80,000	
Add: Provision for taxation(closing)	60,000	
Depreciation	30,000	
Goodwill written off	10,000	
Increase in current liabilities	30,000	
	2,10,000	
Less: profit on sale of fixed asset	5,000	
Increase in stock	30,000	
Increase in debtor	30,000	
Tax paid	50,000	
	1,15,000	
Net cash flow from operating activities		95,000
Cash flow from Investing Activities;		
Sale of fixed asset	30,000	
Purchase of fixed asset	(1,10,000)	
Net cash flow from Investing activities		(80,000)
Cash flow from Financing activities ;		
Issue of shares in cash	50,000	
Payment of final dividend	(20,000)	
Payment of interim dividend	(10,000)	
Net cash flow from financing activities		20,000
Net cash flow in the current year		**35,000**
Add, opening balance of cash and cash equivalent		20,000
Cash balance of cash and cash equivalent		**55,000**

Note:- no effect in cash flow i.r.o. fixed asset worth ₹ 50,000 purchased by issue of shares.

WORKING NOTE:-

1. Fixed Assets A/c.

Dr Cr

To, Balance b/d	2,90,000	By, Bank a/c (sales)	30,000
" Share Capital a/c	50,000	" Depreciation a/c	30,000
" Profit & Loss a/c (profit on	5,000	" Balance c/d	3,95,000
" Bank a/c purchase (bal. Fig.)	1,10,000		
	4,55,000		4,55,000

2. Reserve Account

Dr Cr

To, Proposed Dividend	35,000	By, Balance b/d	1,30,000
" Interim Dividend (bal. fig.)	10,000	Net Profit	80,000
" Balance c/d	1,65,000		
	2,10,000		2,10,000

3. Profit on Sale of Fixed Asset

Particulars	**Amount(₹)**
Cost of the Fixed Asset	60,000

Less: Depreciation (accumulated)	35,000
Written Down Value (A)	25,000
Sale Price(B)	30,000
Profit on sale of Fixed Asset (B-A)	5,000

5. The Balance Sheets of ZYX Ltd. are as follows:

(₹ in lakhs)

Particulars	**As at 31.03.2012**	**As at 31.03.2013**
Liabilities:		
Share Capital	**1,000**	**1,000**
General Reserve	**800**	**850**
Profit & Loss A/c	**120**	**175**
Term Loans	**370**	**330**
Sundry Creditors	**70**	**90**
Provision for tax	**23**	**25**
Proposed dividend	**200**	**250**
	2,583	**2,720**
Assets:		
Fixed Assets & Investments (non-trade)	**1,600**	**1,800**
Stock	**550**	**600**
Debtors	**340**	**220**
Cash & Bank	**93**	**100**
	2,583	**2,720**

Other information:

(i) Current cost of fixed assets excluding non-trade investments on 31.03.2012, ₹ 2,200 lakhs and on 31.03.2013, ₹ 2,532.80 lakhs.

(ii) Current cost of stock on 31.03.2012, ₹ 670 lakhs and on 31.03.2013, ₹ 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 & D cost, were written off in the Profit and Loss account. This expenditure is not likely to recur.

(viii) Tax rate is 35%.

(ix) Normal rate of return is expected at 13%.

Find out goodwill: (a) under capitalisation method.
(b) under super profit method. **15**

Answer:

1. Average capital employed:-

(₹ In lakhs)

Particulars	**As at 31.3.2012**	**As at 31.3.2013**
Current cost of fixed assets other than non trade investments	2,200.00	2,532.80
Current cost of stock	670.00	750.00
Debtors	340.00	222.80
Cash & Bank	93.00	100.00
Total	3,303.00	3,605.60
Less, Outside liabilities:		
Term loans	370.00	330.00

Sundry creditors	70.00	96.00
Tax provision	23.00	25.00
Total	463.00	451.00
Capital employed	2,840.00	3,154.60

Average capital employed at current value = (2,840.00 + 3,154.60)/2 = 2,997.30 lakhs

2. Future maintainable profit :-

Increase in general reserve		50.00
Increase in profit &loss account		55.00
Proposed dividend		250.00
Profit after tax		**355.00**
Pre-tax profit = 355.00/(1- 0.35)		546.15
Less: Non trading income	49.00	
Exchange loss on creditors [1.20 lakhs x (47.50-42.50)]	6.00	
subsidy	120.00	175.00
Add: Exchange gain on debtors [0.7 lakhs x (47.50-43.50)]	2.80	
R&D costs	247.00	
Stock adjustment	30.00	279.80
Adjusted pre-tax profit		**650.95**
Less: tax @ 35%		227.83
Future Maintainable Profit		**423.12**

Valuation of goodwill:-

1) Capitalization Method:

(₹ In lakhs)

Capitalized value of future maintainable profit (423.12 / 0.13)	3,254.76
Less: average capital employed	2,997.30
Goodwill	257.47

2) Super Profit Method

(₹ In lakhs)

Future maintainable profit	423.12
Normal profit @ 13% on average capital employed	389.65
Goodwill	33.47

<u>Working Notes</u>

1) Stock adjustment

Difference between current cost and historical cost of closing stock	150.00
Difference between current cost and historical cost of opening stock	120.00
	30.00

2) Debtor's adjustment

Value of foreign exchange debtors at the closing exchange rate ($ 70,000 x 47.50)	33.25
Value of foreign exchange debtors at the original exchange rate ($ 70,000 x 43.50)	30.45
	2.80

3) Creditors adjustment

Foreign exchange creditors at the closing exchange rate ($1,20,000 x 47.50)	57.00
Foreign exchange creditors at the original exchange rate ($ 1,20,000 x 42.50)	51.00
	6.00

6. The following are the Balance Sheet of ASHLIN LTD. and MEGHLA LTD. as on March 31,2013.

(₹ in lakhs)

Liabilities	ASHLIN Ltd.	MEGHLA Ltd.	Assets	ASHLIN Ltd.	MEGHLA Ltd.
Equity Share Capital (₹ 10 each)	200	120	Fixed Assets other than Goodwill	120	80
Reserve	16	8			
Profit & Loss A/c	24	16	Stock	32	24
Creditors	20	12	Debtors	56	36
			Cash & Bank	48	14
			Preliminary Expenses	4	2
Total	**260**	**156**	**Total**	**260**	**156**

ASHLIN LTD. takes over MEGHLA LTD. on 01.07.2013. No Balance Sheet of Meghla Ltd. is available as on that date. It is however estimated that Meghla Ltd. earns estimated Profit of ₹ 8 lakh after charging proportionate depreciation @ 10% p.a. on Fixed Assets, during April-June, 2013.

Estimated Profit of Ashin Ltd. during these 3 months is ₹ 16 lakh after charging proportionate depreciation @ 10% p.a. on Fixed Assets. Both the Companies have declared and paid 10% dividend within this 3 months period. Goodwill of Meghla Ltd. is valued at ₹ 8 lakh and Fixed Assets are valued at ₹ 4 lakh above the estimated book value. Purchase consideration is to be satisfied by Ashlin Ltd. by issuing shares at PAR.

You are required to Calculate the following:

(a) Net Current Assets of Ashlin Ltd. and Meghla Ltd. as on 01.07.2013.

(b) Profit & Loss account balance of Ashlin Ltd. as on 01.07.2013.

(c) Fixed Assets of Ashlin Ltd. and Meghla Ltd. as on 01.07.2013.

(d) Number of shares to be issued by Ashlin Ltd. to Meghla Ltd. against purchase consideration.

(e) Prepare Balance Sheet of Ashlin Ltd. as on 01.07.2013 after taking over Meghla Ltd.

4+2+3+1+5=15

Answer:

6. (a) Calculation of net current assets of Ashlin Ltd. & Meghla Ltd. as on 01.07.2013

(Amount in ₹ Lakh)

Particulars	Ashlin Ltd.	Meghla Ltd.
Current Assets (31.03.2013):		
Stock	32	24
Debtors	56	36
Cash & Bank	48	14
	136	74
Less: Current liabilities creditors	20	12
Net current assets as on 31.03.2013	116	62
Add: Profit (during 01.04.13 to 30.06.13)	16	8
Add: Depreciation for 3months (non cash)	3	2
Less: Dividend	(20)	(12)
Net current assets as on 01.07.2013	115	60

(b) Profit and Loss Balance as on 01.07.2013:

(Amount in ₹ Lakh)

Particulars	Ashlin Ltd.	Meghla Ltd.
Profit as on 31.03.2013	24	16
Add: Profit for 3 months	16	8
Less: Dividend	20	12
Balance as on 01.07.2013	20	12

(c) Fixed Assets as on 01.07.2013:

(Amount in ₹ Lakh)

Particulars	Ashlin Ltd.	Meghla Ltd.
Fixed assets as on 31.03.2013	120	80
Less: Depreciation	3	2
	117	78
Goodwill	-	8
Revaluation of fixed assets	-	4
Fixed assets as on 01.07.2013	117	90

(Amount in ₹ Lakh)

Particulars	Ashlin Ltd.	Meghla Ltd.
Net Assets as on 01.07.2013	232	150

(d) Number of shares to be issued by Ashlin Ltd. to Meghla Ltd. against purchase consideration.

Net assets of Meghla Ltd. ₹ 150 lakh
Therefore, Purchase consideration will be ₹ 150 lakh
No. of shares to be issued by Ashlin Ltd. to Meghla Ltd.
₹ 150 lakh / ₹ 10 (At par) 15,00,000 shares

(e) Working Note:

Computation of Cash & Bank Balance as on 01.07.2013

Particulars	ASHLIN Ltd. Amount (₹ in lakhs)	MEGHLA Ltd. Amount (₹ in lakhs)
Cash & Bank balance as on 31st March,2013	48	14
Add: profit (during 01.04.13 to 30.06.13)[as the problem is silent, it is assumed that all the payables are paid and all the receivables are collected during this year]	16	8
Add: Depreciation for 3 months (non-cash)	3	2
Less: Dividend paid	(20)	(12)
Total	47	12

Note: it is also assumed that there was no change in stock during this year.

Name of the Company: ASHLIN Ltd.
Balance Sheet as at 1st July 2013

Ref No.	Particulars	Note No.	As at 1st July,2013

				(₹ in lakhs)
	I.	**EQUITY AND LIABILITIES**		
	1	Shareholders' funds		
		(a) Share capital	1	350
		(b) Reserves and surplus	2	36
	4	Current Liabilities		
		(b) Trade payables	3	32
		Total		418
	II.	**ASSETS**		
	1	Non-current assets		
		(a) Fixed assets		
		(i) Tangible assets	4	199
		(ii) Intangible assets	5	8
	2	Current assets		
		(b) Inventories	6	56
		(c) Trade receivables	7	92
		(d) Cash and cash equivalents	8	59
		(f) Other current assets	9	4
		Total		418

	(₹ in Lakhs)
Note 1. Share Capital Authorised Issued and subscribed Capital	**As at 1st July,2013**
Equity Share of ₹10 each	350
Total	350

RECONCILATION OF SHARE CAPITAL	**(₹ in Lakhs)**	
FOR EQUITY SHARE :-	**As at 1st July,2013**	
	Nos	**Amount (₹)**
Opening Balance as on 01.04.13	20,00,000	200
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	15,00,000	150

	35,00,000	350
Less: Buy Back of shares	-	-
	35,00,000	350

	(₹ in Lakhs)
Note 2. Reserves and Surplus	**As at 1st July,2013**
Reserves	16
Profit and Loss A/c	20
Total	36
Note 3. Trade Receivables	
Creditors (20+12)	32
Total	32
Note 4. Tangible Assets	**As at 1st July,2013**
Fixed Assets (117+82)	199
Total	199
Note 5. Intangible Assets	**As at 1st July,2013**
Goodwill	8
Total	8
Note 6. Inventories	**As at 1st July,2013**
Stock (32+24)	56
Total	56
Note 7. Trade Payables	**As at 1st July,2013**
Debtors (56+36)	92

Total	92
Note 8. Cash and Cash Equivalents	**As at 1st July,2013**
Cash & Bank (47+12)	59
Total	59
Note 9. Other Current Assets	**As at 1st July,2013**
Preliminary Expenses	4
Total	4

Working Note:

Computation of Cash & Bank Balance as on 01.07.2013

Particulars	**ASHLIN Ltd. Amount (₹ in lakhs)**	**MEGHLA Ltd. Amount (₹ in lakhs)**
Cash & Bank balance as on 31st March,2013	48	14
Add: profit (during 01.04.13 to 30.06.13)[as the problem is silent, it is assumed that all the payables are paid and all the receivables are collected during this year]	16	8
Add: Depreciation for 3 months (non-cash)	3	2
Less: Dividend paid	(20)	(12)
Total	47	12

Note: it is also assumed that there was no change in stock during this year.

7. The business of P. Ltd. was being carried on continuously at losses. The following are the extracts from the Balance Sheet of the company as on 31st March, 2013.

(₹ in 000)

Liabilities	**Amount**	**Assets**	**Amount**
Authorised, Issued and subscribed Capital:		**Goodwill**	**50**
		Plant	**300**
30,000 equity shares of ₹ 10 each fully paid	**300**	**Loose Tools**	**10**
		Debtors	**250**
2,000, 8% cumulative preference shares of ₹ 100 each fully paid	**200**	**Stock**	**150**
		Cash & Bank	**45**
Securities Premium	**90**	**Preliminary Expenses**	**5**
Unsecured Loan (from directors)	**50**	**Profit & Loss Account**	**200**
Sundry Creditors	**300**		
Outstanding Expenses (including director's remuneration ₹ 20,000)	**70**		
	1,010		**1,010**

Note: Dividends on cumulative Preference Shares are in arrears for 3 years.

The following scheme of reconstruction has been agreed upon and duly approved by the court.

(a) Equity shares to be converted into 1,50,000 shares of ₹ 2 each.

(b) Equity shareholders to surrender to the company 90% of their holding.

(c) Preference shareholders agree to forego their right to arrears to dividends in consideration of which 8% Preference Shares are to be converted into 9% Preference Shares.

(d) Sundry Creditors agree to reduce their claim by l/5th in consideration of their getting shares of ₹ 35,000 out of the surrendered equity shares.

(e) Directors agree to forego the amounts due on account of unsecured loan and outstanding remuneration.

(f) Surrendered shares not otherwise utilised to be cancelled.

(g) Assets to be revalued as under:

Goodwill	**₹ Nil**
Plant	**₹ 2,60,000**
Tools	**₹ 2,000**
Sundry Debtors	**₹ 2,35,000**
Stock	**₹ 1,30,000**

(h) Any surplus after meeting the losses should be utilised in writing down the value of the plant further.

(i) Expenses on reconstruction amounted to ₹ 10,000.

(j) Further 50,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid-up.

You are required to pass the journal entries for giving effect to the above arrangement and also to draw up the Balance Sheet after reconstruction of the company. 15

Answer:

Journal entries in the books of P Ltd.

(Rs in '000)

a)	Equity Share Capital (₹ 10 each) A/c To, Equity Share Capital (₹ 2 each) A/c (Being sub- division of shares)	Dr	300	 300
b)	Equity Share Capital(₹2) A/c To, Share Surrendered A/c (Being surrender of shares)	Dr	270	 270
c)	8% Cumulative Preference Share Capital A/c To,9% Cumulative Preference Share Capital A/c (Being the conversion of preference share capital)	Dr	200	 200
d)	Share Surrendered A/c To, Equity Share Capital A/c (Being surrendered shares issued to creditors under reconstruction scheme)	Dr	35	 35
e)	Reconstruction expenses A/c To, Bank A/c (Being the expenses paid)	Dr	10	 10
f)	Shares Surrendered A/c To, Capital Reduction A/c (Being cancellation of unissued surrendered shares)	Dr	235	 235
g)	Unsecured Loan A/c Sundry Creditors A/c Outstanding Expenses A/c To, Capital Reduction A/c (Being the amount surrendered by directors & creditors)	Dr Dr Dr	50 60 20	 130

h)	Capital Reduction A/c To Goodwill A/c To, Loose Tools A/c To, Sundry Debtors A/c To, Stock in trade To, Profit & Loss A/c To, Preliminary Expenses A/c To, Reconstruction Expenses A/c To, Plant A/c (Being the value of asset written off)	Dr	365	 50 8 15 20 200 5 10 57
i)	Bank A/c To, Share Capital A/c (Being 50,000 equity shares of ₹ 2 each issued as fully paid)	Dr	100	 100

Note:-

(i) Cancellation of preference dividend need not be journalised; on cancellation it cease to be contingent liability and hence no further disclosure.

(ii) Preference shareholders have to forego policy rights presently enjoyed at par with equity shareholders.

(iii) It has been assumed that the share premium account is to be kept intact since the scheme is silent about it.

Name of the Company: P Ltd.

Balance Sheet as at 31st March 2013

(₹ in '000)

Ref No.	Particulars		Note No.	As at 31st March, 2013
				₹
	I.	**Equity and Liabilities**		
	1	Shareholders' funds		
		(a) Share capital	1	365
		(b) Reserves and surplus	2	90
	4	Current Liabilities		
		(b) Trade payables	3	240
		(c)Other current liabilities	4	50
		Total		745
	II.	**Assets**		
	1	Non-current assets		
		(a) Fixed assets		
		(i) Tangible assets	5	243
	2	Current assets		
		(b) Inventories	6	132
		(c) Trade receivables	7	235

		(d) Cash and cash equivalents	8	135
		Total		745

Annexure:

	(₹ in '000)
Note 1. Share Capital	**As at 31st March, 2013**
Authosired Share Capital	
2,000, 9% Preference Shares of ₹ 100 each	200
1,50,000 Equity Shares of ₹ 2 each	300
	500
Issued, subscribed and paid-up	
82,500 Equity shares of ₹ 2 each	165
2000, 9% Preference Shares of ₹ 100 each	200
Total	365

FOR EQUITY SHARE (₹10 per share) :-	**31.3.2013**	
	Nos	**Amount (₹)**
Opening Balance of ₹10 each	30,000	300
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	NIL	NIL
	NIL	NIL
Less: Buy Back of shares (there is no share buyback but all the share are converted to equity shares of ₹2 each)	30,000	300
	NIL	NIL
FOR EQUITY SHARE (₹2 per share) :-	**31.3.2013**	
	Nos	**Amount (₹)**
Opening Balance of ₹2 each	NIL	NIL
Add: Fresh Issue (Split shares)	1,50,000	300
	1,50,000	300
Less: Buy Back of shares (here is no buyback but shares are surrendered)	1,17,500	235
	32,500	65
Add: Fresh issue	50,000	100
Total	82,500	165
FOR 8% PREFERENCE SHARE :-	**31.3.2013**	
	Nos	**Amount (₹)**
Opening Balance	2000	200
Add: Fresh Issue (Incld Bonus shares , Right shares, split	NIL	NIL

shares, shares issued other than cash)		
	2000	200
Less: Buy Back of shares (here is no buy back, 8% Preference Shares are converted to 9% Preference Shares)	2000	200
	NIL	NIL
FOR 9% PREFERENCE SHARE :-	**31.3.2013**	
	Nos	**Amount (₹)**
Opening Balance	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)Here is no fresh issue but here is conversion of shares	2000	200
	2000	200
Less: Buy Back of shares	-	-
	2000	200

Note 2. Reserves and Surplus	**As at 31st March, 2013**
Securities Premium	90
Total	90
Note 3. Trade Payables	**As at 31st March, 2013**
Sundry creditors	240
Total	240
Note 4.Other Current Liabilities	**As at 31st March, 2013**
Outstanding Expenses	50
Total	50

Note 5. Tangible assets		**As at 31st March, 2013**
Plant less: Amount written off under the scheme of reconstruction	₹ 300 ₹ 57	243
Total		243

Note 6. Inventories	**As at 31st March, 2013**
Stock-in trade	130
Loose tools	2
Total	132
Note 7. Trade receivables	**As at 31st March, 2013**
Debtors	235
Total	235
8. Cash and Cash Equivalents	**As at 31st March, 2013**
Cash & Bank [45+100-10]	135
Total	135

Only relevant schedules are shown

8. Write short notes on any three of the following: 5x3=15
(a) Whistle Blower Policy;
(b) Functions of the Committee on Public Undertaking;
(c) Criteria for identification of Reportable segment as per AS-17;
(d) Objectives of Financial Reporting.

Answer:

8. (a) Whistle Blower Policy

The term '"Whistle Blower Policy" is associated with Corporate Governance and involves mandatory requirements in the Annual Report of Companies.

In this case, the company may establish a mechanism for employees to report to the management concerns about the unethical behavior which may be actual or suspected fraud or violation of the company's code of conduct or ethics policy. This mechanism could also provide for adequate safeguards against victimization of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit Committee in exceptional cases. Once established, the existence of the mechanism may be appropriately communicated within the organisation.

(b) The function of the committee on public undertaking are :-
i) to examine the reports and accounts of public undertakings.
ii) to examine the reports of the Comptroller & Auditor General on public undertakings.
iii) to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.
The examination of public enterprises by the Committee takes the form of

comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.
The objective of the Financial Committees, in doing so, is not to focus only on the individual irregularity, but on the defects in the system which led to such irregularity, and the need for correction of such systems and procedures.

(c) **Criteria of identification of reportable segment** as **per** AS-**17:**

As per para 27 of AS-17 "Segment Reporting" a business segment or Geographical segment should be identified as a reportable segment if;

Segment revenue from sales to external customers and internal transfer is 10% or more than total external and internal revenue of all segments

Or,

10% or more of segment result
(Segment result means: if some segments are in loss then total of loss of all loss-making segments or if some segments are in profit, total profit of all profit-making segments. Whichever is higher i.e total of profit or total of loss figure in absolute term)

Or,

Segment asset is 10% or more than total assets of all segments

All the above three criteria must be applied first and-
(i) Further, Management may at its discretion choose any segment as reportable segment even if such segment does not fulfill the criteria stated above.
(ii) Ensure whether at least 75% of total external revenue should be in the reportable segments.
(iii) If 75% of total external revenue is not in the reportable segments, then additional reportable segments should be identified ignoring 10% threshold limits until at least 75% of total external revenue is included in reportable segments.

(d) Objectives of financial reporting:
The following are the objectives of financial reporting:
i) To provide information that is useful to present and potential investors, creditors and other users in making rational investment, credit and similar decisions.
ii) To provide information to help investors creditors and others to assess the amount, timing and uncertainty of prospective net cash inflows to the related enterprise.
iii) To provide information about the economic resources of an enterprise, the claims to those resources and the effects of transactions events and circumstances that change resources and claims to those resources.
iv) To provide information about an enterprise's financial performance during a period.
v) To give information about an enterprise's performance provided by measures of earnings and its components.
vi) To provide information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions including cash dividends and other distributions of enterprise's resources to owner and other factors that may affect an enterprise's liquidity or solvency.
vii) To provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it.
viii) To provide information that is useful to managers and Directors in making decisions

in the interest of owners.