FINAL EXAMINATION
GROUP IV
(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS
DECEMBER 2014

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 question from the remaining seven questions.

Please (1) Write answers to all parts of a question together.
(2) Open a new page for answers 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

Working notes should form part of the answer.
Wherever necessary, suitable assumptions may be made by the candidate.

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) Paragon Ltd. is having an Asset, carrying amount of which is ₹ 50 lakh on March 31, 2014. Its balance useful life is 4 years and residual value at the end of 4 years is ₹ 4 lakh. Estimated future cash flow from using the asset will be ₹ 10 lakh per annum for 4 years. If the discount rate is 12%, 'the value in use' for the asset as per AS-28 will be
[Given: PVIFA (12%, 4 years) = 3.0373, and PVIF (12%, 4 years) = 0.6355]
(A) ₹ 32.638 lakhs
(B) ₹ 32.915 lakhs
(C) ₹ 34.416 lakhs
(D) None of the above

(ii) Shrija Ltd. finds at the end of financial year 2013-14 that there is a Law Suit outstanding. The possible outcomes as estimated by the Board of Directors are as follows:

	Probability	Amount of Loss (₹)
Win	0.60	---
Lose-low damages	0.30	90,000
Lose – high damages	0.10	1,60,000

What is the amount of Contingent liability to be shown by way of a note of financial statements as per AS-29?
(A) ₹ 43,000
(B) ₹ 37,000
(C) ₹ 27,000
(D) Insufficient information

(iii) From the records of DKB Construct Ltd. an Engineering Contractors, who obtained a contract for construction of a dam, the following data is available pertaining to the year ended March 31, 2014.

	₹ in lakh
Total Contract Price	2,400
Work Certified	1,250
Work pending Certification	250
Estimated further cost to completion	1,750
Stage-wise payment received	1,100

What will be the amount of Proift/(Loss) for the year ended March 31, 2014 as per AS-7?
(A) ₹ 1,150 lakh
(B) ₹ (850) lakh
(C) ₹ (600) lakh
(D) No effect in 2013-14

(iv) Shrijoni Ltd. set up a new factory in a backward district and purchased certain Plant and Machinery for ₹ 250 lakh for this purpose. Purchases were entitled for CENVAT Credit of ₹ 5 lakh and State Government also agreed to extend 20% Subsidy for backward area development. What will be the depreciable value of the Plant and Machinery?
(A) ₹ 250 lakh
(B) ₹ 196 lakh
(C) ₹ 188 lakh
(D) None of (A), (B) and (C)

(v) Abron Ltd. has five business segments with Operating Profits/(Losses) as shown below:

Segment	Operating Profit/(Loss) (₹ in lakh)
M	250
N	25
P	(175)
Q	(20)
R	(105)

What are the Reportable Segments as per AS-17?
(A) M, P and R
(B) M, N, P and R
(C) M, Q and R
(D) N, P, Q and R

(vi) Rich Ltd. acquired 80% shares of Zoom Ltd. on October 01, 2013 at a price of ₹ 5,50,000. The Balances of Profit and Loss Account of Zoom Ltd. are as under:

As on	Balance
April 01, 2013	₹ 1,00,000 (Debit balance)
March 31, 2014	₹ 1,50,000 Credit balance

The Share of Capital Profit of Rich Ltd. at the time of consolidation as on 31.03.2014 is
(A) ₹ 20,000
(B) ₹ 40,000
(C) ₹ 75,000
(D) Insufficient Information

(vii) Suhasi Ltd. has an asset with W.D.V. of ₹ 75 lakh as on 31.03.2014 and its recoverable amount on 31.03.2014, is determined at ₹ 50 lakh. If the Tax rate is 30% and carrying amount of the assets for the tax purpose is ₹ 55 lakh, what would be Deferred Tax Assets as per AS-22?
(A) ₹ 2.00 lakh
(B) ₹ 1.50 lakhs
(C) ₹ 1.20 lakhs
(D) None of (A), (B) and (C)

(viii) Parthan Ltd. purchased a Machine Costing ₹ 702 lakh on 01.04.2013 and the same was fully financed by Foreign Currency Loan (US dollars) payable in two annual equal installments. Exchange rates were 1 US Dollar = ₹ 58.50 and ₹ 60.70 as on 01.04.2013 and 31.03.2014 respectively. First installment was paid on 31.03.2014. The exchange difference to be charged to Profit and Loss A/c for the year 2013-14 as per AS-11 will be
(A) ₹ 26.40 lakh
(B) ₹ 25.60 lakh
(C) ₹ 12.50 lakh
(D) None of the above

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

(i) Which one of the following is not considered while calculating cost of inventory as per AS-2?
(A) Freight Inward
(B) Duty Drawback
(C) Rebate
(D) Storage Cost

(ii) Which one of the following is a discontinuing operation as per AS-24?
(A) Gradual phasing out of product line.
(B) During the year, out of two divisions, Electronic and Garments, the Electronic division was separated by de-merger and a new company was formed.
(C) Closing of facility to achieve productivity, improvements and cost savings.
(D) Selling a subsidiary whose activities are similar to other subsidiary.

(iii) Which one of the following intangibles should not be recognized as per AS-26?
(A) Internally generated Goodwill
(B) Licenses
(C) Patents
(D) Trade Marks

(iv) A Ltd. purchased a machine from P Ltd. for ₹ 40 lakh in consideration of 4,00,000 equity shares of ₹ 10 each of the company. As per AS-3 (Revised), this transaction will be classified as Cash Flow from
(A) Operating Activities
(B) Financing Activities
(C) Investing Activities
(D) None of the above

(v) As per AS-19, which of the following situation would normally lead to a lease being classified as a finance lease?
(A) Ownership of the asset is not transferred to the lessee.
(B) Lessee does not have option to purchase the asset.
(C) Lease term covers major part of the economic life of the asset.

(D) None of the above

(c) Bharat Ltd. issued ₹ 10,00,000 worth of 8% debentures of face value ₹ 100 each at par value basis on 1st January, 2012. These debentures are redeemable at 10% premium at the end of 2015 or exchangeable for ordinary shares of Bharat Ltd. on 1 : 1 basis. The interest rate for similar debentures that do not carry conversion entitlement is 12%. You are required to calculate the value of the debt portion of the above compound financial instrument. The present value of the rupee at the end of years 1 to 4 at 8% and 12% are given to you as:

Year	1	2	3	4
P.V. factor of ₹ 1 @ 8%	0.926	0.857	0.794	0.735
P.V. factor of ₹ 1 @ 12%	0.893	0.797	0.712	0.636

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Answer:

1. (a) (i) B: ₹ 32.915 lakh

Present value of future cash flows for 4 years: 10 x 3.0373 = ₹ 30.373 lakh
Present value of residual value on 31.03.2014: 4 x 0.6355 = ₹ 2.542 lakh
Value in use = ₹ 32.915 lakh

(ii) A: ₹ 43,000

According to AS-29 for the purpose of disclosure of contingent liability by way of a note, the amount will be

	₹
0.30 x 90000	27,000
0.10 x 160000	16,000
	43,000

(iii) B: ₹ (850) Loss

	₹ In lakh
Total cost of construction: (1250 + 250 + 1750)	3,250
Less: Contract price	2,400
Loss to be recognized	850

(iv) B: ₹ 196 lakh

	₹ In lakh
Cost of Plant and Machinery	250
Less: CENVAT	5
	245
Less: Subsidy (20%)	49
Depreciable value of Plant & Machinery	196

(v) A: M, P & R

As per Para 27 of AS-17 "Segment Reporting", a Business Segment or Geographical Segment should be identified as a Reportable Segment if:
Its segment result, whether profit or loss is 10% or more of (i) The combined result of all segments in profit; (ii) the combined result of all segments in loss, whichever is greater i.e. absolute amount
Absolute profits = 250 + 25 = ₹ 275 lakh
Absolute loss = 175 + 20 + 105 = ₹ 300 lakh
10% of ₹ 300 lakh = ₹ 30 lakh
Reportable segments are M, P and R

(vi) A: ₹ 20,000

Pre-acquisition profit upto October-1, 2013:

	₹
Share of loss as on 31.03.2013 : 80% of 1,00,000 Profit from 01.04.2013 to September 30, 2013 (for 6 months)	80,000
Profit (1,00,000 + 1,50,000) × 0.80 × 0.5 year	1,00,000
Share of capital profit (1,00,000 - 80,000)	20,000

(vii) B: ₹ 1.50 lakh

	₹ In lakh
Impairment loss recognized in P&L A/c for the year ended 31.03.2014 = 75 - 50	25
Impairment loss allowed as per IT Act	Nil
Timing difference	25
Tax effect of timing difference = 0.30 x 25	7.50
Less: Differed tax liability 30% of (75 – 55)	6.00
Deferred Tax Asset	1.50

(viii) A: ₹ 26.40 lakh

Foreign currency loan = (₹ 702 lakh / 58.50) = 12 lakh US dollar

Exchange difference = 12 lakh US dollars x (60.70 – 58.50)

= 12 x ₹ 2.20 = ₹ 26.40 lakh (including exchange loss on payment of first instalment)

(b) (i) D
(ii) B
(iii) A
(iv) D
(v) C

(c)

	₹
Present Value of debentures redeemable in 2015 (₹ 10,00,000 x 1.10 x 0.636)	6,99,600
Interest payable on debentures every year = ₹10,00,000 x 8% = ₹ 80,000	
Present value of interest on debentures [₹ 80,000 x 3.038 (sum of 4 years discount factors @ 12%)]	2,43,040
Value of Debt component of the convertible debentures	9,42,640

Part B : (75 Marks)
Attempt any five questions.

2. Football Ltd. acquired 52,500 shares of Hockey Ltd. for ₹ 6,00,000 on 31st March, 2008. The Balance Sheet of Hockey Ltd. on that date was under:

Liabilities	₹	Assets	₹
75,000 equity shares of ₹ 10 each fully paid	**7,50,000**	**Fixed Assets**	**5,25,000**
Pre-incorporation profit	**15,000**	**Current Assets**	**3,22,500**
Profit and Loss Account	**30,000**		
Creditors	**52,500**		
Total	**8,47,500**	**Total**	**8,47,500**

Balance Sheets of both the companies as on 31st March, 2014 were as follows:

Liabilities	Football Ltd. (₹)	Hockey Ltd. (₹)	Assets	Football Ltd. (₹)	Hockey Ltd. (₹)
Equity Shares of ₹ 10 each fully paid (before bonus issue)	22,50,000	7,50,000	Fixed Assets	39,60,000	11,55,000
Securities Premium	4,50,000	---	Investment: 52,500 shares in Hockey Ltd. (at cost)	6,00,000	---
Pre-incorporation profit	---	15,000	Current Assets	22,05,000	8,77,500
General Reserve	30,00,000	9,52,500			
Profit and Loss Account	7,87,500	2,10,000			
Creditors	2,77,500	1,05,000			
Total	67,65,000	20,32,500	Total	67,65,000	20,32,500

Directors of Football Ltd. made bonus issue on 31.03.2014 in the ratio of one equity share of ₹ 10 each in Hockey Ltd. fully paid for every two equity shares held on that date. This bonus share issue was made out of post acquisition profits by using General Reserve.
Calculate (i) Cost of Control/Capital Reserve (ii) Minority Interest (iii) Consolidated Profit and Loss Account (a) before issue of bonus shares (b) immediately after issue of bonus shares.
Also, prepare a Consolidated Balance Sheet of the group as per Revised Schedule VI, after the bonus issue. **15**

Answer:

2. Consolidated Balance Sheet of Football Ltd. and its subsidiary Hockey Ltd.
As on 31st march 2014

Particulars	Note No.	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	22,50,000
(b) Reserve and Surplus	2	49,86,750
(2) Minority Interest		5,78,250
(3) Current Liabilities		
Trade payables (2,77,500 + 1,05,000)		3,82,500
Total		81,97,500
II. Assets		
(1) Non-Current Assets		
Tangible Fixed Assets (39,60,000 + 11,55,000)		51,15,000
(2) Current Assets (22,05,000 + 8,77,500)		30,82,500
Total		81,97,500

Notes of accounts:

	Particulars	₹	₹
1.	Share Capital (Shares of ₹ 10 each)		22,50,000
2.	Reserve and Surplus		
	Securities Premium	4,50,000	
	Capital Reserve	2,19,000	
	General Reserve	30,00,000	
	Profit and Loss Account	13,17,750	49,86,750

Shareholding Pattern

	Particulars	No. of shares	% of holding
1.	Football Ltd.		
	(i) Purchased on 31.03.2008	52,500	
	(ii) Bonus issue (52,500/2)	26,250	
	Total	78,750	70%
2.	Minority Interest		
	(i) Existing	22,500	
	(ii) Bonus (22,500/2)	11,250	
	Total	33,750	30%

Before issue of bonus shares

	Particulars	₹	₹
1.	Goodwill/capital reserve		
	Investment in Hockey Ltd.		6,00,000
	Less: Face value of investments	5,25,000	
	Capital profits (W.N.)	31,500	5,56,500
	Cost of control		43,500
2.	Minority Interest		
	Share Capital		2,25,000
	Capital Profits (W.N.)		13,500
	Revenue profit (W.N.)		3,39,750
			5,78,250
3.	Consolidated profit and loss account –Football Ltd		
	Balance		7,87,500
	Add: Share in revenue profit of Hockey Ltd (W.N.)		7,92,750
			15,80,250

Immediate after issue of bonus shares

	Particulars	₹	₹
1.	Goodwill/capital reserve		
	Face value of investments (5,25,000 + 2,62,500)	7,87,500	
	Capital profits (W.N.)	31,500	8,19,000
	Less: Investment in Hockey Ltd.		6,00,000
	Capital Reserve		2,19,000
2.	Minority Interest		
	Share Capital (2,25,000 + 1,12,500)		3,37,500
	Capital Profits (W.N.)		13,500
	Revenue profit (W.N.)		2,27,250
			5,78,250
3.	Consolidated profit and loss account – Football Ltd		
	Balance		7,87,500
	Add: Share in revenue profit of Hockey Ltd (W.N.)		5,30,250
			13,17,750

Working Note:

	Capital Profits	Revenue Profits	
	Before and after issue of bonus shares	Before bonus issue	After bonus issue
Pre-incorporation profits	15,000		
Profit and Loss Account on 31.03.2008	30,000		
	45,000		
General Reserve		9,52,500	9,52,500

Less: bonus shares			3,75,000
			5,77,500
Profit for the period from 1st April 2008 to 31st march 2014 (₹ 2,10,000 – ₹ 30,000)		1,80,000	1,80,000
		11,32,500	7,57,500
Football Ltd's Share (70%)	31,500	7,92,750	5,30,250
Minority Share (30%)	13,500	3,39,750	2,27,250

* Share of Football Ltd in General Reserve has been adjusted in Consolidated Profit and Loss Account.

3. The following are the Summarized Balance Sheets of Apex Ltd. and Titex Ltd. as on March 31, 2014.

	(Amount in ₹ Lakh)	
Liabilities:	**Apex Ltd.**	**Titex Ltd.**
Authorized Share Capital	**3,000**	**1,000**
Equity Share Capital of ₹ 10 each fully paid	**1,600**	**400**
General Reserve	**220**	**90**
Profit & Loss Account	**84**	**36**
Statutory Fund	**32**	**16**
Trade Payable	**90**	**48**
Provisions	**190**	**24**
	2,216	**614**
Assets:		
Fixed Assets:		
Goodwill	**40**	**---**
Machines and Plant	**1,020**	**390**
Other Fixed Assets	**180**	**30**
Current Assets:		
Inventory	**370**	**70**
Debtors	**201**	**70**
Prepaid Expenses	**49**	**4**
Cash in hand and bank	**356**	**50**
	2,216	**614**

The two Companies have entered into a scheme of amalgamation and a new Company Atinex Ltd. is formed. The amalgamation is to take place in the following manner:

(a) For the purpose of Amalgamation, a new company Atinex Ltd. is formed with authorized Share Capital of 5,00,00,000 equity shares of ₹ 10 each.

(b) Atinex Ltd. to issue fully paid shares (Face value ₹ 10 each) to the shareholders of Apex Ltd. and Titex Ltd. at a price of ₹ 8 and ₹ 5 above the intrinsic value of the shares respectively.

(c) The scheme of amalgamation was not supported by 20,000 shareholders of Apex Ltd. and they had to be paid ₹ 10 per share above intrinsic value as consideration. The amount of compensation paid to the dissenting shareholders was borne by Atinex Ltd.

(d) Fixed Assets of Apex Ltd. are to be appreciated by 15% in the values. The current assets of Titex Ltd. include Debtors of ₹ 40 lakh, which are considered bad.

(e) Stock-in-Trade of Titex Ltd. as on 31.03.2014 includes stock of ₹ 60 lakh purchased from Apex Ltd. at a profit of 20% on cost price.

(f) The Statutory Fund of the Companies is to be maintained by Atinex Ltd. for a period of 5 years.

(g) Apex Ltd. has declared dividend of 10% on March 31, 2014, which has still not been paid.

(h) Goodwill of Apex Ltd. was considered to be worthless.

(i) All the assets of the companies are taken over by Atinex Ltd. at the revalued amounts. Liabilities have to be paid in full.

Required:

(i) Calculate the Purchase Consideration paid by Atinex Ltd.

(ii) Prepare the Balance Sheet of Atinex Ltd. as on March 31, 2014 as per Revised Schedule VI, after amalgamation. 7+8=15

Notes to Balance Sheet need not form part of the answer).

Answer:

3.

Calculation of Intrinsic Value:

Particulars	Amount in ₹ Lakh	
	Apex Ltd.	Titex Ltd.
Total Assets	2216.00	614.00
Less: Debtors doubtful	---	(40.00)
Inter-company profit on stock (60 x 20 / 120)		(10.00)
Goodwill	40.00	
	2176.00	564.00
Add: Increase in fixed assets (1200 x 0.15)	180.00	---
	2356.00	564.00
Less: Liabilities:		
Trade payable	(90.00)	(48.00)
* Provisions	(190.00)	(24.00)
	2076.00	492.00
Number of shares (in lakh)	160.00	40.00
Intrinsic value of shares (₹)	12.975	12.30
*Note: Assumed to include proposed dividend of ₹ 160 lakh		

Particulars	Amount in ₹ Lakh	
	Apex Ltd.	Titex Ltd.
Intrinsic Value of Shares (₹)	12.975	12.30
Share to be issued by Atinex Ltd. at price (₹)	20.975	17.30
Purchase consideration in number of shares to be issued by the company assuming that Atinex Ltd. issued its shares at face value of ₹ 10 [(160 – 0.20) lakh x ₹ 20.975, 40 Lakh x ₹ 17.30]	3,351.805	692.00
Payment to dissenting shareholders (0.20 x ₹ 22.975)	4.595	
Total purchase consideration	3356.400	692.00

Computation of Goodwill or Capital Reserve:

Particulars	Amount in ₹ Lakh	
	Apex Ltd.	Titex Ltd.
Purchase consideration	3356.40	692.00
Less: Net Assets taken over	2076.00	492.00
Goodwill	1280.40	200.00
Total Goodwill	1480.40	

Name of the Company: Atinex Ltd.

Balance as on March 31,2014 (Extract)

Particulars	**Note No.**	**Amount (₹ in Lakhs)**
I. Equity and Liabilities		
(1) Shareholder' Funds		
Share Capital	1	4,043.805
Reserves and Surplus	2	48.00
(2) Current Liabilities		

Trade payables[90+48]		138.00
Short-term provision		214.00
Total		**4,443.805**
II. Assets		
(1) Non-Current assets		
Fixed Assets		
i. Tangible assets [1,380+390+30]		1,800.00
ii. Intangible assets [1,280+200]		1,480.40
Other Non-Current Assets – Amalgamation Adjustment A/c	3	48.00
(2) Current Assets		
Current Investments		
Inventories [(370+70) - (60×20/120)]		430.00
Trade receivables [(201+70)-40]		231.00
Cash and Cash equivalents [(356+50)-4.595]		401.405
Short term loans and advances (pre-paid expenses)[49+4]		53.00
Total		**4,443.805**

Notes to Accounts:

1. Share Capital	(₹ in Lakhs)
Issued and paid up capital : 40438050 Shares of ₹10each	4,043.805
2. Reserve and Surplus	
Statutory Fund [32.00+16.00]	48.00
3. Other Non-Current Assets	
Amalgamation Adjustment A/c [32.00+16.00]	48.00

4. The Balance Sheet of Ice Ltd. as on 31.03.2014 is given below:

Liabilities	₹	₹	Assets	₹
1,00,000 Equity Shares of ₹ 10 each fully paid		**10,00,000**	**Freehold property**	**5,50,000**
4,000, 8% Cumulative preference shares of ₹ 100 each fully paid		**4,00,000**	**Plant and Machinery**	**2,00,000**
6% Debentures (secured by freehold property)	**4,00,000**		**Trade Investments (at cost)**	**2,00,000**
Interest in arrears	**24,000**	**4,24,000**	**Sundry Debtors**	**4,50,000**
Sundry Creditors		**1,01,000**	**Stock in trade**	**3,00,000**
Directors' Loan		**3,00,000**	**Deferred revenue expenditure**	**50,000**
			Profit and Loss A/c	**4,75,000**
Total		**22,25,000**	**Total**	**22,25,000**

The court approved a scheme of internal reconstruction to take effect on 1st April, 2014 as per the terms given below:

(i) Preference shares are to be written down to ₹ 75 each and equity shares to ₹ 2 each.

(ii) Preference dividend in arrear for 4 years to be waived by 75% and for the balance, equity shares of ₹ 2 each to be allotted.

(iii) Arrear of debenture interest to be paid in cash.

(iv) Debenture holders agreed to take one freehold property (book value ₹ 3,00,000) at a valuation of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(v) Deferred revenue expenditure to be written off.

(vi) Stock value to be written off by 80%.

(vii)40% of Sundry Debtors to be written off as bad debt.
(viii) Remaining freehold property (after taken over by debenture holders) to be valued at ₹ 3,50,000.
(ix) Investments are sold out for ₹ 2,50,000.
(x) 80% of Director's Loan to be waived and for the balance, equity shares of ₹ 2 each to be issued.
(xi) Company's contractual commitments amounting to ₹ 6,00,000 to be cancelled by paying penalty at 3% of contract value.
(xii) Cost of re-construction scheme is ₹ 25,000.

Show the journal entries (with narration) to be passed for giving effect to the above transactions and draw Balance Sheet of the company after effecting the scheme. 15

Answer:

4.

In the books of ICE Ltd.
Journal Entries

	Particulars	Dr. (₹)	Cr. (₹)
1.	8% Preference share Capital A/c (₹ 100) Dr. To 8% Preference Share Capital A/c (₹ 75) To Capital Reduction A/c (Being the preference shares of ₹ 100 each reduced to ₹ 75 as per scheme)	4,00,000	 3,00,000 1,00,000
2.	Equity Share Capital (₹ 10) Dr. To Equity Share Capital A/c (₹ 2) To Capital Reduction A/c (Being the equity shares of ₹ 10 each reduced to ₹ 2 as per scheme)	10,00,000	 2,00,000 8,00,000
3.	Capital Reduction A/c Dr. To Equity Share Capital A/c (₹ 2) (Being arrears of preference share dividend of one year to be satisfied by issue of 16000 equity shares of ₹ 2 each i.e. to the extent of 25% of arrear dividend)	32,000	 32,000
4.	Accrued Debenture Interest A/c Dr. To Bank A/c (Being accrued debenture interest paid)	24,000	 24,000
5.	6% Debenture A/c Dr. To Freehold Property A/c (Claim settled in part by transfer of freehold property as per scheme)	3,00,000	 3,00,000
6.	Capital Reduction A/c Dr. To Profit and Loss A/c To Deferred Revenue Expenses A/c To Stock A/c To Sundry Debtors A/c (Being the various assets written off as per scheme)	9,45,000	 4,75,000 50,000 2,40,000 1,80,000
7.	Freehold Property A/c Dr. To Capital Reduction A/c (Being appreciation in the value of property i.e., (₹ 3,50,000 – ₹ 2,50,000)	1,00,000	 1,00,000
8.	Bank A/c Dr. To Trade Investment A/c To Capital Reduction A/c (Being investment sold and profit made)	2,50,000	 2,00,000 50,000
9.	Director's Loan A/c Dr. To Equity Share Capital A/c (₹ 2) To Capital Reduction A/c	3,00,000	 60,000 2,40,000

	(Being directors loan reduced by 80% and remaining balance discharge by issue of equity shares of ₹ 2 each)		
10.	Capital Reduction A/c Dr. To Bank A/c (Payment of 3% penalty for cancellation of Capital Commitments)	18,000	18,000
11.	Capital Reduction A/c Dr. To Bank A/c (Reconstruction expenses paid)	25,000	25,000
12.	Capital Reduction A/c Dr. To Capital reserve A/c (Being balance of capital reduction account transferred)	2,70,000	2,70,000

Balance Sheet of Ice Ltd. as on 01.04.2014 (Extract)

	Particulars	Note No.	Amount (₹)
I	**Equity and Liabilities**		
(1)	Shareholders' Funds		
	Share Capital	1	5,92,000
	Reserves & Surplus	2	2,70,000
(2)	Non-current Liabilities		
	Long-term borrowings – 6% Debentures		1,00,000
(3)	Current Liabilities		
	Trade payables-creditors		1,01,000
	Total		**10,63,000**
II	**Assets**		
(1)	Non-current Assets		
	Fixed Assets: Tangible assets		5,50,000
(2)	Current Assets		
	Inventories		60,000
	Trade receivable – debtors [4,50,000 – 40% of 4,50,000]		2,70,000
	Cash and Cash equivalent	3	1,83,000
	Total		**10,63,000**

Notes to Accounts:

1. Share Capital	(₹ in Lakhs)	(₹ in Lakhs)
Equity shares of ₹ 2 each	2,92,000	
Preference Shares of ₹ 75 each	3,00,000	5,92,000
2. Reserve and Surplus		
Capital Reserve		2,70,000
3. Cash and Cash equivalents		
Cash & Bank [2,50,000 – (24,000+18,000+25,000)]		1,83,000

RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE @ ₹10 each	**As at 1st April, 2014**		**As at 1st April, 2013**	
	Nos	**Amount (₹ in lakhs)**	**Nos**	**Amount (₹ in lakhs)**
Opening Balance as on 01.04.13	1,00,000	10.00	NIL	NIL
Add: Fresh Issue (Incld, Bonus shares,	0.00	0.00	NIL	NIL

Right shares, split shares, shares issued other than cash)				
	1,00,000	10.00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
Written down as per re - construction scheme	80,000	8.00		
	20,000	2.00	NIL	NIL

FOR EQUITY SHARE @ ₹2 each	**As at 1st April, 2014**		**As at 1st April, 2013**	
	Nos	**Amount (₹ in lakhs)**	**Nos**	**Amount (₹ in lakhs)**
Opening Balance as on 01.04.13	0.00	00.00	NIL	NIL
Add: Fresh Issue (Incld, Bonus shares, Right shares, split shares, shares issued other than cash)	1,00,000 +16,000 +30,000	2.92	NIL	NIL
	1,46,000	2.92	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	1,46,000	2.92	NIL	NIL

FOR 8% PREFERENCE SHARE @ ₹10 each	**As at 1st April, 2014**		**As at 1st April, 2013**	
	Nos	**Amount (₹ in lakhs)**	**Nos**	**Amount (₹ in lakhs)**
Opening Balance as on 01.04.13	4,000	4.00	NIL	NIL
Add: Fresh Issue (Incld, Bonus shares, Right shares, split shares, shares issued other than cash)	0.00	0.00	NIL	NIL
	4,000	4.00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
Written down as per re - construction scheme	1,000	1.00		
	3,000	3.00	NIL	NIL

FOR 8% PREFERENCE SHARE @ ₹75 each	**As at 1st April, 2014**		**As at 1st April, 2013**	
	Nos	**Amount (₹ in lakhs)**	**Nos**	**Amount (₹ in lakhs)**
Opening Balance as on 01.04.13	0.00	0.00	NIL	NIL
Add: Fresh Issue (Incld, Bonus shares, Right shares, split shares, shares issued other than cash)	4,000	3.00	NIL	NIL

	4,000	3,00	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	4,000	3.00	NIL	NIL

5. (a) Profit and Loss Account of Omega Ltd. for the year ended 31st March, 2014 is given below. Prepare a Gross Value Added Statement of Omega Ltd. and also show the reconciliation between Gross Value Added and Profit before taxation. 10

Profit and Loss Account for the year ended 31st March, 2014

(₹ in lakhs)

	Notes	Amount	Amount
Income:			
Sales			990
Other Income			55
			1,045
Expenditure:			
Production and operational expenses	i	691	
Factory administrative expenses	ii	83	
Interest	iii	29	
Depreciation		17	820
Profit before taxes			225
Provision for taxes	iv		30
Profit after taxes			195
Balance as per last Balance Sheet			10
			205
Transferred to General Reserve			45
Dividend Paid			95
			140
Surplus carried to Balance Sheet			65
			205

Notes:

(i) Production and operational expenses:

	₹ in lakhs
Consumption of raw material	343
Consumption of stores	59
Salaries, wages, gratuities etc. (administration)	82
Cess and local taxes	98
Other manufacturing expenses	109
	691

(ii) Administrative expenses include salaries, commission to Directors ₹ 9.00 lakhs and provision for doubtful debts ₹ 6.30 lakhs.

(iii)

	₹ in lakhs
Interest on loan from AXIS bank for working capital	9
Interest on loan from AXIS Bank for fixed loan	10
Interest on loan from ICICI Bank for fixed loan	8
Interest on Debenture	2
	29

(iv) The charges for taxation include a transfer of ₹ 3.00 lakhs to the credit of Deferred Tax Account.

(v) Cess and local taxes include Excise Duty, which is equal to 1/4th of cost of bought in material and services.

(b) From the following information pertaining to Sky Ltd. for the year ended March 31, 2014, calculate Basic Earning Per Share (EPS) and diluted EPS, as per AS-20. 5
Profit after Interest and Tax = ₹ 72,000.
Number of ₹ 10 equity shares outstanding = 30,000.
15% convertible debentures = ₹ 1,20,000.
Number of Equity Shares to be issued in consideration = 6,000
Tax Rate = 40%.

Answer:

5. (a)

OMEGA LTD

Gross Value Added Statement for the year ended 31st March, 2014

	₹ in lakhs	₹ in lakhs
Sales		990
Less: Cost of bought in materials:		
Production and operational expenses (343+59+109)	511	
Administration expenses (83 – 9)	74	
Interest on working capital	9	
Excise duty (ref. W.N.)	46	640
Value added by manufacturing and trading activities		350
Add: other income		55
Total value added		405

Application of Value Added

	₹ in lakhs	₹ in lakhs	%
To Employees (Salaries, wages, gratuities etc.)		82	20.25
To Directors (Salaries and commission)		9	2.22
To Government			
(Cess and local taxes (98 – 46)	52		
Income Tax	27	79	19.51
To Providers of capital			
Interest on Debentures	2		
Interest on fixed loan	18		
Dividends	95	115	28.39
To Provide for maintenance and expansion of the company			
Depreciation	17		
General Reserve	45		
Deferred tax	3		
Retained profits (65 – 10)	55	120	29.63
		405	100

Statement showing reconciliation of Gross Value Added with profit before taxation

	₹ in lakhs	₹ in lakhs
Profit before taxes		225
Add: Depreciation	17	
Directors remuneration	9	
Salaries, wages, gratuities etc.,	82	
Cess and local taxes	52	
Interest on Debenture	2	
Interest on fixed loan	18	180
Total Value Added		405

Working Note:
Calculation of Excise Duty
Let we consider, Cost of bought in materials and services is 'X'
So, Excise Duty is 1/14 of X = X / 14
X = 511 + 74 + 9 + X / 14
= 594 + X / 14
= 640 (approx.)
So, Excise duty = 640 – 594 = ₹ 46

(b) Basic EPS = ₹ 72,000 / 30,000 = ₹ 2.40
Estimated EPS (Anticipated fall in EPS after conversion of debentures)

PAT available to equity shareholders after conversion = PAT available to equity shareholders before conversion + Post tax interest saved.
= ₹ 72,000 + (15% of ₹ 1,20,000) (1 – 0.40) = ₹ 82,800
Number of Shares after conversion = 30,000 + 6,000 = 36,000
Diluted EPS = ₹ 82,800 / 36,000 = ₹ 2.30.

6. (a) The Balance sheet of Minor Ltd. as on 31st March, 2014 is as follows:

Liabilities	₹	₹	Assets	₹
Liabilities:			**Fixed Assets:**	
Share Capital:			**Goodwill**	**1,00,000**
Equity Shares of ₹ 10 each	**10,00,000**		**Machinery**	**4,60,000**
Less: call in arrear (₹ 2 on final call)	**20,000**	**9,80,000**	**Factory shed**	**6,00,000**
			Vehicles	**1,20,000**
			Furniture	**50,000**
8% preference shares of ₹ 10 each fully paid.		**4,00,000**	**10% Investments**	**2,00,000**
Reserve and Surplus:			**Stock in trade**	**4,20,000**
General Reserve		**4,00,000**	**Sundry Debtors**	**7,00,000**
Profit and Loss Account		**2,80,000**	**Cash at Bank**	**1,00,000**
Current Liabilities:			**Preliminary Expenses**	**50,000**
Bank Loan		**2,00,000**		
Sundry Creditors		**5,40,000**		
Total		**28,00,000**	**Total**	**28,00,000**

Additional Information:

(i) Fixed assets are worth 20% above their actual book value. Depreciation on appreciated value fixed assets to be ignored for valuation of goodwill.
(ii) Of the investments, 80% is non-trading and the balance is trading.
(iii) For the purpose of valuation of shares, Goodwill is to be considered on the basis of 4 years' purchase of the super-profits based on simple average profit of the last 3 years. Profits after tax are as follows:

Year	₹
2011-12	**3,80,000**
2012-13	**4,00,000**
2013-14	**4,20,000**

(iv) In a similar business, return on capital employed is 15%. In 2011-12 new furniture costing ₹ 20,000 was purchased, but wrongly charged to revenue, no effect has yet been given for rectifying the same. Depreciation is charged on furniture @ 10% on written down value basis.

Find out the value of each fully paid and partly equity share, assuming tax rate of 35%.
10

(b) Beta Ltd. grants 150 shares options to each of its 580 employees, each grant containing condition on the employees working for Beta Ltd. over the next 5 years. Beta Ltd. has estimated that the fair value of the option is ₹ 25. Beta Ltd. also estimated that 40% of employees will leave during the five year period and hence, forfeit their rights to the share option. If the above expectations are correct, what amount of expenses to be recognized during the vesting period? 5

Answer:

6. (a) (i) Capital Employed on 31.03.2014

	₹	₹
Machinery		4,60,000
Factory Shed		6,00,000
Vehicles		1,20,000
Furniture (50,000 + 14,580)		64,580
		12,44,580
Add 20%		2,48,916
		14,93,496
Trade Investment		40,000
Stock in Trade		4,20,000
Sundry Debtors		7,00,000
Cash at Bank		1,00,000
		27,45,496
Less: Bank Loan	2,00,000	
Sundry Creditors	5,40,000	7,40,000
		20,13,496

(ii) Average profit for the last three years

Particulars	2011-12 ₹	2012-13 ₹	2013-14 ₹
Reported Profit	3,80,000	4,00,000	4,20,000
Add: Furniture purchased charged to revenue (net of tax)	13,000		
	3,93,000	4,00,000	4,20,000
Less: Depreciation on furniture purchased (net of tax)	1,300	1,170	1,053
	3,91,700	3,98,830	4,18,947
Less: Dividend on non-trading investments (net of tax)	10,400	10,400	10,400
Adjusted Profit	3,81,300	3,88,430	4,08,547
Average profit			3,92,759

(i) Calculation of Super Profits

	₹
Capital employed	20,13,496
Average profit	3,92,759
Normal profit @ 15% on capital employed	3,02,024
Super profit	90,735
Goodwill at 4 year's purchase	3,62,940

Valuation of Equity Shares:

	₹
Value of Net Tangible Asset [ref(i)]	20,13,496
Add: Goodwill [ref (iii)]	3,62,940
Add: Non-trade Investments	1,60,000

Add: Notional call	20,000
	25,56,436
Less: Preference Share Capital	4,00,000
Fund available to equity shareholders	21,56,436
No. of shares	1,00,000
Intrinsic value of fully paid share	₹ 21.56
Intrinsic value of partly paid share	₹ 19.56

(b) Expense to be recognized during 5 year's vesting period

Year	Calculations	Expenses for the Period (₹)	Cumulative Expenses (₹)
1	580 employees × 150 Options X 60% × ₹25×1/5	2,61,000	2,61,000
2	[580 employees × 150 Options × 60% × ₹25 × 2/5 years = ₹5,22,000]. Expenses to be recognized in 2nd year = ₹5,22,000 - ₹ 2,61,000 = ₹2,61,000	2,61,000	5,22,000
3	[580 employees X 150 Options X 60% X ₹25X 3/5 years] = ₹7,83,000. Expenses to be recognized in 3rd year = ₹7,83,000 - ₹5,22,000	2,61,000	7,83,000
4	[580 employees X 150 Options X 60% X ₹25 X 4/5 years] = ₹10,44,000. Expenses to be recognized in the 4th year = ₹10,44,000 - ₹7,83,000 = ₹2,61,000	2,61,000	10,44,000
5	[580 employees X 150 Options X 60% X ₹25X 5/5 years] = ₹13,05,000. Expenses to be recognized in the 5th year = ₹13,05,000 - ₹10,44,000 = ₹2,61,000	2,61,000	13,05,000

Total amount of the expenses to be recognized during 5 years vesting period will be ₹1305000.

7. (a) The following is the Balance Sheet of Silver Ltd. as at 31st March, 2014:

(₹ in lakhs)

Liabilities	**₹**	**Assets**	**₹**
Equity shares of ₹ 10 each fully paid up	**8,000**	**Fixed assets (tangible)**	**12,000**
10% Redeemable Preference shares of ₹ 10 each, fully paid up	**2,500**	**Investments**	**4,000**
Capital Redemption Reserve	**1,000**	**Cash at Bank**	**1,650**
Securities Premium	**800**	**Other current assets**	**10,250**
General Reserve	**6,000**		
Profit and Loss Account	**300**		
9% Debentures	**5,000**		
Sundry Creditors	**2,800**		
Sundry Provisions	**1,500**		
Total	**27,900**	**Total**	**27,900**

On 1st April, 2014, the company redeemed all of its preference shares at a premium of 10% and bought back 20% of its equity shares @ ₹ 25 per share. In order to make cash available, the company sold all the investments for ₹ 4,300 lakhs and raised a bank loan amounting to ₹ 2,000 lakhs on the security of the company's plant. The amount of securities premium has been utilized to the maximum extent allowed by law.

Pass journal entries with proper narration of all the above mentioned transactions and prepare the Company's Balance Sheet immediately thereafter. **10**

(b) Notaraj Ltd. purchased a machine for ₹ 70 lakh from W Ltd. during the financial year 2013-14 and installed the same immediately. The price charged by W Ltd. included Excise Duty (CENVAT Credit available) of ₹ 7 lakh.
During the year 2013-14, the company produced Excisable goods on which Excise Duty chargeable is ₹ 5.50 lakh.
You are required to show the Journal Entries explaining the treatment of CENVAT Credit, in the books of Notaraj Ltd. 5

Answer:

7. (a)

Journal Entries

(₹ in lakhs)

Particulars	Debit	Credit
Bank A/c Dr. To, Investment A/c To, Profit and Loss A/c (Being sale of investment and profit thereon)	4300	 4000 300
Bank A/c Dr. To, Bank Loan A/c (Being loan taken from bank)	2000	 2000
10% Redeemable Preference Share Capital A/c Dr. Premium on redemption of preference shareholders A/c Dr. To, Preference Shareholders A/c (Being redemption of preference shares)	2500 250	 2750
Preference Shareholders A/c Dr. To, Bank A/c (Being payment due to preference shareholders)	2750	 2750
Securities Premium A/c Dr. To, Premium on redemption of preference shares A/c (Being use of securities premium to provide premium on redemption of preference shares)	250	 250
Equity Share Capital A/c Dr. Securities Premium A/c [800-250] Dr. General Reserve A/c [(160*25)-1600-550] Dr. To, Equity Shareholders A/c (Being buy back of equity shares)	1600 550 1850	 4,000
General Reserve A/c Dr. To, Capital Redemption Reserve A/c (1600+ 2500) (Being creation of capital redemption reserve to the extent of face value of preference share redeemed and equity shares bought back)	4100	 4100
Equity Shareholders A/c Dr. To, Bank A/C. (Being payment made to equity shareholders)	4000	 4000

Balance Sheet of Silver Ltd. as at 1st April 2014

Particulars	Note No	₹ in lakhs
Equity and Liabilities		
Shareholders' Fund Share Capital Reserve and Surplus	 1 2	 6400 5750
Non-current Liabilities		
Long term borrowings	3	7000
Current Liabilities		
Trade Payables Short-term provisions		2800 1500
Total		23450
Assets		
1. Non-current assets		
Fixed assets		
Tangible assets		12000
2. Current assets		
Cash and Cash equivalent (1650+4300+2000-2750-4000) Other current assets		1200 10250
Total		23450

Note: 1.
Share capital (as at 1st April, 2014)
Authorised; Equity Shares of ₹10 each = ₹8,000 lakhs.
640 lakhs equity share of ₹10 each fully paid = ₹ 6,400 lakhs.
Total = ₹6,400 lakhs.

Reconciliation of share capital : (₹ in lakhs)		
Equity Shares	As at 1st April, 2014 (₹)	
	No	Amount
Opening balance as on 1.4.2014 Less: Buy-back of shares	800 160	8000 1600
	640	6400

Note: 2. Reserve and Surplus

	As at 1st April 2014
General Reserve	50
Capital Redemption Reserve	5100
Profit and Loss A/c (300+300)	600
Total	5750

Note: 3. Long Term Borrowings

	As at 1st April 2014
9% Debenture	5,000
Bank Loan	2,000
Total	7,000

(b)

Notaraj Ltd.
Journal Entries
Accounting Year 2013-2014

Sl. No.	Transactions and Entry		Debit (₹)	Credit (₹)
1.	Machine A/c	Dr.	63,00,000	
	Cenvat Credit Receivable A/c	Dr.	3,50,000	
	Cenvat Credit Deferred A/c	Dr.	3,50,000	
	To Bank A/c			70,00,000
	(Being machine purchased recorded, including immediate Cenvat credit available of 50%, balance 50% credit available in subsequent year.)			
2.	Excise Duty payable	Dr.	3,50,000	
	To Cenvat credit receivable A/c			3,50,000
	(Being set off of Cenvat credit during the year)			
3.	Excise Duty payable	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(₹5,50,000 - ₹3,50,000) set-off now			

Note:
₹3,50,000 Cenvat Credit Deferred A/c will be adjusted against 2014-15 Excise Liability.

8. Write short notes on (any three): 5x3=15
(a) Corporate Social Reporting
(b) Role of Committee on Public Undertaking
(c) Significance of Environmental Accounting
(d) Basic Structure in the Form of Government Accounts
(e) Convergence of Accounting Standard with IFRS

Answer:

8. (a) **Corporate Social Reporting**

Corporate Social Reporting is the information communique with respect of discharge of social responsibilities of corporate entity. The transaction is accounting function from historical cost based profitability accounting to social responsibility accounting is a good fit to the present day data requirement of the "users of accounts".

The content of Corporate Social Report is essentially based on the social objectives, namely Net income contribution, Human Resource contribution, Public contribution, Environmental Contribution and Product or Service Contribution.

Corporate Social Reporting can be given under following heads:
a. Employment Opportunities
b. Foreign Exchange transactions
c. Energy Conservation

d. Research and Development
e. Contribution to Government exchequer
f. Social projects
g. Environmental Control
h. Consumerism

Initially, it is difficult to express social costs incurred by a corporate enterprise and social benefits generated in money terms. Until suitable methodologies are available for conversion of social cost benefit in money terms, it is desirable to begin with descriptive social report. Further research is necessary in this area either to improve heads of corporate social reporting in the context of dynamic socioeconomic environment.

(b) **Role of Committee on Public undertaking**
The committee on Public Undertakings exercises the same financial control on the public sector undertaking as the Public Accounts Committee exercises over the functioning of the Government Departments. The functions of the Committee are:

(i) To examine the Reports and Accounts of Public undertakings.
(ii) To examine the Reports of the Comptroller and Auditors 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 enterprise by the Committees takes the form of comprehensive appraisal or evaluation of performance of the undertakings. It involves a through 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) **Significance of Environmental Accounting**:
Environmental Accounting can be defined as a system (methodology) for measuring environmental performance and communicating the results of these measurements to users. It helps in presenting the utilization of natural resources by an enterprise, the costs incurred to use them and the income earned there from in a transparent manner. Environmental accounting, entirely a new concept, is a faithful attempt to identify the resources exhausted and the costs rendered reciprocally to the enterprise by a business corporation. Thus, environmental accounting stands for recording and documenting environmental performance to facilitate effectiveness of environmental management system with reference to compliance, safety and quality control. It provides a data base for taking corrective steps and future action for developing organization's environmental strategy and for identifying environmentally based opportunities for gaining an edge over one's competitors. If proper environmental accounting system is established, the enterprise will be able to anticipate environmental damage and therefore can present it from happening.

(d) **Basic structure in the form of government accounts:**
(i) Period of Accounts: The annual accounts of the central, state and union territory government shall record transactions, which take place during financial year running from 1st April to 31st March.
(ii) Cash basis Accounts: With the exception of such book adjustment as may be

authorized by these rules on the advice of the Comptroller and Auditor General of India (CAG), the transaction in government accounts shall represent the actual cash receipt and disbursement during a financial year.

Form of Accounts: There are mainly three parts i.e., consolidated funds, contingency fund and public accounts.

In consolidated fund there are two divisions i.e., revenue, consisting of section for receipts heads and expenditure heads [Revenue Accounts]capital, public debt, loan consisting of section of receipts heads [capital accounts] whereas contingency fund accounts shall be recorded for the transaction connected with the government set up under article 267 of the constitution and in Public account transactions relating to the debt deposit, advances, remittances and suspense shall be recorded.

(e) Convergence of accounting standard with IFRS
Convergence means to harmonise the Indian Accounting standards with IFRS (International Financial Reporting Standards). There are some differences between ASs and IFRS. To converge means to sort-out these differences and agreed to one way of accounting treatment which will be more investor friendly and also enhance the comparability of financial statements. The ICAI has published the roadmap of convergence with IFRS. It has also announced that it will coverage with IFRS.

The convergence does not mean the adoption of the IFRS. We will not be adopting word by word the IFRS. The local business environment will be considered while converging with IFRS.