FINAL EXAMINATION

GROUP IV

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2015

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 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) NIKITA Ltd. purchased 2000 shares of PIYUSH Ltd. in January 2014 at ₹ 120 each and paid brokerage at 0.50%. In November 2014, Piyush Ltd. issued bonus shares at one share for every four shares held by the shareholders. If Nikita Ltd. sold 1500 shares in March, 2015 at ₹ 140 per share and paid a brokerage of 1%, what would be the carrying cost of investment in Piyush Ltd. after the sale of shares as per AS-13?

(A) ₹ 31,200

(B) ₹ 63,400

(C) ₹ 96,480

(D) None of (A), (B), (C)

(ii) SRIJAN Ltd. issued certain callable convertible debentures at ₹ 80. The value of similar debentures without call or equity conversion option is ₹ 70. The value of call as

determined using Black and Scholes Model for option pricing is ₹ 5. What will be the value of liability and equity component?

(A) ₹ 65, ₹ 15

(B) ₹ 70, ₹ 10

(C) ₹ 80, ₹ 5

(D) None of the above

(iii) AKASH Ltd. reported net Income (attributable to equity shareholders) of ₹ 15 lakh for the year 2014-15 and had 1,00,000 equity shares during the entire year ended March 31, 2015. Akash Ltd. also had outstanding 10,000 8% convertible preference share ₹ 100, each share convertible into 10 equity shares during the year 2014-15. The DILUTED EPS of Akash Ltd. as per AS-20 will be

(A) ₹ 5.80

(B) ₹ 6.30

(C) ₹ 7.90

(D) ₹ 14.36

(iv) Ms. NABANITA, CEO of Laxmi Bank Ltd. reports quarterly and estimates an annual income of ₹ 125 crores. Assume tax rates on first ₹ 50 crores at 30% and on the balance income at 40%. The estimated quarterly incomes are ₹ 15 crores, ₹ 25 crores. ₹ 45 crores and ₹ 40 crores respectively. The tax expenses to be recognized in the last quarter as per AS-25 is.

(A) ₹ 12.50 crores

(B) ₹ 14.00 crores

(C) ₹ 14.40 crores

(D) None of the above.

(v) BANSAL Ltd. reports the following information regarding Pension Plan assets:

	₹
Fair market value of Plan Assets (as on 1.4.2014)	**7,00,000**
Actual Return on Plan assets	**50,000**
Benefit payment to Retirees	**40,000**
Fair market value of Plan Assets (as on 31.3.2015)	**8,10,000**

What will be the Employer contribution to Plan assets as per AS-15?

(A) ₹ 1,00,000

(B) ₹ 80,000

(C) ₹ 60,000

(D) Insufficient information.

(vi) WEALTH Ltd. aquired 75,000 shares of SILVER Ltd. on August 1, 2014. The Equity Capital of Silver Ltd. is ₹ 10 lakh of ₹ 10 per share. The machinery of Silver Ltd. is revalued upwards by ₹ 2,00,000. The minority group interest shown in the Consolidated Balance Sheet as at March 31, 2015 was

(A) ₹ 3,00,000
(B) ₹ 2,00,000
(C) ₹ 50,000
(D) None of (A), (B) and (C)

(vii) JINDAL Ltd. provides the following in formation for the year ended March 31, 2015.

Accounting Profit:	**₹ 7,00,000**
Book Profit as per MAT :	**₹ 4,00,000**
Profit as per Income Tax Act:	**₹ 1,00,000**
Effective Tax Rate	**30%**
MAT Rate	**17%**

What will be the Deferred Tax Asset (DTA)/Liability (DTL) as per AS-22?

(A) ₹ 1,80,000 (DTL)
(B) ₹ 1,62,000 (DTL)
(C) ₹ 1,80,000 (DTA)
(D) ₹ 1,62,000 (DTA)

(viii) X Ltd. bought a trademark on 1st January, 2014 from Y Ltd. for ₹10,00,000. An independent consultant retained by X Ltd. estimated the trademark's remaining life to be 15 years. Its unamortised cost in the books of Y Ltd. was ₹ 8,50,000. X Ltd. decided to amortize the trademark over the maximum period allowed. What amount should be reported as amortization expense in the Balance Sheet of X Ltd. as on 31st December, 2014 as per AS-26?

(A) ₹ 15,000
(B) ₹ 20,00,000
(C) ₹ 1,00,000
(D) ₹ 50,000

(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) X Ltd. decided to write off fixed assets costing ₹ 40,000 on which depreciation of ₹ 30,000 has been provided. 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

(ii) Which one of the following is within the purview of AS-6?

(A) Goodwill
(B) Plantations

(C) Plant and Machinery

(D) Live stock

(iii) A company acquired assets for ₹ 200 lakhs with a subsidy of ₹ 20 lakhs received from Central Government for setting up a factory in a backward area. As per AS-12, this government grant will be treated in the accounts as

(A) Grant amount to be deducted from Fixed Assets

(B) Grant amount to be treated as income

(C) Grant amount to be credited to Capital Reserve

(D) Grant amount to be treated as deferred Income

(iv) Which one of the following items is not a prior period item as per AS-5?

(A) Calculation error in providing expenditure

(B) Omission to account for income

(C) Loss due to earthquake

(D) Application of incorrect rate of depreciation

(v) As per AS-28, Impairment loss means:

(A) Value in use of the asset—Net selling price

(B) Carrying amount of the asset—Recoverable amount

(C) Recoverable amount of the asset—Net selling price

(D) Book value of the asset—Net selling price

(c) From the following information, determine the possible value of Brand under the potential earning model.

	(₹ in lakh)
(i) Profit before Tax	6.50
(ii) Income Tax	1.50
(iii) Tangible Fixed Asset	10.00
(iv) Identificable intangible other than brand model	5.00
(v) Expected return on Tangible Fixed Assets	3.00

Appropriate capitalization factor for intangibles is 25%. **4**

Answer:

1. (a)

(i) (C) — ₹ 96480

Cost of acquisition of 2000 shares: (2000 × 120)	₹ 2,40,000
Brokerage paid @ 0.5%	₹ 1,200
	₹ 2,41,200
Cost of acquisition of 500 bonus shares	Nil

Carrying cost of 2500 shares	₹ 2,41,200
Weightage average cost of 1500 shares sold [(241200/2500)x1500]	₹ 1,44,720
Carrying cost of investment in Piyush Ltd.	₹ 96,480

(ii) (A) — ₹ 65, ₹ 15

Liability component = ₹ 70 - 5 = ₹65

Equity component = ₹ 80 - 65 = ₹15

(iii) (C) — ₹ 7.90

$$\text{Diluted EPS} = \frac{(\text{Net Income} + \text{Preference Dividend})}{(\text{WAES} + \text{WAPES})}$$

$$= \frac{(15,00,000 + 80,000)}{(1,00,000 + 1,00,000)} = \frac{₹15,80,000}{2,00,000} = ₹\ 7.90$$

(iv) (C) — ₹ 14.40 crore

Tax Expenses: 30% on ₹ 50 crore = ₹15 crore

40% on remaining ₹ 75 crore = ₹ 30 crore

Weighted average annual income tax rate [45/125] ×100 = 36%

Tax Expenses to be recognized in Quarter-IV (40 × 0.36) = ₹ 14.40 crore

(v) (A) — ₹ 1,00,000

Fair Market Value of Plan assets (as on 31.03.2015)	₹ 8,10,000
Actual Return on Plan Assets	(₹ 50,000)
Benefit payments to retirees	₹ 40,000
Fair market value of plan assets (as on 01.04.2014)	(₹ 7,00,000)
Employer contribution to the plan assets	₹ 1,00,000

(vi) (A) — ₹ 3,00,000

No. of shares of Silver Ltd. = ₹ 10,00,000/10 = 1,00,000

Minority interest = 100000- 75000 = 25,000 = 25%

Profit on revaluation of Machinery = ₹ 2,00,000

Share of Minority Group of Silver Ltd. = 25% of ₹ 2,00,000	₹50,000
Equity Share Capital : (25000 × 10)	₹ 2,50,000
Total minority interest	₹ 3,00,000

(vii) (A) — ₹ 1,80,000

Tax as per Accounting Profit	= 700000 × 0.30	= ₹ 2,10,000
Tax as per Income Tax Profit	= 100000 × 0.30	= ₹ 30,000
Therefore, deferred tax liability (DTL) as on 31.03.2015		₹ 1,80,000

(viii) (C) — ₹ 1,00,000

As per AS-26 intangible assets should be measured initially at cost and therefore X Ltd. should amortize the trademark at its cost of ₹ 10,00,000. The unamortised cost of Y Ltd. (Seller) is irrelevant to the buyer. Although the trademark has a remaining useful life of 15 years, intangible assets are generally amortized over a period of 10 years as per AS-26. Hence amortization expense and accumulated amortization is ₹1,00,000 (₹10,00,000 ÷10 years).

Answer:

1. (b)

(i) (A) Operating Activities.

(ii) (C) Plant and Machinery.

(iii) (C) Grant amount to be credited to Capital Reserve.

(iv) (C) Loss due to earth quake

(v) (B) Carrying amount of the asset — Recoverable amount

Answer:

1. (c)

CALCULATION OF POSSIBLE VALUE OF BRAND:

	(₹ In lakh)
Profit after tax (6.5-1.5)	5.00
Less: Profit allocated to tangible fixed assets	3.00
Profit relating to intangible assets including brand Capitalisation factor 25%	2.00
Capitalized value of intangibles including brand (2/0.25)	8.00
Less: Identifiable intangibles other than brand	(5.00)
Brand Value	3.00

PART B (75 Marks)

Attempt* any five *questions.

2. The following are the Balance Sheets of Sun Ltd. and Moon Ltd. as on 31.3.2015:

Liabilities	Sun Ltd. (₹)	Moon Ltd. (₹)	Assets	Sun Ltd. (₹)	Moon Ltd. (₹)
Share Capital:			**Fixed Assets:**		
Equity Shares of ₹ 10 each	6,00,000	2,00,000	Goodwill	70,000	80,000
			Machinery	3,30,000	2,00,000
12% Preference Shares of ₹ 100 each	1,00,000	50,000	Furniture	40,000	30,000
			Investment:		
Reserves and Surplus:			Shares in Moon Ltd. (at cost)	3,80,000	—
General Reserve	2,00,000	60,000			
Profit and Loss Account	1,00,000	90,000			
Current Liabilities & Provisions:			**Current Assets:**		
			Stock	80,000	70,000
Creditors	80,000	90,000	Debtors	2,10,000	1,40,000
Income Tax	60,000	50,000	Bank Balance	30,000	20,000
	11,40,000	5,40,000		11,40,000	5,40,000

The following further information is furnished:

(a) Sun Ltd. acquired 12,000 equity shares and 400 preference shares on 1.4.2014 at a cost of ₹ 2,80,000 and ₹ 1,00,000 respectively.

(b) The Profit and Loss Account of Moon Ltd. had a credit balance of ₹ 30,000 as on 1.4.2014 and that of General Reserve on that date was ₹ 50,000.

(c) On 1.7.2014, Moon Ltd. declared dividend out of its pre-acquisition profit, 12% on its Equity Share Capital. Sun Ltd. credited the receipt of dividend to its Profit & Loss Account.

(d) On 1.10.2014, Moon Ltd. issued one equity share for every three shares held, as Bonus Shares at a face value of ₹ 10 per share out of its General Reserve. No entry has been made in the books of Sun Ltd. for the receipt of these bonus shares.

(e) Moon Ltd. owed Sun Ltd. ₹ 20,000 for purchase of stock from Sun Ltd. The entire stock of goods is held by Moon Ltd. on 31.3.2015. Sun Ltd. made a profit of 25% on cost.

Prepare a Consolidated Balance Sheet of the group as at 31.3.2015 as per Revised Schedule VI. 15

Answer:

2.

Consolidated Balance Sheet of Sun Ltd. and its Subsidiary Moon Ltd.
as on 31st March,2015

	Particulars as at 31st March	Note	31.03.2015	31.03.2014
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	**1**	7,00,000	
	(b) Reserves & Surplus	**2**	3,92,000	
(2)	**Minority Interest**		80,000	
(3)	**Current Liabilities**			
	(a) Trade Payables (80,000 + 90,000 – 20,000)		1,50,000	
	(b) Short term Provisions - Provision for Income Tax (60,000 + 50,000)		1,10,000	
	Total		**14,32,000**	
II	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Fixed Assets: (i) Tangible Assets	**3**	6,00,000	
	(ii) Intangible Assets	**4**	3,06,000	
(2)	**Current Assets**			
	(a) Inventories (80,000 + 70,000 – 4,000)		1,46,000	
	(b) Trade receivables (2,10,000 + 1,40,000 – 20,000)		3,30,000	
	(c) Cash and Cash Equivalents — Bank Balances (30,000 + 20,000)		50,000	
	Total		**14,32,000**	

Note 1: Share Capital

Particulars	31.03.2015	31.03.2014
Authorised ,Issued, Subscribed & Paid up:		
Equity Shares Capital	6,00,000	
12% Preference Shares of ₹ 10 each	1,00,000	
Total	**7,00,000**	

Note 2: Reserves and Surplus

Particulars	31.03.2015	31.03.2014
(a) General Reserve	2,48,000	
(b) Profit and Loss A/c	1,44,000	
Total	**3,92,000**	

Note 3: Tangible Assets

Particulars	31.03.2015	31.03.2014
(a) Machinery (3,30,000 + 2,00,000)	5,30,000	
(b) Furniture (40,000 + 30,000)	70,000	
Total	**6,00,000**	

Note: 4 Intangible Assets

Particulars	31.03.2015	31.03.2014
(a) Sun Ltd.	70,000	
(b) Moon Ltd.	80,000	
(c) Goodwill on Consolidation	1,56,000	
Total	**3,06,000**	

Working Notes:

1. $\frac{12{,}000 \text{ Shares} + 4000 \text{ Bonus Shares}}{20{,}000 \text{ Shares}} = \frac{4}{5}$ th; Minority Interest $= \frac{1}{5}$ th.

2. Reserves and Surplus of Moon Ltd.

		₹	₹	Sun Ltd's Share 4/5 ₹	Minority Interest 1/5 ₹
(a)	Capital Profit				
	1. Pre-acquisition Profit Less : Equity dividend paid Less : Preference dividend	 18,000 6,000	30,000 24,000		
			6,000		
	2. Pre-acquisition General Reserve Less : Bonus Shares	50,000 50,000	 NIL		
			6,000	4,800	1,200
(b)	Post-acquisition Profit				
	Profit as per Balance Sheet Less: Pre-acquisition Profit		90,000 6,000		
			84,000	67,200	16,800
(c)	Post-acquisition General Reserve				
	General Reserve as per Balance Sheet Less : Pre-acquisition General Reserve		60,000 NIL		
			60,000	48,000	12,000
(d)	Share Capital				
	(Equity & Preference) Less : Minority Interest (₹40,000 + ₹10,000)		2,50,000 50,000		 50,000
	Adjusted in W.N. 4		20,00,000		80,000

3. After issue of one bonus share for every 3 shares held the share capital is ₹2,00,000. It means share capital before bonus issue was $\frac{₹2{,}00{,}000}{4} \times 3 =$ ₹1,50,000, i.e., 15,000 shares of ₹ 10 each.

So 12% dividend which was declared on 01.07.2014 will be calculated on the share capital of ₹1,50,000 x 12% = 7 18,000.

4. Calculation of Goodwill/Capital Reserve

	₹	₹
Cost of Investments (2,80,000 + 1,00,000)		3,80,000
Less : Capital Profit	4,800	
Less : Dividend out of pre-acquisition profit (24,000×4/5)	19,200	
Less : Face Value of Shares (W.N. 2)	2,00,000	2,24,000
Goodwill		1,56,000

5. Consolidated Profit and Loss Account

	₹
Sun Ltd.	1,00,000
Less : Dividend from pre-acquisition profit	19,200
	80,800
Add : Share of post-acquisition profit from Moon Ltd. (W.N. 2)	67,200

	1,48,000
Less : Unrealised Profit on Stock (W.N. 7)	4,000
	1,44,000

6. Consolidated General Reserve

Sun Ltd.	2,00,000
Post-acquisition Share from Moon Ltd. (W.N. 2)	48,000
	2,48,000

7. Unrealised Profit on Stock

$$₹20,000 \times \frac{25}{125} = ₹4,000$$

[If cost is ₹100 then, Profit is ₹ 25 as per question]

3. R. Ltd. and S Ltd. decide to amalgamate and to form a new company T Ltd. The following are the summarised Balance Sheets of R Ltd. and S Ltd. as at 31.3.2015:

Liabilities	RLtd. (₹)	SLtd. (₹)	Assets	RLtd. (₹)	SLtd. (₹)
Share Capital			Fixed Assets:		
Equity Shares of ₹ 100 each	80,00,000	75,00,000	Land and Building	45,00,000	40,00,000
12% Preference Shares of ₹ 100 each	30,00,000	20,00,000	Plant & Machinery	30,00,000	20,00,000
Investment Allowance Reserve	5,00,000	5,00,000	Current assets, Loans & Advances:		
General Reserve	13,00,000	10,00,000	Stock	35,00,000	30,00,000
Profit & Loss Account	7,00,000	4,00,000	Sundry Debtors	54,00,000	36,00,000
10% Debentures (₹ 100 each)	6,00,000	3,00,000	Cash and Bank	2,00,000	1,00,000
Sundry Creditors	25,00,000	10,00,000			
	166,00,000	127,00,000		166,00,000	127,00,000

Additional Information:

(a) T. Ltd. will issue 5 equity shares for each equity share of R Ltd. and 4 equity shares for each share of S Ltd. @ ₹ 30 each, having a face values of ₹ 10 per share.

(b) Preference Share holders of the two companies are issued equivalent number of 15% preference shares of T Ltd., at a price of ₹ 150 per share (face value of ₹ 100).

(c) 10% Debenture holders of R Ltd. and S Ltd. are discharged by T Ltd. issuing such number of its 15% Debentures of ₹ 100 each, so as to maintain the same amount of interest.

(d) Investment allowance reserve to be maintained for 3 more years.

Calculate the amount of purchase consideration for R Ltd. and S Ltd. and draw up the Balance Sheet of T Ltd. as on 1st April, 2015 after the amalgamation has been carried on the basis of amalgamation in the nature of purchase. 15

Answer:

3.

Balance Sheet of T Ltd. as on 1st April, 2015.

Particulars	Note No.	(₹)
I. Equity and Liabilities		
1. Shareholders'' Funds		
(a) Share Capital	1	120,00,000
(b) Reserves and Surplus	2	175,00,000
2. Non-Current Liabilities		
Long term borrowings	3	6,00,000
3. Current Liabilities		
Trade payables (Sundry Creditors)		35,00,000
TOTAL		**336,00,000**
II. Assets		
1. Non-Current assets		
(a) Fixed assets		
(i) Tangible assets	4	135,00,000
(ii) Intangible assets	5	33,00,000
(iii) Other non-current assets	6	10,00,000
2. Current assets	7	158,00,000
TOTAL		**336,00,000**

Notes to Accounts :

		₹	₹
1.	**Share Capital (W.N.4)**		
	Equity Share Capital.		
	7,00,000 Equity Shares of ₹ 10 each	70,00,000	
	50,000 Preference Shares of ₹ 100 each	50,00,000	120,00,000
	(all the above shares are allotted as fully paid up pursuant to contracts without payment being received in cash)		
2.	**Reserves and Surplus**		
	Securities Premium	165,00,000	
	Investment allowance reserve	10,00,000	175,00,000
3.	**Long-tern borrowings**		
	15% Debentures		6,00,000
4.	**Tangible assets**		
	Land and Building	85,00,000	
	Plant and Machinery	50,00,000	135,00,000
5.	**Intangible assets**		
	Goodwill (W.N.3)		33,00,000

6.	**Other non-current assets**		
	Amalgamation adjustment a/c		10,00,000
7.	**Current Assets**		
	Inventories	65,00,000	
	Trade Receivables	90,00,000	
	Cash & Cash Equivalents	3,00,000	158,00,000

Working Notes:

1. **Computation of Purchase Consideration**

	R Ltd.	S Ltd.
	₹	₹
(a) Equity Shareholders		
(80,00,000 × 5 ÷ 100) i.e., 4,00,000 shares × ₹ 30 each	120,00,000	
(75,00,000 × 4 ÷ 100) i.e., 3,00,000 shares × ₹ 30 each		90,00,000
(b) Preference Shareholders		
(30,00,000 ÷ 100) i.e., 30,000 shares × ₹ 150 each	45,00,000	
(20,00,000 ÷ 100) i.e., 20,000 shares × ₹ 150 each		30,00,000
Purchase Consideration	**165,00,000**	**120,00,000**

2. **Net Assets taken over**

		R Ltd.		S Ltd.
Land and Building		45,00,000		40,00,000
Plant and Machinery		30,00,000		20,00,000
Stock		35,00,000		30,00,000
Sundry Debtors		54,00,000		36,00,000
Cash and Bank		2,00,000		1,00,000
		166,00,000		127,00,000
Less : Liabilities taken over				
Debentures	4,00,000		2,00,000	
Creditors	25,00,000	29,00,000	10,00,000	12,00,000
Net Assets taken over		**137,00,000**		**115,00,000**

3. **Goodwill / Capital Reserve**

	R Ltd.	S Ltd.
Purchase Consideration	165,00,000	120,00,000
Less : Net Assets taken over	137,00,000	115,00,000
Goodwill	28,00,000	5,00,000

Total Goodwill for consolidation = 28,00,000 + 5,00,000 = ₹ 33,00,000

4. Share Capital / Securities Premium

	Share Capital Equity	Share Capital Preference	Securities Premium
R Ltd.	₹	₹	₹
Equity Shares $\left(\frac{80,00,000}{100} \times 5 \times 10\right)$	40,00,000		
Securities Premium $\left(\frac{80,00,000}{100} \times 5 \times 20\right)$			80,00,000
Preference Shares $\left(\frac{30,00,000}{100} \times 100\right)$		30,00,000	
Securities Premium			15,00,000
S Ltd.			
Equity Shares $\left(\frac{75,00,000}{100} \times 4 \times 10\right)$	30,00,000		
Securities Premium (75,000 × 4 × 20)			60,00,000
Preference Shares (20,000 × 100)		20,00,000	
Securities Premium (20,000 × 50)			10,00,000
	70,00,000	50,00,000	165,00,000

5. Agreed value of Debentures to be issued to:

R Ltd.

$$\frac{(₹6,00,000 \times 10\%)}{15\%} = ₹4,00,000$$

S Ltd.

$$\frac{(₹3,00,000 \times 10\%)}{15\%} = ₹2,00,000$$

4. Beta Ltd. furnishes the following summarized Balance Sheet as at 31.3.2015:

Liabilities	₹	Assets	₹
Share Capital:		**Fixed Assets**	**22,50,000**
Authorised Capital:	**80,00,000**	**Non-Current investments at cost**	**40,00,000**
Issued and Subscribed Capital:		**Current assets, loans and advances (including cash and bank balances)**	**30,00,000**
2,00,000 Equity Shares of ₹ 10 each fully paid up	**20,00,000**		
15,000, 9% Preference Shares of ₹ 100 each	**15,00,000**		
Reserves and Surplus:			
Capital Reserve	**5,00,000**		
Revenue Reserve	**30,00,000**		
Securities Premium	**4,00,000**		
Profit and Loss Account	**12,00,000**		
Non-Current Liabilities –			
10% Debentures	**6,00,000**		
Current Liabilities and Provisions	**50,000**		
	92,50,000		**92,50,000**

(i) The Company passed a resolution to buy back 20% of its equity capital @ ₹15 per share. For this purpose, it sold its investments of ₹ 25 lakhs for ₹ 20 lakhs.

(ii) The Company redeemed the preference shares at a premium of 10% on 1st April, 2015.

(iii) Included in its investments were 'investments in own debentures' costing ₹4 lakhs (face value ₹ 4.50 lakhs). These debentures were cancelled on 1st April, 2015.

(iv) It is assumed that buy-back of shares has been done out of the proceeds of issue of preference shares.

You are required to pass necessary journal entries of all the above mentioned transactions and prepare the Company's Balance Sheet on 1.4.2015. 15

Answer:

4.

Journal Entries in the books of Beta Ltd.

Particulars		**Debit (₹)**	**Credit (₹)**
1. Bank A/c Profit and Loss A/c To Investment A/c (Being investment sold for purpose of buy-back of Equity shares)	Dr. Dr.	20,00,00 5,00,000	 25,00,000
2. Preference Share Capital A/c Premium on redemption of Preference shares A/c To Preference Shareholders A/c (Being redemption of preference share capital at 10% premium)	Dr. Dr.	15,00,000 1,50,000	 16,50,000
3. Preference Shareholders A/c To Bank A/c (Being payment made to preference shareholders)	Dr.	16,50,000	 16,50,000
4. Revenue Reserve A/c To Capital redemption reserve A/c (Being creation of capital redemption reserve to the extent of nominal value of preference shares redeemed)	Dr.	15,00,000	 15,00,000
5. Equity Share Capital A/c Securities Premium A/c To Equity Shares buy-back A/c (Being the amount due on buy-back of equity shares)	Dr. Dr.	4,00,000 2,00,000	 6,00,000
6. Equity shares buy-back A/c To Bank A/c (Being payment made for buy-back of equity shares)	Dr.	6,00,000	 6,00,000
7. 10% Debentures A/c To Own Debentures A/c To Capital Reserve A/c (Profit on Cancellation) (Being own debentures cancelled at profit)	Dr.	4,50,000	 4,00,000 50,000
8. Securities Premium A/c To Premium on redemption of preference shares (Being premium on redemption of preference shares adjusted through securities premium)	Dr.	1,50,000	 1,50,000

Balance Sheet of Beta Ltd. as on 1st April, 2015

Particulars	Note No.	(₹)
Equity and Liabilities		
1. Shareholders Funds		
Share Capital	1	16,00,000
Reserves and Surplus	2	43,00,000
2. Non-Current Liabilities		
Long term borrowings	3	1,50,000
Current liabilities		50,000
Total		**61,00,000**
Assets		
1. Non-Current assets		
(a) Fixed assets		22,50,000
(b) Non-current investments	4	11,00,000
2. Current assets	5	27,50,000
Total		**61,00,000**

Notes to Accounts :

	₹	₹	₹
1. Share Capital			
Authorised Share Capital			80,00,000
Issued, Subscribed and fully paid share capital:			
1,60,000 equity shares of ₹ 10 each fully paid up			16,00,000
(40,000 equity shares had been bought back)			
2. Reserves and surplus			
Capital Reserve		50,00,000	
Add: Profit on Cancellation of debentures		50,000	
Securities Premium	4,00,000		
Less: Premium on redemption of preference shares	(1,50,000)		
Premium on buy-back of equity	(2,00,000)	50,000	
Revenue reserve	30,00,000		
Less: Transfer to Capital redemption reserve	15,00,000	15,00,000	
Capital redemption reserve		15,00,000	
Surplus (P/L A/c)	12,00,000		
Less: Loss on Sale of Investment	5,00,000	7,00,000	43,00,000
3. Longterm borrowings			
10% Debentures (6,00,000 – 4,50,000)			1,50,000
4. Non-current investments			
Balance as on 31.3.2015		40,00,000	
Less: Investment sold		(25,00,000)	
Own debentures cancelled		(4,00,000)	11,00,000

5. Current assets

Balance as on 31.3.2015	30,00,000	
Add: Cash received on Sale of investment	20,00,000	
Less: Payment to Equity Shareholders	6,00,000	
Payment to Preference Shareholders	16,50,000	27,50,000

5. (a) Choice Ltd. grants 1000 employees stock options on 1.4.2011 at ₹ 60, when the market price is ₹ 170. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2013. 600 options are exercised on 30.6.2014. 100 vested options lapse at the end of the exercise period.

Pass Journal Entries in the books of Choice Ltd. giving suitable narrations. 10

(b) D.C. Private Ltd. has taken machinery on lease from A.D. Ltd. The following additional information is given:

Lease term	=	**4 years**
Fair Value at inception of lease	=	**₹ 20,00,000**
Lease rent	=	**₹ 6,25,000 p.a. at the end of year**
Guaranted residual value	=	**₹ 1,25,000**
Expected residual value	=	**₹ 3,75,000**
Implicit interest rate	=	**15%**

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively. Calculate the value of the lease liability as per AS 19. 5

Answer:

5. (a)

Journal Entries in the books of Choice Ltd. **Dr.** **Cr.**

Date	Particulars		₹	₹
01.04.2011	Deferred Employee Compensation Expenses A/c To Employee Stock Options Outstanding A/c (Being granting of 1000 Equity Shares under Employee Option Scheme at an issue price of ₹ 60, against the current market price of ₹ 170, option valued at an issue price of ₹ 110 i.e difference between the Fair Market Value and the Option Issue Price. Option Cost to be amortized over the vesting period of 2½ years)	Dr	1,10,000	 1,10,000
31.03.2012	Employee Compensation Expense A/c To Deferred Employee Compensation Expenses A/c (Being amortisation of the deferred compensation over two and a half years on straight line basis)	Dr	44,000	 44,000
31.03.2013	Employee Compensation Expense A/c To Deferred Employee Compensation Expenses A/c (Being amortisation of the deferred compensation over two	Dr	44,000	 44,000

	and a half years on straight line basis)			
01.05.2013	Employee Stock Options Outstanding A/c To Deferred Employee Compensation Expenses A/c To General Reserve A/c (Being reversal of compensation accounting on lapse of 300 unvested options)	Dr	33,000	 6,600 26,400
30.09.2013	Employee Compensation Expenses A/c To Deferred Employee Compensation Expense A/c (Being amortisation of the deferred compensation over two and a half years on straight line basis	Dr	15,400	 15,400
30.06.2014	Bank A/c (600 Shares × Exercise Price ₹ 60) Employee Stock Option Outstanding A/c (600 × ₹ 110) To Paid up Equity Share Capital A/c (600 × ₹ 10) To Securities Premium A/c (600 × ₹ 160) (Being exercise of 600 Options at ₹ 60 per share. Share deemed to be issued at Fair Market Value of ₹ 110 per share per ₹ 10 Share. ₹ 100 transferred to Securities Premium Account)	Dr Dr	36,000 66,000	 6000 96,000
01.10.2014	Employee Stock Options Outstanding A/c To General Reserve A/c (Being 100 vested options lapsed at the end of expiry period, balance in Stock Options Outstanding transferred to General Reserve)	Dr	11,000	 11,000

Note:

A. The above journal entries have been proposed based on the Guidance Note on Accounting for Employee Share Based Payments (2011).

B. **Lapse during Vesting Period:** Under Para 18, lapse of options during the Vesting Period (i.e. 01.04.2011 to 30.09.2013) should be adjusted cumulatively i.e. accounted for by suitably reducing the amount to be expensed off subsequent to the date of lapsing. In the instant case, option cost amortized already is in excess of the option cost on eligible options. Therefore, the difference is transferred to General Reserve, applying the guidance in Para 22 (i.e. lapse of options after the vesting date)

C. **Lapse after Vesting Date:** As per Para 22, lapse of options after the vesting date (during the exercise period), the balance standing to the credit of Stock Options Outstanding should be transferred to General Reserve. In no case, the amount already amortized is written back to the Profit and Loss Account.

5. (b)

Present Value of minimum lease payment:

Year	Minimum lease payment ₹	Discount rate at 15%	Present Value ₹
1	6,25,000	0.8696	5,43,500.00
2	6,25,000	0.7561	4,72,562.50
3	6,25,000	0.6575	4,10,937.50
4	6,25,000+1,25,000 = 7,50,000 *	0.5718	4,28,850.00
TOTAL	**26,25,000**		**18,55,850.00**

* Minimum Lease payment of 4th year plus residual value

As per AS-19, Present value of minimum lease payments ₹ 18,55,850.00 is less than fair value at the inception of lease i.e., ₹ 20,00,000. So the lease assets and liability should be recognized at ₹ 18,55,850.00

6. (a) The following details are given for SMITH Ltd. for the year ended March 31, 2015:

Particulars	**(Amount in ₹ Lakh)**
Sales	**3,680**
Other Income	**40**
Raw materials purchased	**1,000**
Total Stock of all materials, WIP and Finished goods:	
Opening Stock	**256**
Closing Stock	**320**
Salaries, Wages, Gratuities etc.	**520**
Employees State Insurance	**56**
P.F. Contribution	**45**
Consumption of Stores	**136**
Printing and Stationary	**35**
Rent, Rates and Taxes	**264**
Other expenses	**138**
Auditor's remuneration	**44**
Plant and Machinery (Net)	**1,720**
Depreciation on Plant and Machinery	**346**
Dividend to Ordinary Shareholders	**240**
Debtors	**300**
Creditors	**200**
Share Capital (Equity shares of ₹ 10 each)	**2,500**
Retained Profits (opening balance)	**1,500**
Retained Profits for the year	**460**
Interest on borrowings	**60**
Income Tax for the year	**440**

***Required*:**

(i) Prepare a Value Added Statement for the year ended March 31, 2015.

(ii) Calculate the Value Added per Employee and average earning per employee on the basis that 120 employees work in SMITH LTD. 8+2= 10

(b) On 1st June, a registered dealer purchased a machinery for ₹ 83,20,000 which includes State VAT of ₹ 3,20,000. As per the State VAT Laws, the input VAT on Capital Goods in adjustable in 36 equal monthly instalments beginning from 1st July of the year. During the

financial year, the dealer has set-off a sum of ₹ 25,000 from the VAT Credit Receivable on Capital Goods, against VAT payable on the sales made by him. The dealer charges depreciation @ 10% p.a. on Machinery.

Show the Journal entries describing VAT Credit Treatment in the books of the dealer. **5**

Answer:

6. (a)

Smith Ltd.
Value Added Statement for the year ended March 31, 2015

(Amount in ₹ Lakh)

Particulars		
(i) **Sales**		3680
Add: Increase in Stock (320-256)		64
Total		**3744**
Less: Cost of Bought in materials and services:		
Raw materials purchased	1000	
Consumption of stores	136	
Printing and stationery	35	
Rent, rates and taxes	264	
Other expenses	138	
Auditor's remuneration	44	(1617)
Value added from own operations		2127
Add: Other Income		40
Total Value Added		**2167**
Application towards:		
Salaries, wages, gratuities etc.	520	
Employees state insurance	56	
P.F. Contribution	45	621
Interest on Borrowings	60	
Government Tax (Income Tax)	440	
Shareholders (Dividend to Shareholders)	240	
Depreciation on Plant and Machinery	346	
Retained Profits for the year	460	1546
Total		**2167**
(ii) **Value Added per Employee**		
$\frac{2167}{120}$ = ₹ 18.06 lakh		
Average earning per employee:		
$\frac{460}{120}$ = ₹ 3.83 lakh		

Answer:

6. (b) **Journal Entries**

S.N.	**Particulars**	**Debit**	**Credit**

1.	Machinery A/C VAT Credit Deferred (capital goods) A/c To, Bank A/c (Being machinery purchased and input tax paid thereon)	80,00,000 3,20,000	 83,20,000
2.	VAT Credit Receivable (capital goods) A/c To, VAT Credit Deferred (capital goods) A/c (Being VAT credit available on Capital Goods for the current period i.e. 1st July to 31st March = ₹3,20,000 × 9/36 = ₹ 80,000)	80,000	 80,000
3.	VAT Payable A/c To, VAT Credit Receivable (capital goods) A/c (Being set-off of VAT credit against liability for VAT payment)	25,000	 25,000
4.	Depreciation A/c To, Machinery A/c (Being depreciation on Machinery = ₹ 80,00,000 ×10/12 ×10%)	6,66,667	 6,66,667

7. (a) The following details pertaining to RAJASTHALI LTD. are given for the year ended March 31, 2015.

		(Amount in ₹ Lakh)
Sales:		
Food Products	**5,600**	
Health and Scientific	**340**	
Others	**150**	**6,090**
Expenses:		
Food Products	**3,250**	
Health and Scientific	**200**	
Others	**150**	**3,600**
Other items:		
General Corporate Expenses		**550**
Income from Investments		**130**
Interest expenses		**60**
Indentified Assets:		
Food Products	**7,300**	
Health and Scientific	**1,000**	
Others	**650**	**8,950**
General Corporate Assets		**720**

Other Information:

(i) Inter-Segment Sales are as below:	**₹ Lakhs**
Food Products	**50**
Health and Scientific	**20**
Others	**5**

(ii) Operating profit includes ₹ 30 Lakh on Inter-Segment Sales.

(iii) Inter-Segment Expenses are to the tune of ₹ 45 Lakh.

Required:

Prepare a Statement showing financial information relating to operations of Rajasthali Ltd. in different Industry Segments, keeping in view the relevant Accounting Standard (AS-17). **6**

(b) ANURAG LTD. and SMITH LTD. have set up a Joint Venture JOVENI LTD. in the ratio of 40% and 60% respectively. Both Anurag Ltd. and Smith Ltd. are required to prepare

Consolidated Financial Statements. The Balance Sheets of both co-ventures and Joveni Ltd. are given below:

	Anurag Ltd.	Smith Ltd.	Joveni Ltd.
Share Capital	5,00,000	3,00,000	1,00,000
Reserves	3,00,000	1,00,000	50,000
Loans	2,00,000	1,00,000	30,000
	10,00,000	5,00,000	1,80,000
Fixed Assets	8,00,000	3,50,000	1,20,000
Investment in Joveni Ltd	40,000	60,000	—
Net Working Capital	1,60,000	90,000	60,000
	10,00,000	5,00,000	1,80,000

Show how the interest in JOVENI LTD. will be reported in the Consolidated Balance Sheets of Anurag Ltd. and Smith Ltd. as per AS-27. **5**

(c) Suman Ltd. has signed at 31.3.2015, Balance Sheet date, a contract where the total revenue is estimated at ₹ 40 lakhs and total cost is estimated at ₹ 50 lakhs. No work began on the contract. Is contractor required to give any accounting effect for the year ended 31st March, 2015 in his accounts? **4**

Answer:

7. (a)

RAJASTHALI LTD.

Statement showing financial information about operations in different industry segments

(Amount in ₹ Lakh)

Particulars	Food products	Health & scientific	Others	Inter-segment elimination	Consolidation
External sales	5550	320	145		6015
Inter segment	50	20	5	75	
Total	**5600**	**340**	**150**	**(75)**	**6015**
Segment Expenses	3250	200	150	(45)	3555
Operating profits	2350	140		(30)	2460
General corporate expenses					(550)
Income from investment					130
Interest expenses					(60)
					1980
Income from continuing operations:					
Identifiable Assets	7300	1000	650	–	8950
Corporate Assets					720
Total Assets					**9670**

Answer:

7. (b)

The interest of Anurag Ltd. and Smith Ltd. in Joveni Ltd.can be reported in the consolidated financial statements as per the proportionate consolidation method as follows:-

Consolidated Balance Sheet.

(Amount in ₹)

	Anurag Ltd.		**Smith Ltd.**
Share Capital	500000		300000
Reserves (₹ 300000 + 20000)	320000	₹ 100000 + 30000	130000
Loans (₹ 200000 + 12000)	212000	₹ 100000 + 18000	118000
	1032000		**548000**
Fixed Assets (₹ 800000 + 48000)	848000	(₹ 350000 + 72000)	422000
Net working capital (₹ 160000 + 24000)	184000	(₹ 90000 + 36000)	126000
	1032000		**548000**

Joveni Ltd. has been consolidated on a line -by - line basis in the ratio of 40% and 60%

Answer:

7. (c)

As per AS 7 'Construction Contracts', when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately irrespective of whether or not work has commenced on the contract. Therefore, the company will have to book loss of ₹ 10 lakhs in this case as the loss is certain to be made. The contract should be reviewed at the end of the each period for additional losses to be incurred, if any.

8. Write short notes on (any three): **5x3=15**

(a) Major issues in Environment Accounting

(b) Market Value Added

(c) Objections to Segmental Reporting

(d) Qualified and Independent Audit Committee

(e) General principles of Government Accounting

Answer:

8. (a)

Major Accounting Issues in Environmental Accounting are -

1. **Environmental Expenditure vs. Normal Business Expenditure:** Many machines may have state-of-the-art environmental technology. Hence, a portion of such capital costs and also the running and maintenance expenditure may be treated as environment related expenditure. There should be proper guidelines for allocating the capital and revenue expenditures between Environmental Expenditure and Normal Business Expenditure.
2. **Capitalisation vs. Charging Off of Environmental Expenditure:** Environmental protection costs relating to prior periods and current period are generally very high. If these are expensed off

in one year, EPS may be adversely affected. Some Companies may capitalise such expenditure and amortise the same over say 10 years. Uniformity is required for comparative analysis of Financial Statements.

3. **Recognition of Environment related Contingent Liabilities:** Environmental Contingent Liabilities are a matter of increasing concern. Recognizing a liability for hazardous waste remediation frequently depends on the ability to estimate remediation costs reasonably. Developing a reliable estimate requires evaluation of technological, regulatory and legal factors, each of which calls for exercise of management judgement to reach a supportable accounting conclusions.

Answer:

8. (b)

Market value Added (MVA) is the difference between the current market value of a firm and the capital contributed by investors. If MVA is positive, the firm has added value. If it is negative the firm has destroyed value.

To find out whether management has created or destroyed value since its inception, the firm's MVA can be used:

MVA = Market value of capital - capital employed

This calculation shows the difference between the market value of a company and the capital contributed by investors (both bondholders and shareholders). In other words, it is the sum of all capital claims held against the company plus the market value of debt and equity. Calculated as:

The higher the MVA, the better. A high MVA indicates the company has created substantial wealth for the shareholders. A negative MVA means that the value of the actions and investments of management is less than the value of the capital contributed to the company by the capital markets, meaning wealth or value has been destroyed.

The aim of the company should be to maximize MVA. The aim should not be to maximize the value of the firm, since this can be easily accomplished by investing ever-increasing amounts of capital.

Answer:

8. (c)

Objections of segmental reporting:

The possible objections to Segmental Reporting can be enumerated as below:

1. It is generally felt that segmental revenues and expenses are not distinguishable objectively in many cases. Revenues of a weak product line may be derived only because of the existence of a strong product line. Also many joint costs are only separatable arbitrarily.

2. Much of segmental results depend on the inter-department transfer pricings which are not always logically established.

3. Various segments of an enterprise may use common resources which makes it difficult to arrive at a segment wise performance ratio.

4. Since the users are not in position to know the proper base for cost allocation, the segment results would be less than meaningful.

5. That last objection consists of the competitive implications to the firm. Some academics contend that company secrets will be disclosed while others referred to the competitive hardship suffered by some firms if segmented data is required.

Answer:

8. (d)

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following :

(i) The audit committee shall have minimum three directors as member .Two-thirds of the members of audit committee shall be independent directors

(ii) All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

(iii) The Chairman of the Audit Committee shall be an independent director;

(iv) The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries;

(v) The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meeting of the audit committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee;

(vi) The Company Secretary shall act as secretary to the committee.

Answer:

8. (e)

The general principles of Government Accounting are as follows:

(i) The Government Expenditure are classified under Sectors, major heads, minor heads, sub-heads and detailed heads of account, the accounting is more elaborate that that followed in commercial accounts. The method of budgeting and accounting under the service heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates.

(ii) In its Budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the later. Similarly, in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts, Government determines (a) whether it will be justified in curtailing or expanding its activities (b) whether it can and should increase or decrease taxation accordingly.

(iii) In the field of Government accounting, the end products are the monthly accounts and the annual accounts. The monthly accounts serve the needs of the day-to-day administration, while the annual accounts present a fair and correct view of the financial stewardship of the Government during the year.