FINAL EXAMINATION

(SYLLABUS 2008)

GROUP IV

SUGGESTED ANSWERS TO QUESTIONS

December 2012

Paper- 16 : ADVANCED FINANCIAL ACCOUNTING AND REPORTING

Time Allowed : 3 Hours **Full Marks :** 100

The figures in the margin on the right side indicate full marks.
Part A questions are compulsory. Attempt all of them.
Part B has seven questions. Attempt any five of them.

Please (1) Write answers to all parts of a question together.
(2) Open a new page for answer to a new question.
(3) Attempt the required number of questions only.
(4) Indicate in the front page of the answer book the 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 (= I mark) and give your workings/reasons briefly (= I mark): **2x8=16**

(i) SOFTEX LTD. is having a plant (asset), carrying amount of which is ₹ 40 lakh on March 31, 2012. Its balance useful life is 3 years and residual value at the end of 3 years is ₹ 3 lakh. Estimated future cash flow from using the plant will be ₹ 10 lakh per annum for 3 years. If the discount rate is 10% "the Value in Use" for the plant as per AS-28 will be
[Given: PVIFA (10%, 3 yrs) = 2.487 and PVIF (10%, 3 yrs) = 0.7513]

- **A. ₹ 27.124 lakh**
- **B. ₹ 22.001 lakh**
- **C. ₹ 21.870 lakh**
- **D. Insufficient Information**

(ii) The fair value of Plan assets of ARIMA LTD. at beginning and end of the year 2011-2012 were ₹ 4,00,000 and ₹ 5,70,000 respectively. The employer's contribution to the plan during the year was ₹ 1,40,000. If benefit payments to retirees were ₹ 1,00,000 what would be the actual return on plan assets (as per AS-15) ?

- **A. ₹ 1,50,000 lakhs**
- **B. ₹ 1,30,000 lakhs**
- **C. ₹ 1,20,000 lakhs**
- **D. Insufficient Information**

(iii) FICKLE LTD. has five business segments with operating profits and losses as shown below:

Segment	Operating Profit/(Loss) (₹ in lakh)
P	3
Q	(3)
R	20
X	(9)
Y	(20)

Reportable segments as per AS-17 are

- **A. P,Q,R,X,Y**
- **B. P,Q,R,Y**
- **C. P, Q, R only**
- **D. R, X, Y only**

(iv) NANDITHA LTD. has imported $ 50,000 worth of goods from CHICAGO TRADERS of USA on 30.2.2012 when exchange rate was ₹ 54.60 per US $. The payment for imports was made on 30.6.2012 when exchange rate was ₹ 55.50 per US $. If the rate of exchange on 31.3.2012 is ₹ 55.00 per US $, the exchange difference to be charged/debited to Profit & Loss Account for the year 2012-13 as per AS-11 will be -

- **A. ₹ 25,000**
- **B. ₹ 45,000**
- **C. ₹ 20,000**
- **D. None of (A), (B) and (C)**

(v) HILL LTD. has provided depreciation in accounts for ₹ 80 lakhs, but as per tax records it is ₹ 120 lakhs. Unamortized preliminary expenses, as per tax records is ₹ 40,000. There is adequate evidence of future Profit sufficiently. Tax rate is 30%. How much deferred tax assets/liability should be recognized as per AS-22?

- **A. ₹ 12.00 lakhs**
- **B. ₹ 11.88 lakhs**
- **C. ₹ 5.94 lakhs**
- **D. Nil**

(vi) AKASH LTD. set up a new factory in the backward area and purchased Plant for ₹ 500 lakhs for the purpose. Purchases were entitled for CENVAT credit of ₹ 10 lakhs and Government also agreed to extend 25% subsidy for backward area development. Determine the depreciable value of the asset.

- **A. ₹ 500 lakhs**
- **B. ₹ 392 lakhs**
- **C. ₹ 400 lakhs**
- **D. ₹ 390 lakhs**

(vii) ANKUSH LTD. reported net income (attributable to equity shareholders) of ₹ 10 lakhs for the year 2011-12 and had 1,00,000 equity shares during the entire year ended March 31, 2012. ANKUSH LTD. also had outstanding during entire 2011-12, 5000, 6% Convertible Preference Shares @ ₹ 100 face value, each share convertible into 15 equity shares. What would be the Diluted EPS of the company as per AS-20?

- **A. ₹ 5.89**
- **B. ₹ 5.05**
- **C. ₹ 5.71**
- **D. None of (A), (B) and (C)**

(viii) ROOM LTD. holds 25% share in DOOR LTD. at a cost of ₹ 7.50 lakhs as on 31.3.2005 out of DOOR's share capital and Reserve of ₹ 30 lakhs each. For the year ended 31.3.2012, DOOR LTD. made a profit of ₹ 2,40,000 and 30% of it was distributed as dividend. In the Consolidated Financial Statement, the carrying amount of investment as at 31.3.2012 will be -

- **A. ₹ 15.00**
- **B. ₹ 15.60**
- **C. ₹ 15.42**
- **D. ₹ 14.82**

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

(i) As per AS-10 Fixed Assets that have been retired from active use and held for disposal should be stated in Balance Sheet at

- **A. Net Book Value**
- **B. Net Realizable Value**
- **C. Lower of the Net Book Value and Net realizable value**
- **D. Higher of the Net Book Value and Net realizable value**

(ii) The underlying accounting principle(s) necessitating amortization of intangible asset(s) is/are

- **A. Cost Concept**
- **B. Realization Concept**
- **C. Matching Concept**
- **D. Both of (A) and (C) above**

(iii) Under AS-26, brand generating costs

- **A. Can be capitalized if they can be measured reliably**
- **B. Can be capitalized if market value exceeds the costs**
- **C. Cannot be capitalized**
- **D. Can be capitalized if present value of future benefits exceeds the costs**

(iv) As per AS-22, a Deferred tax Asset should be recognized only when there is certainty of future taxable income to realize. This is based on the consideration of

- **A. Prudence**
- **B. Conservation**
- **C. Caution**
- **D. Consistency**

(v) SKY LTD. purchased a special machinery from Earth Ltd. for ₹ 50 Lakhs in consideration of 50,000 equity shares of ₹ 100 each of the company. Where this transaction will be reflected in the Cash Flow Statement as per AS-3?

- **A. Operating Activities**
- **B. Financing Activities**
- **C. Investing Activities**
- **D. None of the above**

(c) (i) DP LTD. presents its Interim Financial Report on quarterly basis. It has earned profit of ₹ 500 Lakhs and ₹ 300 Lakhs in the first two quarters ending 30.6.2011 and 30.9.2011 respectively, but has incurred losses of ₹ 100 Lakhs and ₹ 400 Lakhs in the 3rd and 4th quarter respectively. Effective income tax rate is 30%. What will be the income tax expenses to be reported for each quarter as per AS-25? **2**

(ii) At the end of financial year 2011-12, P Ltd. finds that there is a law suit outstanding. The possible outcome as estimated by the Board is as follows:

	Probability	**Loss (₹)**
Win	**60%**	**--**
Lose (low damage)	**30%**	**2,00,000**
Lose (high damage)	**10%**	**4,00,000**

Compute the amount of contingent liability to be shown by way of a note to financial statements as per AS-29. **2**

Answer 1.

(a) (i) A : ₹ 27.124 Lakh

Present Value of future cash flows for 3 years: 10 x 2.487 = ₹ 24.870 Lakh
Present value of residual value on 31.3.2015 = 3 x 0.7513 = ₹ 2.254 Lakh
Value in Use = ₹ 27.124 Lakh

(ii) B : ₹ 1,30,000

Actual Return = Fair value of assets (end of year) - Fair Value of assets (beginning of year) - Employer's contribution + benefit payments = (5,70,000 − 4,00,000 − 1,40,000 + 1,00,000) = ₹ 1,30,000.

(iii) D: R, X, Y

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 = (3+20) Lakh = 23 Lakh
Absolute Losses = (3+9+20) Lakh = 32 Lakh
Greater of these two absolute amounts are losses of ₹32 lakhs
10% of ₹ 32 = ₹ 3.20 Lakh
Reportable Segments are R, X, Y.

(iv) A : ₹ 25,000

As per AS-11, exchange difference on settlement on monetary items should be transferred to Profit & Loss Account as gain or loss. Therefore (₹55.50 - ₹55.00) x $50000 = ₹ 25,000 will be debited to Profit & Loss Account for the year 2012-13.

(v) B : ₹ 11.88 lakhs

The difference between taxable income and accounting income.

Excess depreciation as per tax (120-80)	= ₹ 40.00 lakhs
Less, Expenses provided to taxable income	= ₹ 0.40 lakhs
Timing difference	= ₹ 39.60 lakhs

So, deferred tax liability = ₹ 39.60 lakhs x 30% = ₹ 11.88 lakhs

Alternative solution:

40 X 0.3 - 0.4X.3= 12 - 0.12 = ₹ **11.88 Lakhs**

(vi) B : ₹ 392 lakhs

Particulars	₹ In lakhs
Cost of Plant	500
Less: CENVAT	10
	490
Less: Subsidy (25%)	98
Depreciable value of asset	392

(vii) A: ₹ 5.89

Diluted EPS = $\frac{\text{Net Income} + \text{Preference Dividend}}{\text{WAES} + \text{WAPES}} = \frac{10,00,000 + 30,000}{1,00,000 + 76,000} = \frac{10,30,000}{1,75,000}$ =₹5.89

(viii) C : 15.42

Particulars	₹ In lakh
Cost of Share in DOOR Ltd.	7.50
Share of Reserve (25% of ₹ 30 Lakh)	7.50
Share of Profit (25% of ₹ 2.40 Lakh)	0.60
	15.60
Less: Dividend (2.40 Lakh x 30% x 25%)	0.18
Carrying amount of investments in Consolidated financial statements.	15.42

Alternative solution:

Share Capital 30 + Reserves 30 + Retained Profits l.68 (2.4 X 70%)=61.68 Share of Room Ltd 25% of 61.68 =1 5.42

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

(C)	i) Tax expenses to be reported in each quarter will be:	
1st quarter	₹ 500 x 30% ₹	= ₹ 150 lakhs
2nd quarter	₹ 300 x 30% ₹	= ₹ 90 lakhs
3rd quarter	(-) ₹ 100 x 30%	= (-) ₹ 30 lakhs
4th quarter	(-) ₹ 400 x 30%	= (-) ₹ 120 lakhs

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

30% of ₹ 2,00,000	= ₹ 60,000
10% of ₹ 4,00,000	= ₹ 40,000
Total	= ₹ 1,00,000

Part B (75 Marks)
Attempt any five questions.

2. (a) Following details are given for Samrat Ltd. for the year ended 31st March, 2012:

		(₹ in Lakhs)
Sales:		
Food Products	**5,650**	
Plastic & Packaging	**625**	
Health & Scientific	**345**	
Others	**162**	**6,782**
Expenses:		
Food Products	**3,335**	
Plastic & Packaging	**425**	
Health & Scientific	**222**	
Others	**200**	**4,182**
Other Items:		
General Corporate Expenses		**562**
Income from Investments		**132**
Interest expenses		**65**
Identifiable Assets:		
Food Products	**7,320**	
Plastic & Packaging	**1,320**	
Health & Scientific	**1,050**	
Others	**665**	**10,355**
General Corporate Assets		**722**
Other Information:		
(i) Inter Segment Sales: Food Products	**55**	
Plastic & Packaging	**72**	
Health & Scientific	**21**	
Others	**7**	

(ii) Opening profit includes ₹ 33 lakhs on inter-segment sales;
(iii) Information about inter-segment expenses are not available.
You are required to prepare a statement showing financial information about Samrat Ltd.'s operation in different industry segments. **8**

(b) What do you mean by "Fellow Subsidiary" in the context of Related Party Disclosure (As per AS-18)?

(c) What are the three major considerations governing the Selection and Application of Accounting Policies? **3**

(d) "All members of Audit Committee shall be financially literate"-What do you mean by the term "financially literate"? **2**

Answer 2.

(₹ In Lakh)

	Food Products	**Plastic & Packaging**	**Health & Scientific**	**Others**	**Inter Segment Elimination**	**Consolidated**
External Sales	5595	553	324	155	--	6627
Inter Segment Sales	55	72	21	7	155	--
Total	5650	625	345	162	155	6627
Segment Expenses	3335	425	222	200	122	4060
Operating Profit	2315	200	123	(38)	33	2567
General Corporate Expenses						(562)
Income from Investments						132
Interest						(65)
Income from continuing operations						2072
Identifiable Assets	7320	1320	1050	665	--	10355
Corporate Assets						722
Total Assets						11077

(a) As per AS-18, a Company is considered to be a Fellow Subsidiary of another company, if both the companies are subsidiaries of the same holding company. Example : Say, A Ltd is holding 60% shares of B Ltd and A Ltd. also holds 55% shares in C Ltd. Then B Ltd and C Ltd are the subsidiaries of A Ltd, i.e. A Ltd is the holding company of both B Ltd and C Ltd. In this given example, B Ltd. and C Ltd. are "Fellow Subsidiaries" of each other.

(b) Major considerations governing selection and application of Accounting Policies are :
i) Prudence
ii) Substance over form
iii) Materiality

(c) "Financially literate" means the ability to read and understand basic financial statements, i.e. Balance sheet, Profit & Loss A/c and Statement of Cash Flow.

3. The summarized Balance Sheets of INDIGENT LTD. and its subsidiary MEEK LTD. as at March 31, 2012 were as follows:

(Amount in ₹ Thousand)

Liabilities	**Indigent Ltd.**	**Meek Ltd.**	**Assets**	**Indigent Ltd.**	**Meek Ltd.**
Share Capital			**Fixed Assets**	**12,000**	**3,600**
(Share of ₹ 10 each)	**10,000**	**2,000**	**Investment in Meek Ltd.**		
General Reserve	**10,000**	**4,000**	**(1,20,000 Shares)**	**1,200**	**---**
Profit & Loss A/c	**4,000**	**3,000**	**Debtors**	**7,000**	**1,000**
Secured Loan	**4,000**	**500**	**Inventories**	**6,000**	**5,000**
Current Liabilities	**6,000**	**500**	**Cash at Bank**	**7,800**	**400**
	34,000	**10,000**		**34,000**	**10,000**

Indigent Ltd. holds 60% of the paid up capital of Meek Ltd. and the balance is held by a Foreign Company. A memorandum of understanding has been entered into with Foreign Company by Indigent Ltd. to the following effect:

(a) The shares held by the Foreign Company will be sold to Indigent Ltd. at a price per share to be calculated by capitalizing the yield at 15%. Yield for this purpose would mean 50% of the average of pre-tax profits for the last three years, which were ₹ 24 Lakh, ₹ 36 Lakh and ₹ 48 Lakh respectively (average tax rate was 40%).

(b) The actual cost per share to the Foreign Company was ₹ 11. Gains accruing to the Foreign Company are taxable @ 20%. The tax payable will be deducted from the sale proceeds and paid to Government by Indigent Ltd. 50% of the purchase consideration (after payment of tax) will be remitted to Foreign Company by Indigent Ltd. and also any cash for fractional shares allotted.

(c) For the balance of purchase consideration, Indigent Ltd. would issue its shares at their intrinsic value. It was also agreed that Indigent Ltd. would absorb Meek Ltd., simultaneously by writing down the fixed assets of Meek Ltd. by 10%. The balance sheet figures included a sum of ₹ 2 Lakh due by Meek Ltd. to Indigent Ltd. and stock of Indigent Ltd. included ₹ 3 Lakh purchased from Meek Ltd., who sold them at cost plus 20%.

Required:

(i) Pass Journal entries in the Books of Indigent Ltd. to record the above arrangements on 31.3.2012 and

(ii) Prepare the Balance Sheet of Indigent Ltd. after absorption of Meek Ltd.

Note-Workings should form part of your answer. **15**

Answer 3.

(a) Workings :

Price of Shares:
Profit for 3 years = (24+36+48) = 108/3 = 36 Lakhs
36x0.50 = 18 Lakhs
18/0.15 = ₹ 120 Lakhs
Purchase Consideration = Value of 40% shares = 120 x 0.40 = ₹ 48 Lakh
Cost to Foreign Company = 80000 x 11 = ₹ 8.80 Lakh
Tax on Transfer of Shares = (48 - 8.80) x 0.20 = ₹ 7.84
Balance Payable by Indigent Ltd. to Foreign Co. = 48 -7.84 = ₹ 40.16 Lath
50% of 40.16 = ₹ 20.08 Lakhs to be remitted in cash and Balance ₹ 20.08 Lakhs by Issue of its equity shares.

Intrinsic Value of Indigent Ltd.:		₹
Total assets (Exclusive Investment)		3,28,00,000
Add: Investment (48L/40%x60%)		72,00,000
Amount paid		4,00,00,000
Less : Liabilities		
Secured Loan	40,00,000	
Current Liabilities	60,00,000	1,00,00,000
Net Assets		3,00,00,000

No. of Shares 10,00,000
Intrinsic Value per share: ₹ 30 (300/10 Lakh):
No. of Shares to be issued to Foreign Company :
2008000/30 = 66933 and cash equivalent to 0.3333 x 30= ₹ 10

Journal Entries in the Books of Indigent Ltd.(without narration)

Particulars		Dr. (₹)	Cr. (₹)
i. Business Purchase A/c	Dr.	48,00,000	
To Foreign Company A/c			48,00,000
ii. Fixed Assets A/c	Dr.	32,40,000	
Sundry Debtors A/c	Dr.	10,00,000	
Cash at Bank A/c	Dr.	4,00,000	
Inventories A/c	Dr.	50,00,000	
To Current Liabilities A/c			5,00,000
To Secured Loan A/c			5,00,000
To Investment A/c			12,00,000
To Business Purchase A/c			48,00,000
To Capital Reserve A/c			26,40,000
iii. Capital Reserve A/c	Dr.	50,000	
To Stock A/c			50,000
iv. Current Liabilities A/c	Dr.	2,00,000	
To Debtors A/c			2,00,000
v. Foreign Company A/c	Dr.	48,00,000	
To Bank A/c			20,08,000
To Tax Payable A/c			7,84,000
To Equity Share Capital A/c			6,69,330
To Securities Premium A/c			13,38,660
To Cash A/c			10
vi. Tax Payable A/c	Dr.	7,84,000	
To Bank A/c			7,84,000

Indigent Ltd.
Balance Sheet as at 1st April, 2012
(as per Revised Schedule VI)

₹

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period.
I EQUITY AND LIABILITIES			
(1) Shareholders' funds:			
(a) Share Capital	1	1,06,69,330	-
(b) Reserve and Surplus	2	1,79,28,660	-
(2) Share application money pending allotment		-	-
(3) Non-Current Liabilities:		-	-
(4) Current Liabilities:		-	-
(a) Short term borrowings	3	45,00,000	-
(b) Trade Payables		-	-
(c) Other current liabilities	4	63,00,000	-
(d) Short-term provisions	-	-	-
Total		**3,93,97,990**	-
II ASSETS			
(1) Non-current assets:			
(a) Fixed Assets			
(i) Tangible assets	5	1,52,40,000	-
(2) Current Assets	-	-	-
(a) Current investments	-	-	-
(b) Inventories	6	1,09,50,000	-
(c) Trade receivables	7	78,00,000	-
(d) Cash and Cash equivalents	8	54,07,990	-
Total		**3,93,97,990**	

Notes on Accounts:

Note 1. Share Capital

Particulars	Amount (₹)
Share of ₹ 10 each – 10 lakh shares Share issued in lieu of purchase consideration 66933 shares (Share of ₹ 10 each)	1,06,69,330
Total	**1,06,69,330**

Note 2. Reserve and Surplus

Particulars	Amount (₹)
General Reserve	1,00,00,000
Capital Reserve (₹ 26,40,000 – Unrealized Profit on Stock ₹ 50,000)	25,90,000
Profit and Loss Account	40,00,000
Security Premium	13,38,660
Total	**1,79,28,660**

Note 3. Short term Borrowings

Particulars	Amount (₹)
Secured Loans (₹ 40 Lakhs + 5 Lakhs)	45,00,000
Total	**45,00,000**

Note 4. Other Current Liabilities

Particulars	Amount (₹)
Current Liabilities (60 Lakhs + 5 Lakhs) – Mutual Debt 2 Lakhs	63,00,000
Total	**63,00,000**

Note 5. Tangible Assets

Particulars	Amount (₹)
Fixed Assets	1,52,40,000
Total	**1,52,40,000**

Note 6. Inventories

Particulars	Amount (₹)
Inventories (₹ 60 Lakhs + 50 Lakhs) – Unrealized Profit on Stock ₹ 50,000	1,09,50,000
Total	**1,09,50,000**

Note 7. Trade Receivables

Particulars	Amount (₹)
Sundry Debtors (₹ 70 Lakhs + 10 Lakhs) – Mutual Debt ₹ 2,00,000	78,00,000
Total	**78,00,000**

Note 8. Cash and Cash Equivalents

Particulars	Amount (₹)
Cash at Bank	54,07,990
Total	**54,07,990**

4. The following is an abstract of the Balance Sheets of H Ltd., S Ltd. and D Ltd. as on March 31, 2012:

	H Ltd. ₹	S Ltd. ₹	D Ltd. ₹
Liabilities:			
Share Capital:			
Equity Shares of ₹ 10 each fully paid	20,00,000	10,00,000	6,00,000
Reserves and Surplus:			
Reserves	1,80,000	2,00,000	1,44,000
Profit & Loss A/c	2,00,000	40,000	1,02,000
Current Liabilities & Provisions:			
Creditors	60,000	60,000	20,000
	24,40,000	**13,00,000**	**8,66,000**

	H Ltd. ₹	S Ltd. ₹	D Ltd. ₹
Assets:			
Fixed Assets	11,00,000	6,00,000	8,00,000
Investments:			
75,000 shares in S Ltd.	10,00,000		
15,000 shares in D Ltd.	2,00,000		
40,000 shares in D Ltd.		5,60,000	
Current Assets, Loans & Advances:			
Stock	1,20,000	1,00,000	56,000
Cash at Bank	20,000	40,000	10,000
	24,40,000	**13,00,000**	**8,66,000**

H Ltd. purchased the shares in S Ltd. and in D Ltd. on September 30, 2011, and S Ltd. also purchased the shares in D Ltd. on the same day.

The following are the balances at the beginning of the year (1.4.2011):

	S Ltd. ₹	D Ltd. ₹
Reserves	1,80,000	1,20,000
Profit & Loss Ale	20,000	16,800

You are to assume that profits accrue uniformly every month.

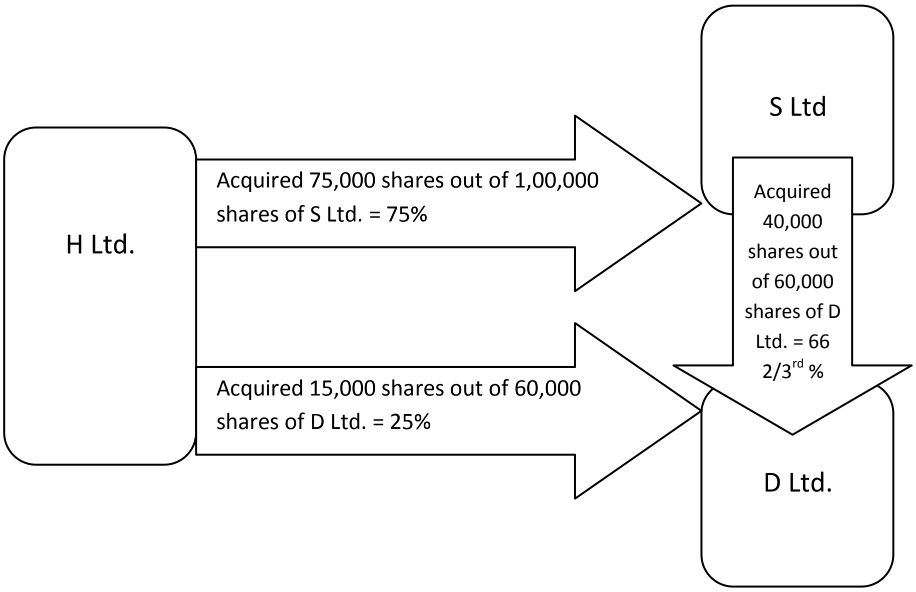
Required:
Prepare a Consolidated Balance Sheet of H Ltd. and its Subsidiaries as at March 31, 2012. **15**

Answer 4.

H. Ltd and its subsidiaries S Ltd. and D Ltd.
Consolidate Balance Sheet
as at March 31, 2012

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital: Issued, Subscribed & Paid up: 2,00,000 shares of ₹ 10 each fully paid	20,00,000	Goodwill (on Consolidation) Fixed Assets Investments	1,19,550 25,00,000 -
Reserves & Surplus:			
Reserves	1,96,500	Current Assets, Loans & Advances:	
Profit & Loss A/c	2,39,450	Stock	2,76,000
Secured Loans	-	Cash at Bank	70,000
Unsecured Loans	-		
Current Liabilities & Provisions:			
Sundry Creditors	1,40,000		
Minority Interest	3,89,600		
	29,65,550		**29,65,550**

Working Notes:



1) Analysis of Profits

	Capital Profit ₹	Revenue Reserve ₹	Profit & Loss A/c (Revenue) ₹
(i) D Ltd.			
Reserve as on 1.4.2011	1,20,000	-	-
Profit & Loss A/c as on 1.4.2011	16,800	-	-
Increase in Reserve during the year	12,000	12,000	-
Increase in P&L A/c during the year	42,600	-	42,600
	1,91,400	**12,000**	**42,600**
Less: Share of H Ltd. (1/4)	47850	3000	10650
	143550	**9000**	**31950**
Less: Minority Interest (1/12)	15950	1000	3550
Shares of S Ltd.	**127600**	**8000**	**28400**
(ii) S Ltd.:			
Reserve as on 1.4.2011	1,80,000		
Profit & Loss A/c			
Balance as on 1.4.2011	20,000		
Increase in Reserve during the year 2011-12	10,000	10,000	
Increase in Profit & Loss A/c during the year 2011-12	10,000		10,000
From D Ltd.		8,000	28,400
	2,20,000	**18,000**	**38,400**
Less: Minority Interest (1/4)	55,000	4,500	9,600
	1,65,000	**13,500**	**28,800**

2)

Cost of Control	Amount ₹	Amount ₹
Cost of Investment in S Ltd.		10,00,000
Cost of Investment in D Ltd.		7,60,000
		17,60,000
Paid up Value of Shares in S Ltd.	7,50,000	
Paid up Value of Shares in D Ltd.	5,50,000	
Capital Profit in S Ltd.	1,65,000	
Capital Profit in D Ltd.	1,75,450	**16,40,450**
Goodwill		**1,19,550**

3)

Minority Interest	**S Ltd.** ₹	**D Ltd.** ₹
Shares Capital	2,50,000	50,000
Capital Profits	55,000	15,950
Revenue Reserve	4,500	1,000
Revenue Profit	9,600	3,550
	3,19,100	70,500

4)

	Reserves	**Profit & Loss A/c**
H Ltd. Balance	1,80,000	2,00,000
Shares in S Ltd.	13,500	28,800
Shares in D Ltd.	3,000	10,650
	1,96,500	2,39,450

5) While analyzing profits of S Ltd. and D Ltd., the columns, revenue reserves and Profit & Loss A/c could have been merged into the Revenue Profit. However, the treatment given in solution gives a better picture.

The Goodwill and Capital Profits can be worked out by either direct or indirect method. Under the direct method, capital profit of the sub-subsidiary is first divided into minority and group interest. Then the group interest is taken directly for calculation of the goodwill /capital reserve. Under the indirect method, the capital profits under group interest are further segregated into subsidiary's minority interest and the present company. Hence, the difference in the figures under the alternatives is % of 127600 i.e 31900.Corresponding changes occur in the amounts of Goodwill , Minority Interest and Balance Sheet total.(Corresponding figures- B/S total 2965550/2997450; Goodwill 119550/151450 ; Minority interest 389600/421500).

5. (a) SITERAZE LTD. (SL) engaged in manufacturing business furnished the following Profit & Loss A/c for the year ended March 31, 2012:

(Amount in ₹ Lakh)

	Notes		**Amount**
Income:			
Sales			**1,780**
Other Income			**110**
			1,890
Expenditure:			
Production & Operational Expenses	**(a)**	**1,282**	
Administration Expenses (factory)	**(b)**	**66**	
Interest	**(c)**	**58**	
Depreciation		**34**	**1,440**
Profit before taxes			**450**
Provision for taxes	**(d)**		**60**
Profit after taxes			**390**
Balance as per last Balance Sheet			**20**
			410
Transferred to General Reserve		**90**	
Dividend Paid		**190**	
			280
Surplus carried to Balance Sheet			**130**
			410

Notes (a) **Production & Operational Expenses:**	**₹ in Lakh**	
Consumption of raw materials	**586**	
Consumption of stores	**118**	
Salaries, Wages, Gratuity etc. (Administration)	**164**	
Cess & Local taxes etc.	**196**	
Other manufacturing Expenses	**218**	**1,282**

(b) Administration expenses include Salaries, Commission to Directors-₹18 Lakh. Provision, for Doubtful Debts ₹ 12.60 Lakh.

(c)	**₹ in Lakh**	
Interest on loan from ICICI Bank for working capital	**18**	
Interest on loan from ICICI Bank for fixed loan	**20**	
Interest on loan from IFCI for fixed loan	**16**	
Interest on Debentures	**4**	**58**

(d) The charges for taxation include a transfer of ₹ 6.00 lakh to the credit of Deferred Tax Account.

(e) **Cess and Local taxes include Excise Duty, which is equal to 10% of cost of bought-in material.**

Required:

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

(b) MS. AINDRILA, an investor buys a stock option of ANISHA LTD. in July, 2012 with a strike price on 30th July, 2012 ₹ 300, to be expired on 30th August, 2012. The premium is ₹ 25 per unit and the market lot is 100. The margin to be paid is ₹ 130 per unit.

Required:

Show the accounting treatment (Journal Entries) in the Books of MS. ANDRILA, when

(i) The option is settled by delivery of the asset;

(ii) The option is settled in cash and the index price is ₹ 310 per unit. **5**

Answer 5.

(a) SITERAZE LTD.

Particulars	**Amount ₹ In Lakh**	**Amount ₹ In Lakh**
Sales		1,780
Less: Cost of bought in materials and services:		
Production and Operational expenses (586+118+218)	922	
Administration Expenses (66-18)	48	
Interest on Working Capital Loan	18	
Excise Duty (Ref. working note)	110	1098
Value Added by Manufacturing and trading activities		682
Add: Other Income		110
Total Value Added		**792**

Application of Value Added

Particulars	Amount ₹ In Lakh	Amount ₹ In Lakh	(%)
To Employees			
Salaries, Wages, Gratuities etc.		164	20.71
To Directors			
Salaries and Commission		18	2.27
To Government			
Cess and Local Taxes (196-110)	86		
Income Tax	54	140	17.68
To providers of Capital			
Interest on Debentures	4		
Interest on Fixed loan	36		
Dividends	190	230	29.04
To provide for Maintenance and Expansion of the Company			
Depreciation	34		
General reserve	90		
Deferred Tax	6		
Retained Profits	110	240	30.30
Total Value Added		**792**	**100.00**

Statement showing Reconciliation of Gross Value Added with Profit before Taxation:

Particulars		Amount ₹ In Lakh
Profit before Taxes		
Add: Depreciation	34	
Directors' Remuneration	18	
Salaries, Wages & Gratuities etc.	164	
Cess and Local Taxes	86	
Interest on Debentures	4	
Interest on Fixed Loan	36	342
Total Value Added		**792**

Working note:

Calculation of Excise Duty: ₹ In Lakh

Let, Cost of bought in materials and services be "X"

Excise duty is 10% of X = 0.10X

X= 922+ 48+18+0.10X or 0.90X = 988, or X = 1098

Excise duty = 1098 -988 = 110

Alternatively,

Excise Duty = 1,098 x 0.10 = 109.8 = 110.

(b)

(i) When the option is settled by delivery of the Asset:

Ms. AINDRILA

Journal Entries

Date	Particulars	Amount ₹	Amount ₹
30.7.2012	Equity Stock Option Premium (ANISHA Ltd.) A/c Dr. To Bank A/c (Being Premium Paid on Stock Option of Anisha Ltd. purchased at ₹ 25 per unit for 100 units constituting one lot.)	2,500	 2,500
30.8.2012	Equity Shares of Anisha Ltd. A/c Dr. To Bank A/c (Being Call option exercised and shares acquired)	30,000	 30,000
30.8.2012	Profit & Loss A/c Dr. To Equity Stock Option Premium (Anisha) A/c (Being Premium on option written off on exercise of option.)	2,500	 2,500

Note: No entries have been passed in respect of Margin payments. This is because, the buyer of the option contract is not required to pay any margin.

(ii) When the option is settled in cash and the index price ₹ 310 per unit:

Journal Entries

Date	Particulars	Amount ₹	Amount ₹
30.7.2012	Equity Stock Option Premium (ANISHA Ltd.) A/c Dr. To Bank A/c (Being Premium Paid on Stock Option of Anisha Ltd. purchased at ₹ 25 per unit for 100 units constituting one lot.)	2,500	 2,500
30.8.2012	Bank A/c Dr. To Profit & Loss A/c (Being the Profit on exercise of option received. Profit = Market lot of 100 x (I.P. of ₹ 310 – S.P. of ₹ 300)	1,000	 1,000
30.8.2012	Profit & Loss A/c Dr. To Equity Stock Option Premium (Anisha) A/c (Being Premium on option written off on exercise of option.)	2,500	 2,500

6. The following is the extract from the Balance Sheet of HIMAVAN LTD.:

(₹ Lakh)

Liabilities	As at 31.3.2011	As at 31.3.2012	Assets	As at 31.3.2011	As at 31.3.2012
Share Capital	1,000.00	1,000.00	Fixed Assets	1,100.00	1,300.00
General Reserve	800.00	850.00	10% Investments	500.00	500.00
Profit & Loss A/c	120.00	175.00	Stock	550.00	600.00
18% Term Loan	370.00	330.00	Debtors	340.00	220.00
Sundry Creditors	70.00	90.00	Cash at Bank	92.50	100.00
Provision for Tax	22.50	25.00			
Proposed Dividend	200.00	250.00			
	2,582.50	2,720.00		2,582.50	2,720.00

Additional Information:

(1) Current cost of fixed assets on 31.3.2011 is ₹ 2,200 lakh and on 31.3.2012 ₹ 2,532.80 lakh.

(2) Current cost of stock on 31.3.2011 ₹ 670 lakh and on 31.3.2012 ₹ 750 lakh.

(3) 2% of the investments were Trade Investments.

(4) Debtors include Foreign Exchange debtors amounting to \$ 70,000 recorded at the rate of \$ 1 = ₹ 50.50, but closing exchange rate was \$ 1 = ₹ 54.50.

(5) Creditors include Foreign Exchange creditors amounting to $ 1,20,000 recorded at the rate of $ 1 = ₹ 49.50, but the closing exchange rate was $ 1 = ₹ 54.50.
(6) Profit included ₹ 120 lakh being Government Subsidy which is not likely to recur.
(7) ₹ 247 lakh being the last installment of R and D cost were written off in the Profit & Loss Account. This expenditure is not likely to recur.
(8) Tax rate during 2011-12 was 50%, effective future tax rate will be 35%.
(9) Normal rate of return is expected at 14%.

Note - It has been agreed that 5 years' Purchase of Super Profit may be taken as the value of Goodwill. Based on the information furnished, Mr. [rant, a Director of the Company fears that the Company does not enjoy Goodwill in the Prevailing market conditions. Critically examine this and establish whether HIMAVAN LTD. has or does not have any Goodwill. **15**

Answer 6.

(i) Computation of Average Capital Employed **(₹ Lakhs)**

Particulars	As at 31.3.2011	As at 31.3.2012
Current Cost of Fixed Assets	2,200.00	2,532.80
Trade Investment (2% of Total Investments)	10.00	10.00
Current Cost of Stock	670.00	750.00
Debtors	340.00	222.80
Cash at Bank	92.50	100.00
	3,312.50	3,615.60
Less: Outside Liabilities		
Term Loans	370.00	330.00
Sundry Creditors	70.00	96.00
Tax Provision	22.50	25.00
	462.50	451.00
Capital Employed	2,850.00	3,164.60
Average Capital Employed at Current Value = (2,850 + 3,164.60)/2		**3,007.30**

(ii) Future Maintainable Profit: **(Amount in ₹ Lakhs)**

Increase in General Reserve		50.00
Increase in Profit & Loss A/c		55.00
Proposed Dividend		250.00
Profit after Tax		355.00
Pre-tax Profit (355/(1-T))=(355/0.50)		710.00
Less: Non Trading Income	49.00	
Forex Loss on Foreign Currency Creditors (54.50 – 49.50)x$1.20 lakh	6.00	
Govt. Subsidy	120.00	175.00
		535.00
Add: Forex gain on Foreign Currency Debtors (54.40 – 50.50)x $0.70 Lakh	2.80	
R&D Cost	247.00	
Stock Adjustment (750-600) – (670-550)	30.00	279.80
Adjusted Pre-tax Profit		814.80
Less: Tax @ 35%		285.18
Future Maintainable Profit		**529.62**

Valuation of Goodwill

	(₹ Lakhs)
1) Capitalization Method:	
Capitalized value of Future Maintainable Profit (529.62/0.14)	3,783.00
Less: Average Capital Employed	3,007.30
Goodwill	**775.70**
2) Super Profit Method:	
Future Maintainable Profit	529.62
Less: Normal Profit @ 14% on average capital employed (0.14 x 3007.30)	421.02
Super Profit	**108.60**
Goodwill (at 5 year's Purchase)	543.00

Conclusion:

Under Capitalization method, the amount of Goodwill is larger than the amount of Goodwill computed under Super Profit Method. In either case, the existence of goodwill cannot be doubted. The Director's view cannot therefore be upheld.

7. (a) S LTD. and M LTD. had been carrying on business independently. They agree to amalgamate and form a new company N LTD. with an authorized share capital of ₹ 2,00,000 divided into 40,000 equity shares of ₹ 5 each. On 31.12.2010, the respective Balance Sheets of S LTD. and M LTD. stood as under:

Particulars	S LTD. ₹	M LTD. ₹
Fixed Assets	3,17,500	1,82,500
Current Assets	1,63,500	83,875
	4,81,000	2,66,375
Less: Current Liabilities	2,98,500	90,125
	1,82,500	1,76,250

Additional Information:

Revalued figures of Fixed and Current Assets were as follows:

Particulars	S LTD. ₹	M LTD. ₹
Fixed Assets	3,55,000	1,95,000
Current Assets	1,49,750	78,875

The debtors and creditors include ₹ 21,675 owed by M to S.

The purchase consideration is satisfied by the issue of the following shares and debentures:

(i) 30,000 equity shares of N Ltd. to S Ltd. and M Ltd. in the proportion to the profitability of their respective business, based on the average net profit during the last 3 years which were as under:

Particulars	S LTD. ₹	M LTD. ₹
2008-Profit	2,24,788	1,36,950
2009-(Loss)/Profit	(1,250)	1,71,050
2010-Profit	1,88,962	1,79,500

(ii) 15% Debentures in N LTD. at par to S LTD. and M LTD. to provide an income equivalent to 8% return on capital employed in their respective business as on 31.03.2010 after revaluation of assets.

You are required to:

(1) Compute the amount of debentures and shares to be issued to S LTD. and M LTD.

(2) A Balance Sheet of N LTD. showing the position immediately after amalgamation. **10**

(b) Write a short note on "Corporate Social Reporting". **5**

Answer 7.

(a) Calculation of Amount of Debentures and Shares to be issued

(1) Calculation of Average Profit for the past 3 years:

(i) S Ltd. = $\frac{₹(2,24,788 - 1,250 + 1,88,962)}{3}$ = ₹ 1,37,500

(ii) M Ltd. = $\frac{₹(1,36,950 - 1,71,050 + 1,79,500)}{3}$ = ₹ 1,62,500

(2) Determination of shares to be issued / distributed to each company:

Distribution of 30,000 Equity Shares of N Ltd. between S Ltd. and M Ltd. in their profitability ratio of 1375:1625

Shares to be issued to S Ltd. $\frac{1375}{3000}$ x 30,000 = 13,750 Shares

Shares to be issued to M Ltd. $\frac{1625}{3000}$ x 30,000 = 16,250 Shares

3. Calculation of the amount of Debentures to be issued

Particulars	S Ltd. ₹	M Ltd. ₹
Fixed Assets	3,55,000	1,95,000
Current Assets	1,49,750	78,875
	5,04,750	2,73,875
Current Liabilities	(2,98,500)	(90,125)
Capital Employed	2,06,250	1,83,750
Return on Capital Employed @ 8%	16,500	14,700
Amount of 15% Debentures to be issued in order to get the same return of ₹ 16,500 and ₹ 14,700 respectively 16,500/15%, 14,700/15%	**1,10,000**	**98,000**

4. Calculation of Purchase Consideration and Goodwill/Capital Reserves from Amalgamation

Particulars	S Ltd. ₹	M Ltd. ₹	Total ₹
Purchase Consideration			
a) Value of Equity Shares – 13,750 x 5;	68,750	81,250	1,50,000
16,250 x 5	1,10,000	98,000	2,08,000
b) 15% Debentures (w.n. No. 3)	1,78,750	1,79,250	3,58,000
Total			
Net Assets Taken Over	**2,06,250**	**1,83,750**	**3,90,000**
Goodwill/(Capital Reserve)	**27,500**	**4,500**	**(32,000)**

Amalgamated Balance Sheet
Balance Sheet of N Ltd. as at 31.03.2010 (after amalgamation)

Particulars	Note	Amount ₹
Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	1,50,000
(b) Reserves and Surplus		
Capital Reserves (W.N 4)		32,000
2. Non-Current Liabilities		
Long Term Borrowings		
Bonds and Debentures – 15% Deb. (w.n. No. 3)		2,08,000
3. Current Liability (2,98,500 + 90,125 – 21,675)		3,66,950
Total		**7,56,950**
Assets		
1. Non-Current Assets		
Fixed Assets (3,55,000 + 1,95,000)		5,50,000
2. Current Assets (1,49,750 + 78,875 – 21,675)		2,06,950
Total		**7,56,950**

Notes to be Financial Statements

1. Share Capital	**Amount ₹**
a) Authorised	
40,000 Equity Shares of ₹ 5 each	2,00,000
b) Issued, Subscribed and Fully Paid-up	
30,000 Equity shares of ₹ 5 each (The above shares were issued as fully paid up for consideration other than cash)	1,50,000

Assumptions: Debentures are assumed to be long term and interest on debenture is ignored for the purpose of this computation.

(b) CORPORATE SOCIAL REPORTING

The term Corporate Social Reporting refers to the information with respect to discharging social responsibility of corporate entities. The stage of transition in the accounting function from the historical cost based profitability accounting to social responsibility accounting is a good concept, quite apt in the present day data requirements of the "Users of Accounts".

The content of Corporate Social Reporting is essentially based on the relevant social objectives, usually termed as Net Income Contribution, Human Resource Contribution, Public Contribution, Environmental Contribution and Product or Service Contribution.

Considering the major socio-economic problems of the country, the major significant groups which can be evaluated towards reporting the corporate social reporting for the Indian Corporates. These include the following:

- Employment Opportunities
- Foreign Exchange Transactions
- Energy Conservation
- Research and Development
- Contribution towards Government Exchequer
- Social Projects
- Environmental Control
- Consumerism

In the initial stages, it is difficult to assess the social costs incurred by a corporate house and the social benefits generated in monetary terms for evaluating the financial impact on the business houses. Unless suitable methodologies are made available for converting the relevant social costs benefit in suitable monetary terms, it would be a significant development to initiate with the concept of descriptive social reporting.

Further research would be required in the relevant area which can develop either the reporting segments of corporate social reporting in the changing context of a dynamic socio-economic environment.

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

(a) Significance of Environmental Accounting;

(b) Basic Structure of the Form of Governance Accounts;

(c) Human Resource Accounting (HRA);

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

Answer 8.

(a) 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 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 prevent it from happening.

(b) Basic Structure of the Form of the 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 1" April to 31$^{5`}$ March.

ii. Cash Basis Accounts: With 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.

iii. Form of Accounts: There are three parts i.e. Consolidated Fund, Contingency Fund and Public Account. In Consolidated fund, there are two divisions i.e. revenue consisting of section for receipt heads and expenditure heads(Revenue Accounts) capital, Public debt, loan consisting of section of receipt heads (Capital Accounts), whereas, Contingency Fund Accounts shall be recorded for the transactions connected with the Government Set up under Article 267 of the constitution. In Public Account, transactions relating to debt deposit, advances, remittances and suspense shall be recorded.

(c) Human Resource Accounting (HRA): Human Resource Accounting (HRA) is an attempt to identify, quantify and report investments made in human resources of an organization. Leading public sector units like OIL, BHEL and NTPC have started reporting human resources in their annual reports as additional information. Although human beings are considered as the prime mover for achieving productivity, and are placed above technology, equipment and money, the conventional accounting practice does not assign significance to the human resource. Human resources are not thus recognized as `assets' in the Balance Sheet, while investments in human resources are not considered as assets and not amortized over the economic service life. The result is that the income and expenditure statement comprising current revenue and expenditure gives an incorrect picture of the real affairs of the organization. Accountants have been severely criticized by the Behavioral Scientists for their failure to value human resources, as this has come out as a handicap for effective management. Human resource accounting provides scope for planning and decision making in relation to proper manpower planning. Also, such accounting can bring out the effect of various new rules, procedures and incentives relating to work force, and in turn, can act as an eye opener for modifications of existing laws and statutes.

(d) Impairment of asset and its application to inventory: The objective of AS 28 "Impairment of Assets" is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at not more than their recoverable amount. An asset is carried at more than its recoverable amount, if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this statement requires the enterprise to recognize an impairment loss. This standard should be applied in accounting for the impairment of all assets, except the following:

i) Inventories (AS2-Valuation of Inventories);
ii) Assets arising out of a construction contracts (AS 7- Accounting for Construction Contracts);
iii) Financial assets, including investments which are included in the scope of AS 13- Accounting for Investments;
iv) Deferred tax assets (AS 22- Accounting for Taxes on income).

AS 28 does not apply to inventories, assets arising out of a construction contracts, deferred tax assets or investments because other accounting standards applicable to these assets already contain specific requirements for recognizing and measuring the impairment related to these assets.