Total No. of Questions – **7**

Total No. of Printed Pages – **16**

Time Allowed – **3** Hours

Maximum Marks – **100**

YAB

Answers to questions are to be given only in English, except in the case of candidates who have opted for Hindi Medium. Answers in Hindi of any candidate who has not opted for Hindi medium shall not be valued.

Question No. **1** is compulsory and candidates are required to answer any **five** questions from the remaining **six** questions.

Wherever necessary suitable assumptions may be made and disclosed by way of note. Working notes should form part of the answers.

Marks

4×5 =20

1. (a) An employee Roshan has joined a company XYZ Ltd. in the year 2013. The annual emoluments of Roshan as decided is ₹ 14,90,210. The company also has a policy of giving a lump sum payment of 25% of the last drawn salary of the employee for each completed year of service if the employee retires after completing minimum 5 years of service. The salary of the Roshan is expected to grow @ 10% per annum. **5**

The company has inducted Roshan in the beginning of the year and it is expected that he will complete the minimum five year term before retiring.

What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined Benefit obligation ? Also calculate the current service cost and the interest cost to be charged per year assuming a discount rate of 8%.

(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)

Marks

(b) Quick Ltd., is a company engaged in the trading of spare parts used in the repair of automobiles. The company has been regular in depositing the tax, as such there is no liability of Income Tax etc. for the Financial Year 2012-13. **5**

The figures for the year are as under :

Income Chargeable to Tax	₹ 211.64 Lakhs
Total Income after Adjustments	₹ 228.48 Lakhs
Tax thereon	₹ 74.13 Lakhs
TDS deducted during the year	₹ 30.45 Lakhs
Tax paid for the year	₹ 43.68 Lakhs

The company has prepared its Balance Sheet as per above figures. However during the assessment proceeding held before the finalization of the Balance Sheet the Income Tax Officer has issued demand of ₹ 7.52 Lakhs, insisting that this amount of TDS has not been uploaded online and thus is not acceptable as deduction.

The company has in reply to the same filed a rectification with the Assessing Officer. The company is trying to collect the TDS certificates, but ₹ 2.39 Lakhs deducted by XY LTD., is not traceable. The rectification is lying pending with the Assessing Officer.

Please suggest the treatment of ₹ 2.39 Lakhs and ₹ 7.52 Lakhs in Balance Sheet.

Marks

(c) Comptech Ltd. having office at Chennai, acquired a sophisticated three dimensional (3D) computer printer having all inclusive MRP (Maximum Retail Price) of ₹ 50 lakhs from a supplier located at New Delhi. The terms of the purchase were as under : 5

(i) The supplier would buy back the existing unit with Comptech that has carrying amount of ₹ 10.20 lakhs. Prevailing CST rate is 2%.

(ii) The supplier would give a special discount of 10% on MRP to Comptech considering their long standing relationship.

(iii) A cash payment of ₹ 38.25 lakhs would be made by Comptech Ltd. to the supplier.

(iv) Accessories required to operate the machine costing ₹ 7.60 lakhs (inclusive of all taxes) will be purchased by Comptech.

(v) The supplier will deliver free of cost certain heavy duty cables etc. having MRP of ₹ 5.75 lakhs, that are required to run the machine.

(vi) Transit insurance cost will be borne by Comptech @ 2% of MRP.

(vii) Freight and other incidentals amounting to ₹ 2.30 lakhs is borne by Comptech.

You are required to arrive at the cost of the new asset and show the profit/(loss) incurred by Comptech on the buy back arrangement and also draft the Journal Entries to record the above transaction.

Marks

(d) Compute Basic and Adjusted Earnings per share from the following information : **5**

Net Profit for 2012-13	₹ 22 lakhs
Net Profit for 2013-14	₹ 33 lakhs
No of Shares before Rights Issue	110,000
Rights Issue Ratio	One for Every Four Held
Rights Issue Price	₹ 180
Date of Exercising Rights option	31-7-2013 (fully subscribed on this date)
Fair Value of Share before Rights Issue	₹ 270

All workings may be rounded off to two decimals.

2. A Company Q is willing to sell its business. The purchaser has sought professional advice for the valuation of the goodwill of the company. He has the last audited financial statements together with some additional information. Help him to ascertain the correct price for the purpose of purchase : **16**

The extract of the Balance Sheet as on 31-3-2014 is as under :

Liabilities	₹	Assets	₹
Equity Share Capital		Goodwill	2,75,000
(shares of ₹ 100 each)	9,50,000	Land & Building	5,45,000
8% Preference Share Capital		Plant & Machinery	4,55,000
(shares of ₹ 100 each)	2,25,000	Investments in shares	4,85,000
Reserve & Surplus	10,25,500	Inventories	3,80,000
9% Debentures	5,60,000	Trade Receivables (net)	4,25,620
Current Liabilities	3,25,640	Cash & Bank balance	5,20,520
Total :	**30,86,140**	**Total :**	**30,86,140**

(1) The purchaser wants to acquire all the equity shares of the company.

(2) The Debentures will be redeemed at a discount of 25% of the value in Balance Sheet and investments in share will be sold at their present market value which is quoted as ₹ 4,95,200. The above will be prior to the purchase of the equity shares.

For the Purpose of Pricing of Goodwill :

(3) The normal rate of return on net assets for equity shares is 10%.

(4) Profits for the past three years after debenture interest but before Preference Share Dividend have been as under :

31-3-2014	₹ 2,95,000
31-3-2013	₹ 4,99,000
31-3-2012	₹ 3,25,000

(5) Goodwill is valued at three years purchase of the adjusted average super profit.

(6) In the year 2013 20% of the profit mentioned above was due to non recurring transaction resulting in increase of profit.

Marks

(7) The Land & Building has a current rental value of ₹ 62,400 and a 8% return is expected from the property.

(8) On 31-3-2014, 8% of debtors existing on the date had been written as bad and charged to Profit and Loss Account as Provision for Bad debts. The same are now recoverable. Tax is applicable at 35%.

(9) A claim of compensation long contingent of ₹ 25,000 has perspired and is to be accounted for.

(10) No Debenture interest shall be payable in future due to its redemption.

3. The Balance Sheets of the Greatness Group of Companies as at 31st March, 2014 is given below : **16**

Capital & Liabilities	Greatest Ltd. ₹	BIG Ltd. ₹	SMALL Ltd. ₹
Share Capital :			
Ordinary Shares of ₹ 10	5,00,000	2,00,000	1,00,000
General reserve	1,00,000	50,000	30,000
Profit & Loss Account	2,00,000	1,00,000	50,000
Creditors	3,00,000	2,00,000	1,00,000
Total :	**11,00,000**	**5,50,000**	**2,80,000**

Assets :			
Fixed Assets	7,75,000	4,10,000	2,35,000
Investments :			
16,000 shares in BIG Ltd.	2,00,000	–	–
6,000 shares in SMALL Ltd.	–	90,000	–
Others (Non-Current)	25,000	–	15,000
Current Assets	1,00,000	50,000	30,000
Total :	**11,00,000**	**5,50,000**	**2,80,000**

Notes :

(1) The investment in BIG Ltd. was made on 1st April, 2007 and that in SMALL Ltd. was made on 1st April, 2009.

(2) The Balances in Reserves and P & L Account on relevant dates are as under :

BIG Ltd.	**1st April 2007** ₹	**1st April 2009** ₹
Reserves	20,000	22,000
P & L Account	60,000	68,000

SMALL Ltd.	**1st April 2007** ₹	**1st April 2009** ₹
Reserves	8,000	10,000
P & L Account	17,000	20,000

Marks

(3) Current Assets of SMALL Ltd. include inventories of ₹ 10,800 acquired at a mark up of 20% from Greatest Ltd.

You are required to prepare the Consolidated Balance Sheet of the group as at 31st of March, 2014.

4. (a) Quittle Ltd. announced a Stock Appreciation Rights (SAR) Scheme to its employees on 1st April, 2011. The salient features of the scheme is given below : **8**

(1) The scheme will be applicable to employees who have completed three years of continuous service with the company.

(2) Each eligible employee can claim cash payment amounting to the excess of Market Price of the company's shares on exercise date over exercise price in respect of 60 (sixty) shares.

(3) The exercise price is fixed at ₹ 75 per share.

(4) The option to exercise the SAR is open from 1st April, 2014 for 45 days and the same vested on 975 employees.

(5) The intrinsic value of the company's share on date of closing (15th May, 2014) was ₹ 30 per share.

(6) The fair value of the SAR was ₹ 20 in 2011-12; ₹ 25 in 2012-13 and ₹ 27 in 2013-14.

(7) In 2011-12 the expected rate of employee attrition was 5% which rate was doubled in the next year.

(8) Actual attrition year wise was as under :

2011-12 35 employees of which 5 had served the company for less than 3 years.

2012-13 30 employees of which 20 employees served for more than 3 years.

2013-14 20 employees of which 5 employees served for less than 3 years.

You are required to show the Provision for Stock Appreciation Rights Account by Fair Value Method.

(b) Peoples Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for year ended 31st March, 2014 : 4

Asset Funded	*Interest Overdue but recognized in Profit & Loss*		*Net Book Value of assets outstanding*
	Period Overdue	*Interest Amount (₹ Crore)*	*(₹ Crore)*
LCD Televisions	upto 12 months	480.00	20,123.00
Washing Machines	for 24 months	102.00	2,410.00
Refrigerators	for 30 months	50.50	1,280.00
Air Conditioners	for 45 months	26.75	647.00

You are required to calculate the amount of provision to be made.

Marks

(c) The capital structure of W Ltd. whose shares are quoted on the NSE is as under : 4

Equity Shares of ₹ 100 each fully paid	₹ 505 lakhs
9% convertible Pref. Shares of ₹ 10 each	₹ 150 lakhs
12% Secured Debentures of ₹ 10 each	5,00,000
Reserves	₹ 101 lakhs
Statutory Fund	₹ 50,50,000

The Statutory Fund is compulsorily required to be invested in Government Securities. The ordinary shares are quoted at a premium of 500%; Preference Shares at ₹ 30 per share and debentures at par value. You are required to ascertain the Market Value added of the company and also give your assessment on the market value added as calculated by you.

5. The summarized Balance Sheets of A Ltd. and B Ltd., as at 31-3-2014 were as follows : 16

₹ in Lakhs

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Share Capital			Fixed Assets	60	18
(Share of ₹ 10 each)	50	10	Investment in B Ltd.		
General Reserves	50	20	(60,000 shares)	6	–
Profit & Loss Account	20	15	Debtors	35	5
Secured Loan	20	3	Inventories	30	25
Current Liabilities	30	2	Cash at Bank	39	2
	170	**50**		**170**	**50**

A Ltd. holds 60% of the paid up capital of B Ltd. and balance is held by a foreign company. The foreign company agreed with A Ltd. as under :

(i) The shares held by the foreign company will be sold to A Ltd. at ₹ 50 above than nominal value of per share.

(ii) The actual cost per share to the foreign company was ₹ 11, gain accruing to foreign company is taxed @ 20%. The tax payable will be deducted from the sale proceeds and paid to Government by A Ltd., 50% of the consideration (after payment of tax) will be remitted to foreign company by A Ltd., and also any cash for fractional shares allotted.

(iii) For the Balance consideration A Ltd. would issue its shares at their intrinsic value.

It was also decided that A Ltd. would also absorb B Ltd., simultaneously by writing down the fixed assets of B Ltd. by 10%. The Balance Sheet figure included a sum of ₹ 1 lakh due by B Ltd. to A Ltd. and stock of 'A' Ltd. included stock of ₹ 1,50,000 purchased from B Ltd., who sold them at cost plus 20%.

The entire arrangement was approved and put through by all concern effective from 1-4-2014.

You are required to prepare the Balance-Sheet of A Ltd., after absorption of B Ltd. Workings should form part of your answer.

6. (a) The following information is supplied to you about M/s. Lookdown Ltd. : 8

Capital & Reserves		
Equity Shares of ₹ 100 each of which ₹ 75 has been called up		5,00,000
Equity Shares in respect of which calls are in arrear @ 25 per share	₹	1,00,000
General Reserve	₹	10,00,000
Profit & Loss account (balance at beginning of the year)	₹	(25,00,000)
Profit/(loss) for the year	₹	(1,80,000)
Industry Average profitability		12.50%
8% Debentures of ₹ 10 each		8,00,000
M/s. Lookdown Ltd. is proposing to hire the services of Mr. X to turn the company around.		
Minimum take home salary per month demanded by Mr. X	₹	4,00,000
Average Income tax rate on salaries above ₹ 3 lakhs per annum		25%
Provident Fund contribution by Employer per month	₹	50,000
Profits over and above target expected by hiring Mr. X		10%

You are required to analyze the proposal and see whether it is worthwhile to employ Mr. X and also suggest the maximum emoluments that could be paid to him.

Note : (i) PF contributions are tax exempt.

(ii) Take home salary is that remaining after employee's contribution to PF @ ₹ 50,000 per month and after deduction of Income-Tax on Salary.

Marks

(b) Gold & Co., has provided the following data for the Financial Year ending 2014 : 8

(Fig. in Lakhs)

Liabilities	₹	Assets	₹
Share Capital	1,000	Fixed Assets	3,000
Reserves & Surplus	2,000	Investments	150
Long Term Debt	200	Current Assets	100
Trade Payables	50		
	3250		**3250**

Additional information provided is as follows :

Profit before Interest and Tax is ₹ 1,000 Lakhs.

Interest is ₹ 20 Lakhs

Tax Rate 35.875%

Risk Free Rate 10%

Market Rate 15%

Beta (β) factor 1.4

Calculate the Economic Value Added by Gold Ltd.

7. Answer any **four** of the following : **4×4 =16**

(a) KAY Ltd. is in the process of finalizing its accounts for year ended 31st March, 2014 and furnishes the following information :

(i) Finished goods normally are held for 30 days before sale.

(ii) Sales realization from Debtors usually takes 60 days from date of credit invoice.

(iii) Raw materials are held in stock to cover one month's production requirements.

(iv) Packing materials, being specifically made for the company and having lead time of 90 days is held in stock for 90 days.

(v) The holding period in respect of unfinished goods is 30 days.

(vi) Being a monopoly KAY Ltd. enjoys a credit period of 12.5 months from its suppliers who sometimes at the end of their credit period opt for conversion of their dues into long term debt of KAY Ltd.

You are required to compute the operating cycle of KAY Ltd. as per revised Schedule IV of Companies Act, 1956. As the suppliers of the company are paid off after a credit period of 12.5 months should this be part of Current Liability ? Would your answer be the same if the creditors are settled in 330 days ?

(b) A Mutual Fund has launched a new scheme "All Purpose Scheme". The Mutual Fund's Asset management company wishes to invest 25% of the NAV of the Scheme in an unrated debt instrument of a company Y Ltd. which has been paying above average returns for the past many years. The promoters of the company seek your professional advice in light of the Regulations of SEBI.

Will the position change in case the debt instruments of the company Y Ltd., is a rated.

(c) What are Timing Differences and Permanent Differences as per Accounting Standard – 22 ? Explain with example.

(d) X Ltd. has leased equipment over its useful life that costs ₹ 7,46,55,100 for a three year lease period. After the lease term the asset would revert to the Lessor. You are informed that :

(i) The estimated unguaranted residual value would be ₹ 1 lakh only.

(ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.

(iii) Implicit interest rate is 10%.

You are required to ascertain the annual lease payment and the unearned finance income. P.V. factor @ 10% for years 1 to 3 are 0.909, 0.826 and 0.751 respectively.

(e) AQ Ltd., an investment company is finalizing its account for the Financial Year ending 2013 in the month of August 2013.

How will the following incomes be accounted for in the books of AQ Ltd. ?

(1) X Ltd., has declared interim dividend which has not been received till 31-3-2013 but received on 25-4-2013.

Marks

(2) Y Ltd., has declared dividend on 8th May 2013 for the year ending 31-3-2013 which has been approved by the shareholders of the company on 30th June 2013.

(3) Z Ltd., a subsidiary of AQ Ltd., has declared dividend for the year ended 31-3-2013 on 25th May 2013 the AGM for which is to be held on September 2013.