FINAL —
GROUP-I PAPER-1
FINANCIAL REPORTING

MAY 2016

Roll No. ....

Total No. of Questions – **7**

Total No. of Printed Pages – **16**

Time Allowed – **3** Hours

Maximum Marks – **100**

SBI

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi medium, his/her answers in Hindi will not be valued.

Question No. **1** is compulsory.

Candidates are also required to answer any **five** questions from the remaining **six** questions.

In case any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Working notes should form part of the respective answers.

Wherever necessary candidates are permitted to make suitable assumptions which should be disclosed by way of note.

Marks

1. (a) Harish Construction Company is constructing a huge Building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the Building will be started as soon as they are completed. **5**

Following is the detail of the work done on different phases of the building during the current year :

Marks

(₹ In Lakhs)

	Phase I ₹	Phase II ₹	Phase III ₹	Phase IV ₹
Cash Expenditure	10	30	25	30
Building Purchased	24	34	30	38
Total Expenditure	34	64	55	68
Total Expenditure of all Phases				221
Loan taken @ 15% at the beginning of the year				200

During the current year, Phase I and Phase II have become operational. Find out the total amount to be capitalized and to be expensed during the year.

(b) Ram Ltd. holds 80% share in Shyam Ltd., its subsidiary. Share Capital of Shyam Ltd. is ₹ 25,00,000 Lakhs and Reserves being ₹ 5,00,000 on the date of acquisition 31.3.2012. 5

Following is the results of Shyam Ltd.:

Year Ended	Profit / (Loss)	Net Worth (₹ In Lakhs)
31.3.2013	(15,00,000)	+15.00
31.3.2014	(20,00,000)	(5.00)
31.3.2015	4,00,000	(1.00)
31.3.2016	5,00,000	+4.00

Calculate Minority Interest for the period from 2012 to 2016 as per AS-21.

Marks

(c) The following information on Zenith Ltd. is given below. **5**

You are required to

(1) Calculate the value of raw materials and finished goods at cost.

(2) Calculate the value of closing stock when

(a) Net realizable value of finished Goods B is ₹ 800

(b) Net realizable value of finished Goods B is ₹ 600

Raw Material A

Closing Balance	1000 Units
	₹ per Unit
Cost price including excise duty	400
Excise duty (Cenvat credit is receivable on excise duty paid)	20
Freight Inward	40
Unloading Charges	20
Replacment Cost	300

Finished Goods B

Closing Balance	2400 units
	₹ per Unit
Raw materials consumed	440
Direct Labour	120
Direct Overhead	80

Raw material A is used for productins of finished Goods B. The total fixed overhead for the year was ₹ 4 Lakhs on normal capacity of 20,000 units

Marks

(d) The directors of Aqua Limited are considering the acquisition of an existing company Bose Limited engaged in a line of business suited to them. The financial data at the time of acquisition being: 5

	Aqua Ltd.	Bose Ltd
Net profit after tax	₹ 36,00,000	₹ 7,20,000
Number of shares	7,20,000	3,00,000
Market price per share	₹ 150	₹ 50
Earnings per share	₹ 5	₹ 2.50
Price earnings ratio	30	20

It is expected that the net profit after tax of the two companies would continue to be ₹ 43,20,000. Aqua Limited would pay the amount in the form of shares of Aqua Limited.

Explain the effect on EPS of the merged company if Aqua Limited offers to pay ₹ 60 per share to the shareholders of Bose Limited.

2. Zee Limited and Dee Limited both engaged in the same chemical business since 2012. As part of its expansion strategy Zee Limited proposes to absorb the business of Dee Limited. The summarized Balance Sheets of Zee Limited and Dee Limited as on 31st March, 2015 are as follows : 16

Marks

Particulars	Zee Ltd. (₹)	Dee Ltd. (₹)
(I) Equity and Liabilities		
(1) Shareholders fund		
(a) Share capital		
Equity shares of ₹ 10 each	28,80,000	14,40,000
10% Preference share capital of ₹100 each	9,60,000	
12% Preference share capital of ₹ 100 each		4,80,000
(b) Reserves and Surplus		
Statutory reserve	80,000	80,000
General reserve	20,00,000	13,60,000
(2) Non-current Liabilities		
Secured Loans		
15% Debentures	4,00,000	
12% Debentures		4,00,000
(3) Current Liabilities		
Trade Payables	8,80,000	10,40,000
Total	**72,00,000**	**48,00,000**
(II) Assets		
(a) Non-current Assets		
Fixed assets	40,00,000	24,00,000
Non-current investments	4,00,000	4,00,000
(b) Current Assets		
Inventories	14,40,000	9,60,000
Trade Receivables	12,40,000	9,68,000
Cash at Bank	1,20,000	72,000
Total	**72,00,000**	**48,00,000**

The following terms and conditions were agreed for absorption:

(a) 12% preference shareholders of Dee Limited will receive 10% preference shares of Zee Limited in sufficient number to increase their present income by 20%.

(b) The equity shareholders of Dee Limited will receive equity shares in Zee Limited on the following terms:

(i) The Equity share of Dee Limited will be valued at ₹ 24 per share.

(ii) The market price of Equity shares of Zee Limited is ₹ 40 per share.

(iii) The number of shares to be issued to Equity shareholders of Dee Limited will be based on the 80% of market price.

(c) 12% Debenture holders of Dee Limited are to be paid at 8% premium by 15% Debentures in Zee Limited issued at a discount of 10%.

(d) Details of Trade payables and Trade receivables:

	Zee Ltd. (₹)	Dee Ltd. (₹)
Trade payables		
Bills payables	16,000	16,000
Sundry creditors	8,64,000	10,24,000
	8,80,000	**10,40,000**
Trade receivables		
Debtors	12,00,000	9,60,000
Bills receivables	40,000	8,000
	12,40,000	**9,68,000**

(e) Sundry creditors of Dee Limited include ₹ 16,000 due to Zee Limited.

(f) ₹ 12,800 is to be paid by Zee Limited to Dee Limited for liquidation expenses.

Marks

(g) Fixed assets of both the companies are to be valued at 20% above book value. Inventory in trade is taken over at 10% less than their book value.

(h) Statutory reserve has to be maintained for two more years.

(i) Liquation expenses are to be considered as part of purchase consideration.

You are required to:

(1) Find out the purchase consideration.

(2) Prepare Balance Sheet of Zee Ltd. as at 31st March, 2015 after absorption as per Schedule III of the Companies Act, 2013 with Note to the accounts.

3. P Limited is a holding company and Q Ltd. and R Ltd. are subsidiaries of P Ltd. The summarized balance sheets of all the companies as on 31.03.2016 are given below: 16

	P Ltd.	Q Ltd.	R Ltd.		P Ltd.	Q Ltd.	R Ltd.
Share capital	200,000	200,000	120,000	Fixed Assets	40,000	120,000	86,000
Reserves	96,000	20,000	18,000	Investments:			
Profit and Loss a/c	32,000	24,000	18,000	Shares in Q Ltd.	190,000		
Trade payable	14,000	10,000		Shares in R Ltd.	26,000	106,000	
P Ltd. balance		14,000		Inventory in Trade	24,000		
R Ltd. balance	6,000			Q Ltd - balance	16,000		
				Trade Receivables	52,000	42,000	64,000
				P Ltd. balance			6,000
	348,000	**268,000**	**156,000**		**348,000**	**268,000**	**156,000**

Marks

Additional information:

(1) The share capital of all companies is divided into shares of ₹ 10 each.

(2) P Ltd. held 16000 shares of Q Ltd. and 2000 shares of R Ltd.

(3) Q Ltd. held 8000 shares of R Ltd.

(4) All the investments were made on 30.09.2015.

(5) The position on 31.03.2015 was as under:

	Q Ltd. ₹	R Ltd. ₹
Reserve	16,000	15,000
Profit and Loss account	8,000	6,000
Trade Payables	10,000	2,000
Fixed Assets	120,000	86,000
Inventory in trade	8,000	71,000
Trade Receivables	96,000	66,000

(6) The whole of inventory in trade of Q Ltd. as on 30.09.2015 (₹ 8,000) was later sold to P Ltd. for ₹ 8800 and remained unsold by P Ltd. as on 31.03.2016.

(7) Cash in transit from Q Ltd. to P Ltd. was ₹ 2,000 as at the close of business.

(8) All the companies proposed dividend of 10%.

Prepare the consolidated Balance Sheet of the group as on 31.03.2016 using direct method.

Marks

4. (a) The capital structure of M/s. Global Limited on 31st March, 2015 was as follows: **8**

Equity share capital (25,000 shares of ₹ 100 each)	₹ 25, 00,000
12% Preference share capital (7,000 shares of ₹ 100 each)	₹ 7, 00,000
12% Secured Debentures	₹ 7, 00,000
Reserves	₹ 5, 00,000
Profit earned before interest and taxes during the year was	₹ 9, 90,000.

Tax Rate was 40%.

Additional information :

(1) The profit after tax covers fixed interest and fixed dividends at least 4 times.

(2) The Debt Equity ratio is at least 2.

(3) The rate of return on equity shares of this type of industry is 15%.

(4) Yield on shares is calculated at 60% of distributed profit and 10% of undistributed profits.

(5) The company has been paying regularly an Equity dividend of 15%.

(6) The risk premium for dividends is generally assumed at 2%.

You are required to find out value of Equity shares of the company.

(b) A company borrowed a sum of ₹ 85 lakhs for its expansion. The terms of loan were as follows: **4**

(i) Tenure of the loan will be 10 years.

(ii) Interest is payable @12% p.a. and the principal is repayable at the end of 10^{th} year.

The company defaulted in the payment of interest for the year 4, 5 and 6.

Marks

A loan reschedule agreement took place at the end of 7th year. As per the agreement the company is required to pay ₹ 150 lakhs at the end of 8th year.

You are required to calculate the additional amount to be paid on account of rescheduling and also the book value of the loan at the end of 8th year when reschedule took place assuming that interest will be compounded in case of default.

(c) AXE Limited is facing a financial crunch and entered into a contract with BXE Limited for sale of goods of ₹ 25 Lakhs at a profit of 20% cost on 1st January, 2015. On the same day, BXE Ltd. entered into an agreement with AXE Limited to resale the same goods at ₹ 31.50 Lakhs on 1st July, 2015. **4**

You are required to state the treatment of this transaction in the financial statements of AXE Limited assuming that pre-determined re-selling price covers the holding cost of BXE Limited. Also pass necessary journal entries in the books of AXE Limited if AXE Limited closes their books of accounts on 31st March, 2015.

5. (a) From the following information of Aries Ltd. ascertain the Value of Business : **8**

(1) The Company's Equity Share Capital is ₹ 200 Lakhs, divided into shares of ₹ 50 each.

(2) The company earned a profit after tax of ₹ 60 Lakhs for the year ended March 2016.

(3) Tax rate for the year 2016 is 40%. Future tax rate is estimated at 45%.

(4) The company's equity shares are quoted at ₹ 120 at the Balance Sheet date.

Marks

The Profits for the year 2016 have been calculated after considering the following in the Profit and Loss Account :

(i) Subsidy of ₹ 4 Lakhs is received from the Government towards fulfillment of certain social obligations. The Government has withdrawn this subsidy and hence, this amount will not be received in future.

(ii) Interest ₹ 10 Lakhs is on term loan. The final instalment of this term loan was fully settled in this year.

(iii) Managerial remuneration is ₹ 18 Lakhs. The shareholders have approved an increase of ₹ 8 Lakhs in the overall managerial remuneration, from the next year onwards.

(iv) Loss on sale of fixed assets amounting to ₹ 10 Lakhs.

(b) Abhay furnishes the following information about all "Options" at the Balance Sheet date as on 31.3.2016. Determine the Total amount of Provisions to be made in his books of account. 4

Securities	A	B	C
Details of Options Bought			
Premium paid	35000	15000	20000
Premium prevailing on Balance Sheet date	30000	5000	8000
Details of Options Sold			
Premium received	20000	30000	20000
Premium prevailing on Balance Sheet date	25000	20000	15000

Marks

(c) On 1st April, 2015, Krishna Limited offered 50 shares to each of its 1000 employees at ₹ 50 per share. The employees are given a month time to decide whether or not to accept the offer. The shares issued under the plan (ESPP) shall be subject to lock-in transfer for three years from grant date. **4**

Other information :

(1) The market price of shares of the company on the grant date is ₹ 60 per share.

(2) Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 56 per share.

(3) On 30th April, 2015, 800 employees accepted the offer and paid ₹ 50 per share purchased.

(4) The nominal value of each share is ₹ 10 each.

You are required to record the issue of shares in the books of the company under aforesaid plan.

6. (a) Following information is provided in respect of Pradeep Ltd. as on 31st March, 2016 : **8**

	(₹ In Lakhs)
Turnover (including Discounts and Returns worth ₹ 35 Lakhs)	2,500
Plant and Machinery (Net)	785
Depreciation on Plant and Machinery	132
Debtors	205
Dividend to Ordinary Shareholders	85
Creditors	180

Marks

Stock (Net) of all Raw Materials, WIP, Finished Goods

Opening Stock	180
Closing Stock	240
Raw Material Purchased	714
Cash at Bank	98
Printing and Stationery	24
Auditor's Remuneration	15
Retained Profit (Opening Balance)	998
Retained Profit for the year	445
Rent Paid	172
Other Expenses	88
Ordinary Share Capital (₹ 100 each)	1700
Interest on Borrowings	40
Income Tax for the year	280
Wages and Salaries	352
Employees State Insurance	32
Provident Fund Contribution	26

You are required to:

(i) Prepare Value Added Statement and its application for the period 31.3.2016.

(ii) Value Added per Employee (If 87 Employees work in Pradeep Ltd.).

(iii) Average Earnings per Employee (If 87 Employees work in Pradeep Ltd.).

(iv) Sales per Employee (If 87 Employees work in Pradeep Ltd.).

Marks

(b) On 1st April, 2016, Good Return Mutual Fund has the following assets and prices at 3.00 p.m. **8**

Shares of	No. of Shares	Market price per Share (₹)
A Ltd.	10000	18.50
B Ltd.	35000	384.40
C Ltd.	10000	263.60
D Ltd.	75000	575.60
E Ltd.	20000	27.65
No. of Units of fund		5,00,000 Units

(a) Calculate the Net Asset Value (NAV) of the fund.

(b) Assuming Mr. Suresh, send a cheque of ₹ 75,00,000 to the fund on 1st April, 2016 and Fund Manager purchases 15,000 shares of C Ltd. and balance is held in Bank. What will be the new position of the fund ?

(c) Calculate the new Net Asset Value (NAV) of the fund, if on 2nd April, 2016, at 3.00 p.m. the market price of shares is as follows :

Shares of	Rate per Share (in ₹)
A Ltd.	21.30
B Ltd.	417.00
C Ltd.	289.80
D Ltd.	512.20
E Ltd.	35.00

Marks

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

(a) Rose Limited provides you the following information on 31st March, 2016 : 4

Capital and Reserves	
Equity share capital of ₹ 10 each of which ₹ 8 has been called up	8,00,000 Shares
Calls in arrears	₹ 1,00,000
General Reserve	₹ 7,50,000
50,000, 9% Debentures of ₹ 100 each	₹ 50,00,000
Profit/(loss) for the year	(₹ 2,50,000)
Industry Average Profitability rate	12.5%

The company is proposing to hire the services of Mr. Raman to turn around the company. You are required to determine the maximum salary that could be offered to him if it is expected that after his appointment, the profits of the company will increase by 10 % over and above the target profit.

(b) In the following situations evaluate whether the preference shares are an equity instrument or a financial liability to the issuer entity. 4

Situation 1 : A company has issued 6% mandatorily redeemable preference shares with mandatory fixed dividends.

Situation 2 : A company issued non-redeemable preference shares with dividend payments linked to ordinary shares. Also state whether your answer will differ if the dividend payments are cumulative.

Marks

(c) Dark Ltd. purchased a Plant for ₹ 100 Lakhs (excluding excise duty of 10 Lakhs) from Mark Ltd. during 2015-16 and installed immediately. During 2015-16, the company produced excisable goods on which the excise authority charged excise duty to the extent of ₹ 9.00 Lakhs. Show the necessary Journal entries explaining the treatment of CENVAT credit in the books of Dark Ltd. You are also required to indicate the value of Plant at which it should be recorded in Fixed Asset Register. **4**

(d) A machine was acquired in 01.04.2012 at a cost of ₹ 7,50,000. The expected working life of the machine is 10 years and it is expected to realize ₹ 75,000 at that time. The company charged depreciation on straight line at ₹ 67,500 per year up to 2014-15. From 2015-16 the company switched to reducing balance method of depreciation @15% p.a., in respect of the machine. The revised useful life of machine is 15 years. The new rate shall apply with retrospective effect from 01.04.2014. **4**

How would you deal with the above in the annual accounts of the company for the year ended 31.03.2016 in the light of Ind AS-8 ?

(e) C Ltd. is a group engaged in manufacture and sale of industrial and FMCG products. One of their division also deals in Leasing of properties - Mobile Towers . The accountant showed the rent arising from the leasing of such properties as other income in the Statement of Profit and Loss. **4**

Comment whether the classification of the rent income made by the accountant is correct or not in the light of Schedule III to the Companies Act, 2013.
