Roll No. .... NOV 2013

FINAL
GROUP-I PAPER-1
FINANCIAL REPORTING

Total No. of Questions – 7

Total No. of Printed Pages – 16

Time Allowed – 3 Hours

Maximum Marks – 100

DSA

Answers to questions are to be given only in English, except in 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) P Ltd. has three business segments which are FMCG, Batteries and Sports Equipment. The Battery segment has been consistently underperforming and P Ltd. after several discussions with Labour unions have finally decided on closure of this segment. Under the agreement with the Labour Union the employees of the Battery Segment will earn no further benefit as the arrangement is a curtailment without settlement wherein the employees of the discontinued segment will continue to receive benefits for services rendered when the segment was functioning. As a result of the curtailment, the company's obligations that were arrived on the basis of actuarial valuations before the curtailment have come down. The following information is also furnished : **5**

   (i) The value of gross obligations before the curtailment calculated on actuarial basis was ₹ 4,000 lakhs.

Marks

(ii) The value of Unamortized past service costs is ₹ 100 lakhs.

(iii) The Curtailment will bring down gross obligations by ₹ 500 lakhs and P Ltd. anticipates a proportional decline in the value of unamortized past service costs also.

(iv) The Fair Value of plan assets on date is estimated at ₹ 3,250 lakhs.

You are required to calculate the gain from curtailment and also show the liability to be recognized in the Balance Sheet of P Ltd. after the curtailment. 5

(b) To comply with listing requirements and other statutory obligations Quaker Ltd. prepares interim financial reports at the end of each quarter. The company has brought forward losses of ₹ 700 lakhs under Income Tax Law, of which 90% is eligible for set off as per the recent verdict of the Court, that has attained finality. No Deferred Tax Asset has been recognized on such losses in view of the uncertainty over its eligibility for set off. The company has reported quarterly earnings of ₹ 700 lakhs and ₹ 300 lakhs respectively for the first two quarters of Financial year 2013-14 and anticipates a net earning of ₹ 800 lakhs in the coming half year ended March 2014 of which ₹ 100 lakhs will be the loss in the quarter ended Dec. 2013. The tax rate for the company is 30% with a 10% surcharge. You are required to calculate the amount of Tax Expense to be reported for each quarter of financial year 2013-14. 5

(c) B Ltd.. entered into an agreement on 1st March, 2013 to buy computer spares from S Ltd. at prevailing market price for ₹ 1200 lakhs on which S Ltd. made a profit of 20% and received full advance payment. The transaction was concluded on 15th March, 2013. On the same day S Ltd. agrees to buy on 15th Sept., 2013 the same goods from B Ltd. at 20% over cost. The 20% mark up compensates B Ltd. for its inventory holding costs till sale date. You are required to show how both the buyer & seller account for the above transaction in the year 2012-13 explaining in brief the justification for your treatment and also draft the Notes on Account on disclosure if any required in the annual accounts of year ended 31st March, 2013.

Marks

(d) Vintage Ltd. has been in the business of sale of Vintage Wines for the last 12 years and is an extremely cash rich company. In FY 2011-12 the Board of the company decided to venture into new areas of business and identified the activity of acquiring Vintage Properties such as old Bungalows, Heritage buildings and the like at prime locations and after carrying out renovation and refurbishment of the same to let out these properties on lease to willing parties. The new business was commenced as a separate division of the company in FY 2012-13 during which the company managed to identify 19 such properties of which 17 were acquired and 9 given on lease. Being the initial year of operations and also since some of the lease arrangements were entered into at the fag end of the year the income from leasing was only a paltry amount. After the acquisition of the properties as aforesaid very attractive offers for sale of 14 of the properties were received. Vintage Ltd. after negotiation accepted 12 of the offers and sold these 12 properties making large profits in the bargain. The accountant of Vintage Ltd. has accounted the acquisition and disposals of properties as 'Purchases' and 'Sales' in the Profit & Loss account of the Property Division and treated the lease incomes as part of the other income of the company. The contention of the accountant of Vintage Ltd.., was that since a majority of the properties were disposed off within a short span of time, the properties are to be considered as stock in trade only. Further since the lease income was insignificant it does not become the main source of income and hence considered as part of other income. You are required to examine the correctness of the contentions of the accountant of Vintage Ltd. considering the relevant Accounting Standards and provisions of Revised Schedule IV of Companies Act, 1956. **5**

Marks

2. Following is the Extract of Balance sheet of M/s Sunny Ltd. and Money as on 31.03.2013 : **16**

Balance Sheet Extract as on 31.03.2013

	Sunny Ltd.	Money Ltd.
Authorised Share Capital	15,00,000	5,00,000
Equity Share Capital of ₹10 each fully paid	8,00,000.00	2,00,000.00
General Reserve	1,10,000.00	45,000.00
Profit & Loss Account	42,000.00	18,000.00
Statutory fund	16,000.00	8,000.00
Trade Payables	45,000.00	24,000.00
Provisions	95,000.00	12,000.00
	11,08,000.00	**3,07,000.00**
Goodwill	20,000.00	0.00
Machines & Plant	5,10,000.00	1,95,000.00
Other fixed Assets	90,000.00	15,000.00
Current Assets		
Inventories	1,85,000.00	35,000.00
Debtors	1,00,500.00	35,000.00
Prepaid expenses	24,500.00	2,000.00
Cash in Hand & Bank	1,78,000.00	25,000.00
	11,08,000.00	**3,07,000.00**

The two companies have entered into a scheme of Amalgamation and a new company Z Ltd. is formed. The Amalgamation is to take place in the following manner :

(1) For the purpose of Amalgamation a new Company Z is to be formed with a authorized Share Capital of 2,50,000 equity shares of ₹ 10 each.

(2) Z Ltd.. to issue fully paid shares to the shareholders of Sunny Ltd. and Money Ltd.., at a price of ₹ 5 and ₹ 3 above the intrinsic value of the shares respectively.

(3) The scheme of amalgamation was not supported by 100 shareholders of Sunny Ltd.., and had to be paid ₹ 10 per share above intrinsic value as consideration. The amount of the dissenting shareholders was borne by Z Ltd.,

(4) Fixed Assets of Sunny Ltd.., were last revalued in the year 2009 after which there has been an increase of 15% in the values, while assets of Money Ltd. have not shown any change in prices. The current assets of Money Ltd., include Debtors of ₹ 20,000/- which are considered bad.

(5) Money Ltd.'s Stock-in-trade as on 31.03.2013 includes stock of ₹ 25,000 purchased from Sunny Ltd.., at a profit of 25% on cost price.

(6) The Statutory Fund of the companies is to be maintained by Z Ltd. for a period of 3 years

(7) Sunny Ltd. had declared dividend of 10% on 31.03.2013 which has still not been paid.

(8) Goodwill shown in books of Sunny Ltd., was considered to be worthless.

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

Calculate the purchase consideration paid by Z to the shareholders of both the companies and prepare the Balance Sheet of Z Ltd., as per revised Schedule VI after the Amalgamation. (Notes to Balance Sheet need not form part of the answer.)

Marks

3. (a) Kush Ltd. announced a Share Based Payment Plan for its employees who have completed 3 years of continuous service, on 1st of April, 2010. The plan is subject to a 3 year vesting period. The following information is supplied to you in this regard : **10**

   (i) The eligible employees can either have the option to claim the difference between the exercise price of ₹ 144 per share and the market price in respect of the share on vesting date in respect of 5,000 shares or such employees are entitled to subscribe to 6,000 shares at the exercise price.

   (ii) Any shares subscribed to by the employees shall carry a 3 year lock in restriction. All shares carry face Value of ₹ 10.

   (iii) The Current Fair Value of the shares at (ii) above is ₹ 60 and that in respect of freely tradeable shares is higher by 20%.

   (iv) The Fair Value of the shares not subjected to lock in restriction at the end of each year increases by a given % from its preceding value as under :

	Year 2010-11	**Year 2011-12**	**Year 2012-13**
% of Increase	6	10	15

You are required to draw up the following accounts under both options:

(I) Employee Compensation Account

(II) Provision for Liability Component Account

(III) ESOP Outstanding Account

(b) Sea Ltd. has lent a sum of ₹10 lakhs @18% per annum for 10 years. The loan had a Fair Value of ₹ 12,23,960 at the effective interest rate of 13%. To mitigate prepayment risks but at the same time retaining control over the loan. Sea Ltd. transferred its right to receive the Principal amount of the loan on its maturity with interest, after retaining rights over 10% of principal and 4% interest that carries Fair Value of ₹ 29,000 and ₹ 1,84,620 respectively. The consideration for the transaction was ₹ 9,90,000. The interest component retained included a 2% fee towards collection of principal and interest that has a Fair Value of ₹ 65,160. Defaults if any are deductible to a maximum extent of the company's claim on Principal portion. You are required to show the Journal Entries to record derecognition of the Loan. **6**

Marks

4. From the Balance Sheets of CAT Ltd. and RAT Ltd. as on 31.03.2013 furnished below, read with supplementary information hereunder, you are required to prepare Consolidated Balance Sheet of CAT Ltd. as at 31st March, 2013. **16**

LIABILITIES	CAT ₹	RAT ₹	ASSETS	CAT ₹	RAT ₹
Equity Shares (₹10)	24,00,000	2,25,000	Fixed Assets (Tangible)	38,61,650	17,50,000
9% Cumulative Preference Shares (₹100)	–	20,25,000	Investments in RAT Ltd.	23,51,250	—
			Current Assets	1,87,500	18,60,000
Profit & Loss Account	29,10,000	2,60,000			
12% Secured Debentures	–	6,50,000			
Creditors (Trade)	10,90,400	4,50,000			
	64,00,400	**36,10,000**		**64,00,400**	**36,10,000**

Supplementary Information :

(1) CAT Ltd. was formed on the First of April, 2012 with an Authorized Capital of 3,00,000 Equity Shares of ₹ 10 each. On 1st April, 2012 it acquired from the open market 9,000 equity shares in RAT Ltd. at ₹ 13 per share. On 1st of August 2012 CAT Ltd. made a further acquisition of 4,950 Equity shares in RAT Ltd. @ ₹15 per share and 20,000, 9% Cumulative Preference shares for ₹ 21, 60,000, from the existing shareholders of RAT Ltd. The shares acquired on 1st of August, 2012 were Ex- Bonus and Ex-Dividend.

Marks

(2) On 1st August, 2012, CAT Ltd. received Bonus entitlements from RAT Ltd. @ 1 : 4 held, together with 12% equity Dividend from RAT Ltd. The equity dividend received was credited to Profit & Loss A/c by CAT Ltd. Both the bonus issue and the dividend payment have been considered in the Profit & Loss account of RAT Ltd. on 1st August, 2012 itself.

(3) The Profit & Loss account of CAT Ltd. included Current Year Profits amounting to ₹ 3,75,000 earned after debiting a monthly sum of ₹ 8,000 in its P & L Account being expenditure incurred on behalf of RAT Ltd. The entry to record the amount due from RAT Ltd. was not passed neither in the books of CAT Ltd. nor in the books of RAT Ltd.

(4) RAT Ltd. earned a profit of ₹ 1,92,000 for the year ended March 2013 which included ₹ 61,000 towards insurance claim received for loss of stock by a fire accident on 30th June, 2012. The cost of such stock, which is part of the opening stock of the company as on 1st April, 2012, was ₹ 1,09,000.

(5) RAT Ltd. has discharged its obligations towards Preference Dividend only up to 31st March, 2011.

(6) A 10% equity dividend has been proposed by CAT Ltd. which is not provided for as yet.

Marks

5. The Summarized balance sheet of M/s Indus Ltd. as on 31.03.2013 is as follows : **16**

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital	5,00,000.00	Goodwill	1,00,000.00
₹ 10 each fully paid		Land & Building	4,50,000.00
12% Preference Shares		Plant & Machinery	5,45,000.00
of ₹ 10 each fully paid	4,00,000.00	Vehicles	3,50,000.00
Equity Shares of ₹ 10 each		Investments	5,00,000.00
₹ 7 partly paid	2,80,000.00	Inventory	4,25,000.00
Reserves & surplus	2,20,000.00	Debtors	1,00,000.00
Secured loans (12%)	7,50,000.00	Cash and Bank Balances	35,000.00
Sundry Creditors	2,50,000.00	Prepaid Expenses	45,000.00
Provision for expenses	1,50,000.00		
	25,50,000.00		**25,50,000.00**

(1) Net Profit of the company for the past Four Years (before intt & tax) were as under :

2012-13	5,50,000
2011-12	3,85,000
2010-11	5,25,000
2009-10	4,90,000

(2) The company had purchased Furniture of ₹ 1,20,000 in the year 2011-12 which was wrongly charged to Revenue account. Furniture and Fixtures are depreciated at 15% of the W.D.V .

Marks

(3) In the year 2012-13 an asset having a book value of ₹ 80,000 was sold for ₹ 65,000 only.

(4) In the year 2010-11 the company paid ₹ 25,000 against the failure to comply with the rules as per the environment pollution control board.

(5) 60 % of the investments are Non-Trade investments and Market Value of the Trade investments is 15 % below the book value. The investments realize an interest of 8 % p.a whether trade or not. The Non- trade investments were purchased on 01.04.2012.

(6) The company has been paying managerial Remuneration of ₹ 1,00,000 p.a but as per the Companies Act the amount eligible to be paid is ₹ 80,000 p.a only for the past four years.

(7) The goodwill in books had been purchased in the year 2009-10.

(8) 60% of the Secured loan was availed from US which was recorded at a rate of 1\$=₹ 50 where as the closing rate was 1\$=₹ 55.

(9) The company wishes to revalue Assets on the realizable value as under ;

Land & building	5,50,000
Plant & machinery	5,00,000
Vehicles	2,50,000
Debtors	80,000

(Ignore the change in depreciation due to the change in the value of Assets.)

The rate of Tax on companies is 30% and the rate of return on capital Employed is 15% p.a. Calculate Goodwill based on four Years purchase of Super Profit. Make appropriate assumption wherever required.

Marks

6. (a) The Value Added statements of Value Ltd. for the last 5 years are furnished below : 8

(Lakh ₹)

	2007-08	2008-09	2009-10	2010-11	2011-12
Sales	6,000	8,000	10,000	12,000	14,000
Cost of Bought in Material, Services & expenses	2,960	4,400	5,800	7,200	8,400
Value Added	**3,040**	**3,600**	**4,200**	**4,800**	**5,600**
Applied Towards :					
Employee Costs	1,368	1,584	1,680	1,968	2,240
Director Remuneration	30	44	40	48	50
Government for Taxes etc	640	760	840	1,000	1,120
Providers of Capital	250	336	440	512	630
Maintenance & Expansion	752	876	1200	1272	1560
Total	**3,040**	**3,600**	**4,200**	**4,800**	**5,600**

The Employee Costs included Annual Incentive that were decided and paid after negotiations with Labour Unions as under :

100 108 118 130 150

From 2012-13 onwards it was agreed to introduce a Value Added Incentive Scheme (VAIS) that would enable employees to have the opportunity to earn better incentives in case of enhanced performances. The salient features of VAIS are as under :

(i) The highest Contribution of the last 5 years shall be the Target Index.

(ii) 50% of the excess of actual contribution in 2012-13 over target shall be paid to employees as incentive.

Marks

(iii) CONTRIBUTION shall mean the Value Added for the year reduced by Employee costs before incentive and expressed as a percentage of Turnover for the year. The result so obtained is to be rounded off to the nearest whole number.

The Profit & Loss account Summary for 2012-13 is given below from which you are required to :

(I) Calculate the amount of Incentive payable to the employees

(II) Prepare Statement of Application of Value Added for the year 2012-13 after payment of the incentive.

Summarized Profit & Loss account of Value Ltd. for the year ended 31.03.2013

		(Lakh ₹)
Sales		17,250
Less :		
Material & Services Consumed	6,400	
Wages	1,200	
Production Salaries	400	
Production Expenditure	1,600	
Deprecation on Machinery	1,000	
Administrative Salaries	600	
Administrative expenses	700	

Director Remuneration	60	
Administration Deprecation	350	
Interest on Debentures	80	
Advertisement & sales Promotion	600	
Salaries to Sales team	125	
Selling Expenses	150	
Sales dept. Deprecation	120	13,385
Profit Before Taxes		3,865
Taxes	1,190	
Dividends proposed	800	
Balance C/o		1,875

(b) ZED Ltd. is an FMCG player in the range of Men's Cosmetics and deals in both Branded and Unbranded products. The Branded products are sold under the Brand of 'ZED' and are fully outsourced from third party manufacturers The company's unbranded products are manufactured at its own manufacturing units. The earnings for the last three years (lakh ₹) are furnished below : 8

	Year 1	Year 2	Year 3
Earnings Before Interest & Tax (EBIT) from sale of products	5,100	7,500	9,900
Other Income-Royalty for partial usage of ZED Brand	90	135	225

Marks

The details of Fixed Assets employed at the company's manufacturing units are given below :

	Year 1	Year 2	Year 3
Tangible Fixed assets employed (₹ Lakhs)	9,000	10,800	13,500
Returns (before interest & tax) on cost of tangible assets	14%	12%	14%
Spread over Return	2%	3%	3%

The average annual funds used in the company's operations is ₹ 5,200 lakhs of which ₹ 2,800 lakh is in respect of the branded business. The company's tax rate is 33.33% and has an average cost of funds of 17% after considering tax shelter on cost of borrowed funds. You are required to determine the value of the Brand ZED considering a capitalization rate of 20%.

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

(a) K Ltd. issued 5,00,000, 6% Convertible Debentures of ₹ 10 each on the First of April 2010. The debentures are due for redemption on 31st March, 2014 at a premium of 10% convertible into equity shares to the extent of 50% and the balance to be settled in cash to the debenture holders The interest rate on equivalent debentures without conversion rights was 10%. You are required to separate the debt & equity components at the time of the issue and show the accounting entry in the company's books at initial recognition. **4**

The following Present Values of ₹ 1 at 6% and at 10% are supplied to you.

Interest Rate	Year 1	Year 2	Year 3	Year 4
6%	0.94	0.89	0.84	0.79
10%	0.91	0.83	0.75	0.68

Marks

(b) WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipments costing ₹ 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹ 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10% you are required to compute the amount of the annul lease and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively **4**

(c) Qu Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years However no specific plans have been drawn up for sale of either the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles and transfer surplus employees in a phased manner. **4**

(i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

(ii) If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24 ?

(iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner ?

Marks

(d) Grant Medicare Ltd. acquired 5 units of Brain Scan Equipment for US$ 5,00,000 in April 2010 incurring ₹ 20,00,000 on sea freight and US$ 12,000 per unit towards transit Insurance, baik charges etc. The purchase was partly funded out of the company's internal ccruals and from Government Grant of ₹ 94 Lakhs. The prevailing exchange ate to the US$ was ₹ 50. The company estimated the useful life of the equipmnt at 4 years with an estimated salvage value of 13% (approx). The grant wasconsidered as Deferred Income up to 2012-13 and in April 2013 the comany had to return the entire grant received due to non fulfillment of ceain conditions. You are required to show the deprecation and the grant tha is to be recognized in the Profit & Loss accounts for the period commencin 2010-11 onwards and also draw up the entry that is passed in April 201 for the return of the Grant. The Company follows the written down valumethod for depreciating its assets. **4**

(e) Blow Glass Limited manufactures Glass3ottles of various sizes and shapes at its 3 manufacturing facilities in UP, Ha:ana and MP. The company follows the WDV method of depreciation forll assets at these units and at its corporate office. In 2013 May it aquired a new unit making plastic containers in Gujarat. The method ofepreciation followed in the newly acquired unit was the SLM method for its assets, till the unit was acquired by Blow Glass Ltd. The Chief Accountt of Blow Glass is of the view that since the company has adopted the WDmethod at all its existing assets it is mandatory to follow the WDV meth in respect of the new unit also, especially since the same class of assexist at the existing units and new unit. You are requested to comment one stand of the Chief Accountant. **4**
