Roll No. ....

1 NOV 2012

FINAL (...)
GROUP-I PAPER-1
FINANCIAL REPORTING

Total No. of Questions – **7**

Total No. of Printed Pages – **12**

Time Allowed – **3** Hours

Maximum Marks – **100**

BOT

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 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.

Wherever necessary suitable assumptions may be made and disclosed by way of note.

Working notes should form part of the answer.

Marks

1. (a) Prakash Limited leased a machine to Badal Limited on the following terms : **4×5 =20**

		(₹ in lakhs)
(i)	Fair value of the machine	48.00
(ii)	Lease term	5 years
(iii)	Lease rental per annum	8.00
(iv)	Guaranteed residual value	1.60
(v)	Expected residual value	3.00
(vi)	Internal rate of return	15%

Discounted rates for 1st year to 5th year are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.

Ascertain Unearned Financial Income.

Marks

(b) Goodwill Limited is a full tax free enterprise for the 1st 12 years of its existence and is in third year of operations. Depreciation timing difference resulting in a deferred tax liability in 1st, 2nd and 3rd year is ₹ 200 lakhs, ₹ 300 lakhs and ₹ 400 lakhs respectively. From the 4th year onwards, it is expected that the timing difference would reverse each year by ₹ 10 lakhs. Assuming tax rate @ 35%, find out the deferred tax liability at the end of 3rd year and any charge to the Profit and Loss Account.

(c) In a manufacturing process of Vijoy Limited, one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process is here under :

Item	Unit	Amount (₹)	Output (Unit)	Closing stock as on 31-03-2012
Raw-Material	15000	1,60,000	MP1 – 6250	800
Wages	–	82,000	MP2 – 5000	200
Fixed Overhead	–	58,000	BP – 1600	–
Variable Overhead	–	40,000	–	–

Average market price of MP1 and MP2 is ₹ 80 per unit and ₹ 50 per unit respectively, by-product is sold @ ₹ 25 per unit. There is a profit of ₹ 5,000 on sale of by-product after incurring separate processing charges of ₹ 4,000 and packing charges of ₹ 6,000. ₹ 6,000 was realised from sale of scrap.

Calculate the value of Closing Stock of MP1 and MP2 as on 31-03-2012.

(d) Antarbarti Limited reported a Profit Before Tax (PBT) of ₹ 4 lakhs for the third quarter ending 30-09-2011. On enquiry you observe the following. Give the treatment required under AS-25.

(i) Dividend income of ₹ 4 lakhs received during the quarter has been recognized to the extent of ₹ 1 lakh only.

(ii) 80% of sales promotion expenses ₹ 15 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in the last quarter is high.

(iii) In the third quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of ₹ 12 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only ₹ 3 lakhs.

(iv) ₹ 2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.

(v) Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of ₹ 3 lakhs. Out of this loss ₹ 1 lakh relates to previous quarters.

(vi) Sale of investment in the first quarter resulted in a gain of ₹ 20 lakhs. The company had apportioned this equally to the four quarters.

Prepare the adjusted profit before tax for the third quarter.

Marks

2. War Limited purchased 48000 shares in Peace Limited on 31st March 2010, at 50% premium over face value by issue of 8% Debentures at 20% premium. The Balance Sheets of War Limited and Peace Limited as on 31-03-2010, i.e., on the date of purchase were as under : **16**

(in ₹)

Liabilities	War Ltd.	Peace Ltd.	Assets	War Ltd.	Peace Ltd.
Share capital of ₹ 10 each	10,50,000	6,00,000	Fixed Assets	6,50,000	2,00,000
General Reserve	1,20,000	40,000	Stock-In-Trade	3,00,000	1,80,000
Profit and Loss A/c	80,000	–	Sundry Debtors	3,20,000	2,00,000
Sundry Creditors	1,00,000	60,000	Cash In Hand	60,000	30,000
			Preliminary Expenses	20,000	10,000
			Profit and Loss A/c	–	80,000
	13,50,000	**7,00,000**		**13,50,000**	**7,00,000**

(a) Particulars of War Limited :

(i) Profits made : 2010-11 ₹ 1,60,000

2011-12 ₹ 2,00,000

(ii) The above profit was made after charging depreciation of ₹ 60,000 and ₹ 40,000 respectively.

(iii) Out of profit shown above, every year ₹ 20,000 had been transferred to General Reserve.

(iv) 10% Dividend had been paid in both the years.

(v) It has been decided to write down investment to face value of shares in 10 years and to provide for share of loss to subsidiary.

Marks

(b) Particulars of Peace Limited :

The company incurred losses of ₹ 40,000 and ₹ 60,000 in 2010-2011 and 2011-2012 after charging depreciation of 10% p.a. on the book value of Fixed Assets as on 01-04-2010.

Prepare Consolidated Balance Sheet of War Limited and its subsidiary as at 31st March, 2012 as per requirement of Revised Schedule VI.

3. The Abridged Balance Sheet (Draft) of V Ltd as on 31st March, 2012 is as under : **16**

Liabilities	₹	Assets	₹
24,000, Equity shares of ₹ 10 each	2,40,000	Goodwill	5,000
		Fixed Assets	2,57,000
5000, 8% cumulative preference shares of ₹ 10 each	50,000	Stock	50,000
		Debtors	60,000
8% Debentures	1,00,000	Bank	1,000
Interest accrued on debentures	8,000	Preliminary Expenses	15,000
Creditors	1,00,000	Profit & Loss Account	1,10,000
	4,98,000		**4,98,000**

The following scheme is passed and sanctioned by the court :

(i) A new company P Ltd is formed with ₹ 3,00,000, divided into 30,000 Equity shares of ₹ 10 each.

(ii) The new company will acquire the assets and liabilities of V Ltd on the following terms :

(a) Old company's debentures are paid by similar debentures in new company and for outstanding accrued interest, shares of equal amount are issued at par.

(b) The Creditors are paid for every ₹ 100, ₹ 16 in cash and 10 shares issued at par.

(c) Preference shareholders are to get equal number of equity shares at par. For arrears of dividend amounting to ₹ 12,000, 5 shares are issued at par for each ₹ 100 in full satisfaction.

(d) Equity shareholders are issued one share at par for every three shares held.

(e) Expenses of ₹ 8,000 are to be borne by the new company.

(iii) Current Assets are to be taken at book value (except stock, which is to be reduced by ₹ 3,000). Goodwill is to be eliminated, balance of purchase consideration being attributed to fixed assets.

(iv) Remaining shares of the new company are issued to public at par and are fully paid.

You are required to show :

(a) In the old company's books :

(i) Realisation and Reconstruction (combined) Account

(ii) Equity Shareholder's Account

(b) In the new company's books :

(i) Bank Account

(ii) Summarised Balance Sheet as per requirement of Revised Schedule-VI.

Marks

4. (a) Samvedan Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31-03-2010. Few machines were sold on hire purchase basis. The hire purchase price was set as ₹ 100 lakhs as against the cash price of ₹ 80 lakhs. The amount was payable as ₹ 20 lakhs down payment and balance in 5 equal instalments. The hire vendor collected first instalment as on 31-03-2011, but could not collect the second instalment which was due on 31-03-2012. The company was finalising accounts for the year ending 31-03-2012. Till 15-05-2012, the date on which the Board of Directors signed the accounts, the second instalment was not collected. Presume IRR to be 10.42%. **10**

Required :–

(i) What should be the principal outstanding on 1-4-2011 ? Should the company recognize finance charge for the year 2011-12 as income ?

(ii) What should be the net book value of assets as on 31-03-12 so far Samvedan Ltd. is concerned as per NBFC prudential norms requirement for provisioning ?

(iii) What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI ?

(b) Find out Leverage effect on Goodwill in the following case : **6**

(i)	Current cost of capital employed	₹ 10,40,000
(ii)	Profit earned after current cost adjustments	₹ 1,72,000
(iii)	10% long term loan	₹ 4,50,000
(iv)	Normal rate of return :	
	On equity capital employed	15.6%
	On long term capital employed	13.5%

Marks

5. (a) The Balance Sheet of Mulyan Ltd, as on 31st December, 2010 is as follows : 10

Liabilities	₹	Assets	₹
Share Capital :		Goodwill :	50,000
Equity shares of ₹ 10 each. ₹ 5,00,000		Fixed Assets :	
less, calls in arrear		Machinery	2,30,000
(₹ 2 for final call) ₹ 10,000	4,90,000	Factory shed	3,00,000
8% Preference shares of ₹ 10 each fully paid	2,00,000	Vehicles	60,000
		Furniture	25,000
Reserve and Surplus :		Investments :	1,00,000
General Reserve	2,00,000	Current Assets :	
Profit & Loss A/c	1,40,000	Stock in trade	2,10,000
Current Liabilities :		Sundry debtors	3,50,000
Sundry Creditors	2,70,000	Cash at bank	50,000
Bank Loan	1,00,000	Preliminary Expenses	25,000
	14,00,000		**14,00,000**

Additional Information :

(i) Fixed assets are worth 20% above their actual book value, depreciation on appreciated portion of fixed assets is to be ignored for valuation of goodwill.

(ii) Of the investments, 80%, is non-trading and the Balance is trading. All trade investments are to be valued at 20% below cost. A uniform rate of dividend of 10% is earned on all investments.

(iii) For the purpose of valuation of shares, Goodwill is to be considered on the basis of 6 year's purchase of the super profits based on simple average profit of the last 3 years. Profits, after tax @ 50%, are as follows :

Year	₹
2008	1,90,000
2009	2,00,000
2010	2,50,000

In a similar business, return on capital employed is 20%. In 2008, a new furniture costing ₹ 10,000 was purchased but wrongly charged to revenue. No effect has yet been given for rectifying the same. Depreciation is charged on furniture @ 10% p.a. (Diminishing Balance Method).

Find out the value of each fully paid and partly paid equity shares.

(b) Ramesh Goyal has invested in three mutual funds. From the details given below, find out effective yield on per annum basis in respect of each of the schemes to Ramesh Goyal upto 31-03-2012. **6**

Mutual Fund	X	Y	Z
Date of Investment	1-12-2011	1-1-2012	1-3-2012
Amount of investment (₹)	1,00,000	2,00,000	1,00,000
NAV at the date of investment (₹)	10.50	10.00	10.00
Dividend received upto 31-3-2012 (₹)	1,900	3,000	Nil
NAV as on 31-03-2012 (₹)	10.40	10.10	9.80

Marks

6. (a) Kharid Ltd has the following capital structure as on 31-03-2011 : 8

Particulars		(₹ in crores)
Equity share capital (shares of ₹ 10 each, fully paid)		660
Reserve and Surplus :		
General Reserve	480	
Securities Premium Account	180	
Profit and Loss Account	180	
Infrastructure Development Reserve	360	1,200
Loan Funds		3,600

The shareholders of Kharid Ltd. have on the recommendation of their Board of Directors approved on 12-09-11, a proposal to buy-back maximum permissible number of equity shares, considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price 20% over market value.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 2,400 crores or ₹ 3,000 crores.

Assuming that the entire buy-back is completed by 09-12-2011, show the accounting entries with full narrations in the company's books in each situation.

Marks

(b) From the following details, compute according to Lev and Schwartz (1971) model, the value of human resources of skilled employees group. **4**

(i)	Annual average earning of an employee till the retirement age	₹ 1,00,000
(ii)	Age of Retirement	65 years
(iii)	Discount rate	15%
(iv)	No. of employees in the group	20
(v)	Average age	62 years

(c) H Ltd. engaged in the business of manufacturing lotus wine. The process of manufacturing this wine takes around 18 months. Due to this reason H Ltd. has prepared its financial statements considering its operating cycle as 18 months and accordingly classified the raw material purchased and held in stock for less than 18 months as current asset. Comment on the accuracy of the decision and the treatment of asset by H Ltd as per revised Schedule VI. **4**

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

(a) Goodluck Limited grants 180 share options to each of its 690 employees. Each grant containing condition on the employees working for Goodluck Ltd over the next 4 years. Goodluck Ltd has estimated that the fair value option is ₹ 15. Goodluck Ltd also estimated that 30% of employees will leave during four year period and hence forfeit their rights to the share option. If the above expectations are correct, what amount of expenses to be recognised during vesting period ?

(b) P Ltd has 60% voting right in Q Ltd. Q Ltd has 20% voting right in R Ltd. Also, P Ltd directly enjoys voting right of 14% in R Ltd. R Ltd is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd.

How would you assess the situation from the view point of AS-18 on related party disclosures ?

(c) An oil company has been contaminating land for several years. It does not clean up because there is no legislation requiring cleaning up. At 31st March 2012, it is virtually certain that a law requiring a clean up of land already contaminated will be enacted shortly after the year end. Is provisioning presently necessary ?

(d) Vijaya Ltd had to pay delayed cotton clearing charges over and above the negotiated price for taking delayed delivery of cotton from the supplier's godown. Upto 2010-11, the company has regularly included such charges in the valuation of closing stock. This charge, being in the nature of interest, the company has decided to exclude it from closing stock valuation. This would result in decrease of profit by ₹ 8.60 lakhs.

What is the treatment in the Final Statement of accounts for the year ended 31-03-2012 ? Also draft a suitable note for disclosure.

(e) Write short notes on "Market Value Added."
