FINAL

GROUP-I PAPER-1

Roll No. .... FINANCIAL REPORTING

MAY 2013

Total No. of Questions – **7**

Total No. of Printed Pages – **11**

Time Allowed – **3** Hours

Maximum Marks – **100**

ERS

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.

Working notes should form part of the respective answers.

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

Marks

1. (a) J Ltd. purchased a machinery from K Ltd. on 31-08-2012. Quoted price was ₹ 275 lakhs. The vendor offers 2% trade discount. Sales tax on quoted price is 6%. J Ltd. spent ₹ 60,000 for transportation and ₹ 45,000 for architect's fees. They borrowed money from HDFC Bank of ₹ 250 lakhs for acquisition of asset @ 15% p.a. They also spent ₹ 15,000 for material, ₹ 10,000 for labour and ₹ 4,000 as overheads during trial run of the machine. The machine was ready for use on 15-01-2013 but it was put to use on 15-3-2013. Find out the original cost of the machine. Also suggest the accounting treatment for between the date, the machine was ready for use and the date at which it was actually put to use. **4×5 =20**

(b) A Ltd. had acquired 80% shares in the B Ltd. for ₹ 15 lakhs. The net assets of B Ltd. on the day are ₹ 22 lakhs. During the year A Ltd. sold the investment for ₹ 30 lakhs and net assets of B Ltd. on the date of disposal was ₹ 35 lakhs. Calculate the profit or loss on disposal of this investment to be recognized in Consolidated Financial Statement.

(c) On 1st January, 2011 Santa Ltd. sold equipment for ₹ 6,14,460. The carrying amount of the equipment on that date was ₹ 1,00,000. The sale was a part of the package under which Banta Ltd. leased the asset to Santa Ltd. for Ten-Year term. The economic life of the asset is estimated at 10 years. The minimum lease rents payable by the leaser has been fixed at ₹ 1,00,000 payable annually beginning 31st December, 2011. The incremental borrowing interest rate of Santa Ltd. is estimated at 10% p.a. Calculate the net effect on the profit and loss account.

(d) X Ltd. purchased a fixed asset four years ago for ₹ 150 lakhs and depreciates it at 10% p.a. on straight line method. At the end of the fourth year it has revalued the asset at ₹ 75 lakhs and has written off the loss on revaluation to the profit and loss account. However on the date of revaluation, the market price is ₹ 67.50 lakhs and expected disposal costs are ₹ 3 lakhs. What will be the treatment in respect of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 60 lakhs ?

Marks

2. The summarized balance sheets of two companies, Major Ltd. and Minor Ltd. as at 31st December, 2012 are given below : 16

Particulars	Major Ltd.	Minor Ltd.
Assets :		
Plant and Machinery	4,14,000	1,00,800
Furniture	14,000	9,200
18,000, ordinary shares in Minor Ltd.	2,40,000	–
4,000 ordinary shares in Major Ltd.	–	48,000
Stock in Trade	96,000	2,28,000
Sundry Debtors	1,40,000	1,70,000
Cash at Bank	34,000	26,000
	9,38,000	**5,82,000**
Liabilities :		
Ordinary shares of ₹ 10 each	3,60,000	2,00,000
7.5% preference shares of ₹ 10 each	3,00,000	1,60,000
Reserves	52,000	60,000
Sundry Creditors	1,06,000	1,22,000
Profit and Loss account	1,20,000	40,000
	9,38,000	**5,82,000**

Major Ltd. acquired the shares of Minor Ltd. on 1st July, 2012. As on 31st December, 2011, the plant & machinery stood in the books at ₹ 1,12,000, the reserve at ₹ 60,000 and the profit and loss account at ₹ 16,000. The plant and machinery was revalued by Major Ltd. on the date of acquisition of shares of Minor Ltd. at ₹ 1,20,000 but no adjustments were made in the books of Minor Ltd.

On 31st December, 2011, the debit balance of profit and loss account was ₹ 45,500 in the books of Major Ltd.

Both the companies have provided depreciation on all their fixed assets at 10% p.a.

You are required to prepare a Consolidated Balance Sheet as on 31st December 2012 as per Revised Schedule-VI and Supporting Schedule for Computation.

Marks

3. Sun Limited agreed to absorb Moon Limited on 31st March 2012 whose Summarized Balance Sheet stood as follows : **16**

Equity and Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	10,50,000
1,20,000 shares of ₹ 10 each fully paid	12,00,000	Investments	–
Reserve & Surplus		Current Assets, Loans & Advances	
General reserve	1,50,000		
Secured Loan		Stock in Trade	1,50,000
Unsecured Loan		Sundry Debtors	3,00,000
Current Liabilities & Provisions			
Sundry Creditors	1,50,000		
	15,00,000		**15,00,000**

The consideration was agreed to be paid as follows :

(a) A payment in cash of ₹ 5 per share in Moon Ltd. and

(b) The issue of shares of ₹ 10 each in Sun Ltd. on the basis of two equity shares (valued at ₹ 15) and one 10% cum. preference share (valued at ₹ 10) for every five shares held in Moon Ltd.

The whole of the share capital consists of shareholdings in exact multiple of five except the following holding :

P	174
Q	114
R	108
S	42
Other Individuals	12 (Twelve members holding one share each)

It was agreed that Sun Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in Moon Ltd. i.e. ₹ 65 for five shares of ₹ 50 paid.

Prepare a statement showing the purchase consideration receivables in shares and cash.

Marks

4. (a) The capital structure of VWX Ltd. is as follows as on 31st March, 2012 : **12**

Particulars	(₹)
45,000, equity shares of ₹ 100 each fully paid	45,00,000
12,500, 12% preference shares of ₹ 100 each fully paid	12,50,000
12% secured debentures	12,50,000
Reserves	12,50,000
Profit before interest and tax during the year	18,00,000
Tax rate	**40%**

Normally the return on equity shares in this type of industry is 15%.

Find out the value of the equity shares subject to the following :

(i) Profit after tax covers fixed interest and fixed dividend at least 4 times.

(ii) Debt equity ratio is at least 2.

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

(iv) The company has been paying regularly an equity dividend of 15%.

(v) Risk premium for dividends is generally assumed at 1%.

(b) On 1st April 2012, A company offered 100 shares to each of its employees at ₹ 40 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under this plan will be subject to each in transfer for three years from the grant date. The market price on the grant date is ₹ 50 per share. However the fair value of shares issued under this plan is estimated at ₹ 48 per share. On 30-04-2012, 400 employees accepted the offer and paid ₹ 40 per share. Nominal value of each share is ₹ 10. **4**

Record the issue of shares in the books of the company under the aforesaid plan.

Marks

5. (a) The Balance Sheet of Domestic Ltd. as on 31st March, 2013 is as under : **10**

(₹ in Lacs)

Liabilities		Assets	
Equity Shares ₹ 10 each	3,000	Goodwill	744
Reserves (including provision for taxation of ₹ 300 lacs)	1,000	Premises and Land at cost	400
5% Debentures	2,000	Plant and Machinery	3,000
Secured Loans	200	Motor vehicles (Purchased on 1.10.12)	40
Sundry Creditors	300		
Profit & Loss a/c :		Raw materials at cost	920
Balance from previous year ₹ 32		Work-in-progress at cost	130
Profit for the year		Finished goods at cost	180
(after taxation) ₹ 1,100	1,132	Book Debts	400
		Investment (meant for replacement of Plant & Machinery)	1,600
		Cash at Bank & Cash in Hand	192
		Discount on Debentures	10
		Underwriting Commission	16
	7,632		**7,632**

1. The resale value of Premises and Land is ₹ 1,200 lacs and that of Plant and Machinery is ₹ 2,400 lacs.
2. Depreciation @ 20% is applicable to Motor vehicles.
3. Applicable depreciation on Premises and Land is 2% and that on Plant and Machinery is 10%.

4. Market value of the investments is ₹ 1,500 lacs.
5. 10% of book debts is bad.
6. The company also revealed that the depreciation was not charged to Profit and Loss account and the provision for taxation already made is sufficient.
7. In a similar company the market value of equity shares of the same denomination is ₹ 25 per share and in such company dividend is consistently paid during last 5 years @ 25%. Contrary to this, Domestic Ltd. is having a marked upward or downward trend in the case of dividend payment.
8. In 2007-08 and in 2008-09 the normal business was hampered. The profit earned during 2007-08 is ₹ 67 lacs, but during 2008-09 the company incurred a loss of ₹ 1,305 lacs.

Past 3 years' profits of the company were as under :

2009-10	₹ 469 lacs
2010-11	₹ 546 lacs
2011-12	₹ 405 lacs

The unusual negative profitability of the company during 2008-09 was due to the lock out in the major manufacturing unit of the company which happened in the beginning of the second quarter of the year 2007-08 and continued till the last quarter of 2008-09.

Value the goodwill of the company on the basis of 4 years' purchase of the super profit.

(b) On 1st April, 2011, the fair value of plan assets were ₹ 2,50,000 in respect of a pension plan of Q Ltd. **6**

On 30th September, the plan paid out benefits of ₹ 47,500 and received further contribution of ₹ 1,22,500.

On 31st March, 2012, the fair value of plan asset was ₹ 3,75,000 and the present value of the benefit obligation was ₹ 3,69,800. Actuarial losses on the obligation for 2011-12 were ₹ 1,500.

 Marks

On 1st April, 2011, the company had made the following estimates :

	Particulars	%
(i)	Interest and dividend income after tax payable by the fund	9.25
(ii)	Realised and un-realised gain on plan asset (after tax)	2.00
(iii)	Fund expenses.	(1.00)
	Expected rate of return	**10.25**

Find out the expected and unexpected return on plan assets.

6. (a) From the following Profit and Loss account of B. Co. Ltd. prepare a gross value added statement for the year ended 31-12-2012. Show also the reconciliation between gross value added and profit before taxation. **8**

Profit and Loss account for the year ended 31-12-2012

	Notes	(₹ in '000)	(₹ in '000)
Income :			
Sales			6,240
Other income			55
Expenditure :			6,295
Production and operational expenses	1	4,320	
Administrative expenses (Factory)	2	180	
Interest & Other charges	3	624	
Depreciation		16	
			(5,140)
Profit before tax			1,155
Provision for tax			(55)
			1,100
Balance as per last Balance Sheet			60
			1,160
Transferred to Fixed assets			
Replacement Reserve		400	
Dividend Paid		160	(560)
Surplus carried to Balance Sheet			600

Marks

Notes :

1. Production and Operation Expenses :

Consumption of Raw materials	3,210
Consumption of stores	40
Local Tax	8
Salaries to Administrative staff	620
Other Manufacturing Expenses	442
	4,320

2. Administration expenses include salaries and commission to directors 5

3. Interest and other charges include :

   (a) Interest on bank overdraft (overdraft is of temporary nature) 109

   (b) Fixed loan from I.C.I.C.I. 51

   (c) Working capital loan from I.F.C.I. 20

   (d) Excise duties amounts to one-tenth of total value added by manufacturing and trading activities.

(b) The investment portfolio of a mutual fund scheme includes 5,000 shares of X Ltd. and 4,000 shares of Y Ltd. acquired on 31-12-2010. The cost of X Ltd. shares is ₹ 40 while that of Y Ltd. shares is ₹ 60. The market value of these shares at the end of 2010-11 were ₹ 38 and ₹ 64 respectively. On 30-06-2011, Shares of both the companies were disposed off realizing ₹ 37 per X Ltd. shares and ₹ 67 per Y Ltd. shares. Show important accounting entries in the books of the fund for the accounting year 2010-11 and 2011-12. **8**

Marks

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

(a) While closing its books of account on 31[st] March, 2012 a non-banking finance company has its advances classified as follows :

Particulars	**₹ in Lakhs**
Standard Assets	16,800
Sub-Standard Assets	1,340
Secured portion of doubtful debts :	
– Upto one year	320
– One year to three years	90
– More than three years	30
Unsecured portion of doubtful debts	97
Loss Assets	48

Calculate the amount of provision, which must be made against the advances.

(b) From the following information relating to W Ltd., calculate diluted earnings per share as per AS-20.

(i)	Net profit for the current year	₹ 5,00,00,000
(ii)	Number of equity shares outstanding	1,00,00,000
(iii)	11% convertible debentures of ₹ 100 each (Nos.)	1,25,000
(iv)	Interest expenses for current year	₹ 13,75,000
(v)	Tax saving relating to interest expense	30%
(vi)	Each debenture is convertible into eight equity shares.	

(c) W Ltd. purchased machinery for ₹ 80 lakhs from X Ltd. during 2010-11 and installed the same immediately. Price includes excise duty of ₹ 8 lakhs. During the year 2010-11, the company produced exciseable goods on which excise duty of ₹ 7.20 lakhs was charged.

Give necessary entries explaining the treatment of Cenvat Credit.

(d) Write short notes on "Disclosure of carrying amounts of financial assets and financial liabilities in balance sheet".

Marks

(e) Vishnu Company has at its financial year ended 31st March, 2013, fifteen law suits outstanding none of which has been settled by the time the accounts are approved by the directors. The directors have estimated that the possible outcomes as below :

Result	Probability	Amount of loss
For first ten cases :		
Win	0.6	
Loss-low damages	0.3	90,000
Loss-high damages	0.1	1,60,000
For remaining five cases :		
Win	0.5	
Loss-low damages	0.3	60,000
Loss-high damages	0.2	95,000

The directors believe that the outcome of each case is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss.