

FINAL EXAMINATION

December 2012

F-P16(AFA)

Syllabus 2008

Advanced Financial Accounting and Reporting

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.**Part A questions are compulsory. Attempt all of them.**Part B has seven questions. Attempt any five of them.**Please (1) Write answers to all parts of a question together.**(2) Open a new page for answer to a new question.**(3) Attempt the required number of questions only.**(4) Indicate in the front page of the answer book the question attempted.*

Part A (25 Marks)

1. (a) In each of the cases given below, one out of four alternatives is correct. Indicate the correct answer (= 1 mark) and give your workings/reasons briefly (= 1 mark): 2×8=16

- (i) SOFTEX LTD. is having a plant (asset), carrying amount of which is ₹ 40 lakh on March 31, 2012. Its balance useful life is 3 years and residual value at the end of 3 years is ₹ 3 lakh. Estimated future cash flow from using the plant will be ₹ 10 lakh per annum for 3 years. If the discount rate is 10% "the Value in Use" for the plant as per AS-28 will be

[Given: PVIFA (10%, 3 yrs) = 2.487 and PVIF (10%, 3 yrs) = 0.7513]

A. ₹ 27.124 lakh

B. ₹ 22.001 lakh

C. ₹ 21.870 lakh

D. Insufficient Information

- (ii) The fair value of Plan assets of ARIMA LTD. at beginning and end of the year 2011-2012 were ₹ 4,00,000 and ₹ 5,70,000 respectively. The employer's contribution to the plan during the year was ₹ 1,40,000. If benefit payments to retirees were ₹ 1,00,000, what would be the actual return on plan assets (as per AS-15)?

A. ₹ 1,50,000 lakhs

B. ₹ 1,30,000 lakhs

C. ₹ 1,20,000 lakhs

D. Insufficient Information

- (iii) FICKLE LTD. has five business segments with operating profits and losses as shown below:

Segment	Operating Profit/(Loss) (₹ in lakh)
P	3
Q	(3)
R	20
X	(9)
Y	(20)

Reportable Segments as per AS-17 are


A. P, Q, R, X, Y

B. P, Q, R, Y

C. P, Q, R only

D. R, X, Y only

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- (iv) NANDITHA LTD. has imported \$ 50,000 worth of goods from CHICAGO TRADERS of USA on 30.2.2012 when exchange rate was ₹ 54.60 per US \$. The payment for imports was made on 30.6.2012 when exchange rate was ₹ 55.50 per US \$. If the rate of exchange on 31.3.2012 is ₹ 55.00 per US \$, the exchange difference to be charged/debited to Profit & Loss Account for the year 2012-13 as per AS-11 will be
- A. ₹ 25,000
B. ₹ 45,000
C. ₹ 20,000
D. None of (A), (B) and (C)
- (v) HILL LTD. has provided depreciation in accounts for ₹ 80 lakhs, but as per tax records it is ₹ 120 lakhs. Unamortized preliminary expenses, as per tax records is ₹ 40,000. There is adequate evidence of future Profit sufficiently. Tax rate is 30%. How much deferred tax assets/liability should be recognized as per AS-22?
- A. ₹ 12.00 lakhs
B. ₹ 11.88 lakhs
C. ₹ 5.94 lakhs
D. Nil
-  (vi) AKASH LTD. set up a new factory in the backward area and purchased Plant for ₹ 500 lakhs for the purpose. Purchases were entitled for CENVAT credit of ₹ 10 lakhs and Government also agreed to extend 25% subsidy for backward area development. Determine the depreciable value of the asset
- A. ₹ 500 lakhs
B. ₹ 392 lakhs
C. ₹ 400 lakhs
D. ₹ 390 lakhs
- (vii) ANKUSH LTD. reported net income (attributable to equity shareholders) of ₹ 10 lakhs for the year 2011-12 and had 1,00,000 equity shares during the entire year ended March 31, 2012. ANKUSH LTD. also had outstanding during entire 2011-12, 5000, 6% Convertible Preference Shares @ ₹ 100 face value, each share convertible into 15 equity shares. What would be the Diluted EPS of the company as per AS-20?
- A. ₹ 5.89
B. ₹ 5.05
C. ₹ 5.71
D. None of (A), (B) and (C)
- (viii) ROOM LTD. holds 25% share in DOOR LTD. at a cost of ₹ 7.50 lakhs as on 31.3.2005 out of DOOR's share capital and Reserve of ₹ 30 lakhs each. For the year ended 31.3.2012, DOOR LTD. made a profit of ₹ 2,40,000 and 30% of it was distributed as dividend. In the Consolidated Financial Statement, the carrying amount of investment as at 31.3.2012 will be
- A. ₹ 15.00
B. ₹ 15.60
C. ₹ 15.42
D. ₹ 14.82

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- (b) Choose the most appropriate one from the stated options and write it down (only indicate A, B, C, D as you think correct): 1×5=5
- (i) As per AS-10 Fixed Assets that have been retired from active use and held for disposal should be stated in Balance Sheet at
- Net Book Value
 - Net Realizable Value
 - Lower of the Net Book Value and Net realizable value
 - Higher of the Net Book Value and Net realizable value
- (ii) The underlying accounting principle(s) necessitating amortization of intangible asset(s) is/are
- Cost Concept
 - Realization Concept
 - Matching Concept
 - Both of (A) and (C) above
- (iii) Under AS-26, brand generating costs
- Can be capitalized if they can be measured reliably
 - Can be capitalized if market value exceeds the costs
 - Cannot be capitalized
 - Can be capitalized if present value of future benefits exceeds the costs
- (iv) As per AS-22, a Deferred tax Asset should be recognized only when there is certainty of future taxable income to realize. This is based on the consideration of
- Prudence
 - Conservation
 - Caution
 - Consistency
- (v) SKY LTD. purchased a special machinery from Earth Ltd. for ₹ 50 Lakhs in consideration of 50,000 equity shares of ₹ 100 each of the company. Where this transaction will be reflected in the Cash Flow Statement as per AS-3?
- Operating Activities
 - Financing Activities
 - Investing Activities
 - None of the above
- (c) (i) DP LTD. presents its Interim Financial Report on quarterly basis. It has earned profit of ₹ 500 Lakhs and ₹ 300 Lakhs in the first two quarters ending 30.6.2011 and 30.9.2011 respectively, but has incurred losses of ₹ 100 Lakhs and ₹ 400 Lakhs in the 3rd and 4th quarter respectively. Effective income tax rate is 30%. What will be the income tax expenses to be reported for each quarter as per AS-25? 2
- (ii) At the end of financial year 2011-12, P Ltd. finds that there is a law suit outstanding. The possible outcome as estimated by the Board is as follows:

	Probability	Loss (₹)
Win	60%	—
Lose (low damage)	30%	2,00,000
Lose (high damage)	10%	4,00,000

Compute the amount of contingent liability to be shown by way of a note to financial statements as per AS-29. 2

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Part B (75 Marks)

Attempt any five questions.

2. (a) Following details are given for Samrat Ltd. for the year ended 31st March, 2012:

(₹ in Lakhs)

Sales:

Food Products	5,650	
Plastic & Packaging	625	
Health & Scientific	345	
Others	162	6,782

Expenses:

Food Products	3,335	
Plastic & Packaging	425	
Health & Scientific	222	
Others	200	4,182

Other Items:

General Corporate Expenses		562
Income from Investments		132
Interest expenses		65

Identifiable Assets:

Food Products	7,320	
Plastic & Packaging	1,320	
Health & Scientific	1,050	
Others	665	10,355

General Corporate Assets

722

Other Information:

(i) Inter Segment Sales:	Food Products	55
	Plastic & Packaging	72
	Health & Scientific	21
	Others	7

(ii) Opening profit includes ₹ 33 lakhs on inter-segment sales;

(iii) Information about inter-segment expenses are not available.

You are required to prepare a statement showing financial information about Samrat Ltd.'s operation in different industry segments. 8

- (b) What do you mean by "Fellow Subsidiary" in the context of Related Party Disclosure (As per AS-18)? 2
- (c) What are the three major considerations governing the Selection and Application of Accounting Policies? 3
- (d) "All members of Audit Committee shall be financially literate"—What do you mean by the term "financially literate"? 2

3. The summarized Balance Sheets of INDIGENT LTD. and its subsidiary MEEK LTD. as at March 31, 2012 were as follows:

Liabilities	Indigent Ltd.	Meek Ltd.	(Amount in ₹ thousand)		
			Assets		
	Indigent Ltd.	Meek Ltd.	Indigent Ltd.	Meek Ltd.	
Share Capital (Share of ₹ 10 each)	10,000	2,000	Fixed Assets	12,000	3,600
General Reserve	10,000	4,000	Investment in Meek Ltd. (1,20,000 Shares)	1,200	—
Profit & Loss A/c	4,000	3,000	Debtors	7,000	1,000
Secured Loan	4,000	500	Inventories	6,000	5,000
Current Liabilities	6,000	500	Cash at Bank	7,800	400
	34,000	10,000		34,000	10,000

Indigent Ltd. holds 60% of the paid up capital of Meek Ltd. and the balance is held by a Foreign Company. A memorandum of understanding has been entered into with Foreign Company by Indigent Ltd. to the following effect:

- The shares held by the Foreign Company will be sold to Indigent Ltd. at a price per share to be calculated by capitalizing the yield at 15%. Yield for this purpose would mean 50% of the average of pre-tax profits for the last three years, which were ₹ 24 Lakh, ₹ 36 Lakh and ₹ 48 Lakh respectively (average tax rate was 40%).
- The actual cost per share to the Foreign Company was ₹ 11. Gains accruing to the Foreign Company are taxable @ 20%. The tax payable will be deducted from the sale proceeds and paid to Government by Indigent Ltd. 50% of the purchase consideration (after payment of tax) will be remitted to Foreign Company by Indigent Ltd. and also any cash for fractional shares allotted.
- For the balance of purchase consideration, Indigent Ltd. would issue its shares at their intrinsic value. It was also agreed that Indigent Ltd. would absorb Meek Ltd., simultaneously by writing down the fixed assets of Meek Ltd. by 10%. The balance sheet figures included a sum of ₹ 2 Lakh due by Meek Ltd. to Indigent Ltd. and stock of Indigent Ltd. included ₹ 3 Lakh purchased from Meek Ltd., who sold them at cost plus 20%.

Required:

- Pass Journal entries in the Books of Indigent Ltd. to record the above arrangements on 31.3.2012 and
- Prepare the Balance Sheet of Indigent Ltd. after absorption of Meek Ltd.

Note—Workings should form part of your answer.

15

4. The following is an abstract of the Balance Sheets of H Ltd., S Ltd. and D Ltd. as on March 31, 2012:

	H Ltd. ₹	S Ltd. ₹	D Ltd. ₹
Liabilities:			
Share Capital:			
Equity Shares of ₹ 10 each fully paid	20,00,000	10,00,000	6,00,000
Reserves and Surplus:			
Reserves	1,80,000	2,00,000	1,44,000
Profit & Loss A/c	2,00,000	40,000	1,02,000
Current Liabilities & Provisions:			
Creditors	60,000	60,000	20,000
	24,40,000	13,00,000	8,66,000

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	H Ltd. ₹	S Ltd. ₹	D Ltd. ₹
Assets:			
Fixed Assets	11,00,000	6,00,000	8,00,000
Investments:			
75,000 shares in S Ltd.	10,00,000	—	—
15,000 shares in D Ltd.	2,00,000	—	—
40,000 shares in D Ltd.	—	5,60,000	—
Current Assets, Loans & Advances:			
Stock	1,20,000	1,00,000	56,000
Cash at Bank	20,000	40,000	10,000
	24,40,000	13,00,000	8,66,000

H Ltd. purchased the shares in S Ltd. and in D Ltd. on September 30, 2011, and S Ltd. also purchased the shares in D Ltd. on the same day.

The following are the balances at the beginning of the year (1.4.2011):

	S Ltd. ₹	D Ltd. ₹
Reserves	1,80,000	1,20,000
Profit & Loss A/c	20,000	16,800

You are to assume that profits accrue uniformly every month.

Required:

Prepare a Consolidated Balance Sheet of H Ltd. and its Subsidiaries as at March 31, 2012.

15

5. (a) SITERAZE LTD. (SL) engaged in manufacturing business furnished the following Profit & Loss A/c for the year ended March 31, 2012:

(Amount in ₹ Lakh)

	Notes		Amount
Income:			
Sales			1,780
Other Income			110
			1,890
Expenditure:			
Production & Operational Expenses	(a)	1,282	
Administration Expenses (factory)	(b)	66	
Interest	(c)	58	
Depreciation		34	1,440
Profit before taxes			450
Provision for taxes	(d)		60
Profit after taxes			390
Balance as per last Balance Sheet			20
			410
Transferred to General Reserve		90	
Dividend Paid		190	
			280
Surplus carried to Balance Sheet			130
			410

Notes (a) Production & Operational Expenses:

	₹ in Lakh
Consumption of raw materials	586
Consumption of stores	118
Salaries, Wages, Gratuity etc. (Administration)	164
Cess & Local taxes etc.	196
Other manufacturing Expenses	218

1,282

(b) Administration expenses include Salaries, Commission to Directors—₹ 18 Lakh. Provision for Doubtful Debts ₹ 12.60 Lakh.

(c)

	₹ in Lakh
Interest on loan from ICICI Bank for working capital	18
Interest on loan from ICICI Bank for fixed loan	20
Interest on loan from IFCI for fixed loan	16
Interest on Debentures	4

58

(d) The charges for taxation include a transfer of ₹ 6.00 lakh to the credit of Deferred Tax Account.

(e) Cess and Local taxes include Excise Duty, which is equal to 10% of cost of bought-in material.

Required:

Prepare a Gross Value Added Statement of SITERAZE LTD. and also show the reconciliation between Gross Value Added and Profit before Taxation.

10

MS. AINDRILA, an investor buys a stock option of ANISHA LTD. in July, 2012 with a strike price on 30th July, 2012 ₹ 300, to be expired on 30th August, 2012. The premium is ₹ 25 per unit and the market lot is 100. The margin to be paid is ₹ 130 per unit.

Required:

Show the accounting treatment (Journal Entries) in the Books of MS. ANDRILA, when

- The option is settled by delivery of the asset;
- The option is settled in cash and the index price is ₹ 310 per unit.

5

6. The following is the extract from the Balance Sheet of HIMAVAN LTD.:

(Amount in ₹ Lakh)

Liabilities	As at		Assets	As at	
	31.3.2011	31.3.2012		31.3.2011	31.3.2012
Share Capital	1,000.00	1,000.00	Fixed Assets	1,100.00	1,300.00
General Reserve	800.00	850.00	10% Investments	500.00	500.00
Profit & Loss A/c	120.00	175.00	Stock	550.00	600.00
18% Term Loan	370.00	330.00	Debtors	340.00	220.00
Sundry Creditors	70.00	90.00	Cash at Bank	92.50	100.00
Provision for Tax	22.50	25.00			
Proposed Dividend	200.00	250.00			
	2,582.50	2,720.00		2,582.50	2,720.00

Additional Information:

- Current cost of fixed assets on 31.3.2011 is ₹ 2,200 lakh and on 31.3.2012 ₹ 2,532.80 lakh.
- Current cost of stock on 31.3.2011 ₹ 670 lakh and on 31.3.2012 ₹ 750 lakh.
- 2% of the investments were Trade Investments.
- Debtors include Foreign Exchange debtors amounting to \$ 70,000 recorded at the rate of \$ 1 = ₹ 50.50, but closing exchange rate was \$ 1 = ₹ 54.50.
- Creditors include Foreign Exchange creditors amounting to \$ 1,20,000 recorded at the rate of \$ 1 = ₹ 49.50, but the closing exchange rate was \$ 1 = ₹ 54.50.

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- (6) Profit included ₹ 120 lakh being Government Subsidy which is not likely to recur.
 (7) ₹ 247 lakh being the last installment of R and D cost were written off in the Profit & Loss Account. This expenditure is not likely to recur.
 (8) Tax rate during 2011-12 was 50%, effective future tax rate will be 35%.
 (9) Normal rate of return is expected at 14%.

Note—It has been agreed that 5 years' Purchase of Super Profit may be taken as the value of Goodwill.

Based on the information furnished, Mr. Irani, a Director of the Company fears that the Company does not enjoy Goodwill in the Prevailing market conditions. Critically examine this and establish whether HIMAVAN LTD. has or does not have any Goodwill. 15

7. (a) S LTD. and M LTD. had been carrying on business independently. They agree to amalgamate and form a new company N LTD. with an authorized share capital of ₹ 2,00,000 divided into 40,000 equity shares of ₹ 5 each. On 31.12.2010, the respective Balance Sheets of S LTD. and M LTD. stood as under:

Particulars	S LTD. ₹	M LTD. ₹
Fixed Assets	3,17,500	1,82,500
Current Assets	1,63,500	83,875
	4,81,000	2,66,375
Less: Current Liabilities	2,98,500	90,125
	1,82,500	1,76,250

Additional Information:

Revalued figures of Fixed and Current Assets were as follows:

Particulars	S LTD. ₹	M LTD. ₹
Fixed Assets	3,55,000	1,95,000
Current Assets	1,49,750	78,875

The debtors and creditors include ₹ 21,675 owed by M to S.

The purchase consideration is satisfied by the issue of the following shares and debentures:

- (i) 30,000 equity shares of N Ltd. to S Ltd. and M Ltd. in the proportion to the profitability of their respective business, based on the average net profit during the last 3 years which were as under:

Particulars	S LTD. ₹	M LTD. ₹
2008—Profit	2,24,788	1,36,950
2009—(Loss)/Profit	(1,250)	1,71,050
2010—Profit	1,88,962	1,79,500

- (ii) 15% Debentures in N LTD. at par to S LTD. and M LTD. to provide an income equivalent to 8% return on capital employed in their respective business as on 31.3.2010 after revaluation of assets.

You are required to:

- (1) Compute the amount of debentures and shares to be issued to S LTD. and M LTD. 10
 (2) A Balance Sheet of N LTD. showing the position immediately after amalgamation. 5

- (b) Write a short note on "Corporate Social Reporting". 5

8. Write short notes on any three of the following: 5×3=15

- (a) Significance of Environmental Accounting;
 (b) Basic Structure of the Form of Government Accounts;
 (c) Human Resource Accounting (HRA);
 (d) Impairment of asset and its application to inventory.

Best of Luck from CACRACKER team