

PAPER-16

ADVANCED FINANCIAL ACCOUNTING & REPORTING

REVALIDATION TEST PAPER-RV/16/AFA/2010

(Answer Question 1 and any FIVE from the remaining)

PART A

1(i) A company held 25% of stake in another company and during the year, it withdrew the investment to the extent of 10%. How should the company account for the investment?

- a. treat as investments as per AS-13 for the whole year.
- b. Account for as per 'equity method' till date of withdrawal of investment and thereafter as per AS-13.
- c. Account for as per 'equity method' for the whole year.

(ii) A venturer (who is having 50% share in the joint venture) sold a plant (WDV Rs.75 lacs) for Rs. 60 lacs to the joint venture. The amount of loss to be recognized in the books of the venturer would be:

- a. Rs. 7.50 lacs
- b. Rs. 15 lacs

(iii) A Ltd. purchased 80% shares of B Ltd. on 1st January, 2008 for Rs.1,40,000. The issued capital of B Ltd. on 1st January, 2008 was Rs.1,00,000 and the balance in the Profit & Loss Account was Rs.60,000. For the year ending 31st December 2008, B Ltd. has earned a profit of Rs.20,000 and at the same time, declared and paid a dividend of Rs.30,000. What is the amount of Minority Interest as on 1st January, 2008 and 31st December, 2008? (Amount in Rs.)

- a. Rs. 32,000 and Rs. 30,000 respectively
- b. Rs. 30,000 and Rs.32,000 respectively
- c. Rs. 30,000 and Rs.35,000 respectively
- d. Rs. 35,000 and Rs.30,000 respectively

(iv) B Ltd. purchased from the shareholders of A Ltd. all the issued shares @ Rs. 14 per share. A Ltd. had 60,000 shares of Rs.10 each fully paid up. The shareholders of A Ltd. took over one of the freehold properties of A Ltd. for Rs.60,000 at the book value of the same. The balance due to them would be satisfied by the issue of an appropriate no. of equity shares in B Ltd. at Rs.20 per share. The number of shares to be issued by B Ltd. to shareholders of A Ltd. are:

- a. 42,000
- b. 39,000
- c. 40,000

(v) With the following facts of an amalgamation, state the total number of shares to be issued by the Purchasing company (P Ltd.) to satisfy the purchase consideration:

	P Ltd	S Ltd
No. of shares	10,00,000	1,00,000
No. of shares held by		
S Ltd. in P Ltd.	30,000	
P Ltd. in S Ltd.		20,000

P Ltd. agreed to issue 2 shares for every 1 share in S Ltd.

- a. 1,30,000
- b. 1,40,000
- c. 1,60,000
- d. 1,50,000

(vi) When the carrying amount of a fixed asset is less than its net realizable value, then the fixed asset in the books should be disclosed at:

- a. Carrying amount
- b. Net realizable value
- c. Management choice
- d. None.

(vii) A non-corporate enterprise, whose turnover exceeds Rs.50 crores is a:

- a. Level – I enterprise
- b. Level – II enterprise
- c. Level – III enterprise

(viii) Fixed Production Overheads are allocated to Inventory on the basis of:

- a. Actual Capacity
- b. Idle capacity
- c. Normal Capacity
- d. None

- (ix) Dividends which were proposed after the balance sheet date is
- adjusting event as per AS-4
 - adjusting event as required by Schedule VI of The Companies Act, 1956
 - non-adjusting event as per As-4

(x) Which of the following items of income / liabilities will not be included in the segment income / liability respectively, of a Company which has three business segments namely, "Paper division", "Printing division", and "Publishing division"?

- Interest or dividend income
- Loan obtained by the company to purchase an asset for Printing division
- Both (a) and (b)
- Neither (a) nor (b).

2*10 marks

(b) A Limited Company finds that the stock sheets as on 31.03.09 had included twice an item the cost of which was Rs 20,000.

You are asked to suggest, hoe the error would be dealt with in the accounts of tthe year ended 31.03.2010

5 marks

PART B

2(a) a firm of contractors obtained a contract for construction of bridges across river Mahanadi. The following details are available n the records kept for the year ended on 31st March, 2009.

	(Rs in lacs)
Total Contract Price	1000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS-7 (Revised) issued by ICAI.

(b) Write short note on Effect on uncertainties of Revenue Recognition. 10+5

3(a) What are the GENERAL PRINCIPLES OF Government Accounting?

(b) State the basic structure in the form of Government Accounts. 8+7

4(a) For the given abbreviation name the terms in full

- (i) ICAI
- (ii) AS
- (iii) IAS
- (iv) US GAAP
- (v) IFRS

b) S Ltd have six segments with following data

Particulars	Rs in crore					
	A	B	C	D	E	F
Segment Revenue	250	520	70	50	60	50
Segment Result	50	(190)	10	10	(10)	30
Segment Assets	100	200	75	50	50	25

The Finance Director is of the view that it is sufficient that segment A & B ONLY BE THE REPORTED. Advise.

5+10

5 (a) The following is the Balance Sheet of P Ltd

Liabilities	Rs
Equity Share Capital	2,00,000
Reserve & Surplus	4,00,000
Secured Loan	2,00,000
Unsecured Loan	<u>6,00,000</u>
	<u>14,00,000</u>

Assets	Rs
Fixed Assets	7,00,000
Investments	4,00,000
(Market Value Rs 9,00,000)	
Current Assets	4,00,000
Less: Current Liabilities	<u>(1,00,000)</u>
	<u>14,00,000</u>

The company consists of three divisions. The scheme was agreed upon, according to which a new company B Ltd is to be formed. It will take investments at Rs 9,00 and unsecured loans at balance sheet value. It is to allot equity share of Rs10 each at par to the shareholders of P LTD in satisfaction of the amount due under the arrangement. The scheme was duly approved by the High Court. Pass Journal Entries in the Books of P Ltd.

(b) State any five salient points of distinction between Pooling of Interest Method & Purchase Method of Accounting for Mergers and Acquisitions.

10+5

5(a) State the scope of disclosure of Accounting Policies as per Accounting Standard.

(b) What is the material effect of changes in Accounting policies.

8+7

6. AB Ltd. and MB Ltd. decide to amalgamate and to form a new company AM Ltd. The following are their balance sheets as at 31.3.2009:

Liabilities	AB Ltd.	MB Ltd.	Assets	AB Ltd.	MB Ltd.
Share Capital (Rs. 100) each	10,00,000	6,00,000	Fixed Assets	7,50,000	2,00,000
General Reserve	1,00,000	50,000	Investments:		
Investment Allowance Reserve	40,000	30,000	1,500 Shares in MB	3,50,000	—
12% Debentures (Rs. 100 each)	3,00,000	1,00,000	4,000 Shares in AB	—	5,00,000
Sundry Creditors	60,000	20,000	Current Assets	4,00,000	1,00,000
	15,00,000	8,00,000		15,00,000	8,00,000

Calculate the amount of purchase consideration for AB Ltd. and MB Ltd. and draw up the balance sheet of AM Ltd. after considering the following:

- Assume amalgamation is in the nature of purchase.
 - Fixed assets of AB Ltd. are to be reduced by Rs. 50,000 and that of MB Ltd. are to be taken at Rs. 3,00,000.
 - 2% debentureholders of AB Ltd. and MB Ltd. are discharged by AM Ltd. by issuing such number of its 15% debentures of Rs. 100 each so as to maintain the same amount of interest.
 - Shares of AM Ltd. are of Rs. 100 each.
- Also show, how the investment allowance reserve will be treated in the Financial Statement assuming the Reserve will be maintained for 3 years.

7. Write short note on the following with reference to IAS-30, Impairment of Assets

- Identification of an asset that may be impaired
- Measuring recoverable amount
- Reversal of an Impairment Loss.

15

8(a) What are the advantages of preparation of Value Added Statements?

(b) What is economic value added and how is it calculated?

8+7