PAPER – 16

ADVANCED FINANCIAL ACCOUNTING & REPORTING

TEST PAPER – IV/16/AFA/2008/T-1

Time Allowed: 3 hrs — Full Marks: 100

Part One – Objective Type Questions **(10 x 2 = 20 marks)**

1) Which of the following cannot be classified / treated as inventory under AS-2-Valuation of Inventories?

a. Work in Progress at factory
b. Finished goods lying in Agent's premises
c. Raw material issued on loan to a group Company
d. Raw material in-transit.

2) As on 31st March 2007, the equity share capital of X Ltd. is Rs. 10 crores divided into shares of 10 each. During the Financial Year 2007-08, it has issued bonus shares in the ration 1:1. The net profit after tax for the year ending 31.03.07 & 31.03.08 is rs.8.5 crores and Rs.11.50 crores respectively. The EPS to be disclosed in the accounts for 2007-08 are:

	2008		2007
	31.03.08	31.03.07	31.03.07
a.	5.75	4.25	8.15
b.	5.75	8.15	8.15
c.	11.50	8.50	4.25
d.	11.50	4.25	8.15

3) 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

4) X Ltd. acquired 70% of equity shares of Y Ltd. as on 31st March 2004 at a cost of Rs.70 lakhs. The total assets and other liabilities of Y Ltd. amounted to Rs. 278.50 lacs and Rs. 140 lacs respectively. Y Ltd. declared and paid dividend @ 20% on its equity shares (face value Rs.10/-) as on 31st March 2004. X Ltd. purchased the shares of Y Ltd. @ Rs.20 per share. The amount of goodwill / capital reserve on acquisition of shares of Y Ltd. is:

a. Goodwill of Rs.33,95,000
b. Capital Reserve of Rs. 33,95,000
c. Capital Reserve of Rs.26,95,000
d. Goodwill of Rs.26,95,000

5) A company holding a majority of voting power in the shares of another company has reflected those shares as stock-in-trade with an intention to sell them in a short time. The accounting treatment in such a case would be:

a. treated as investments as per AS-13
b. consolidation of subsidiary's accounts done as per AS-21
c. treated as stock-in-trade

6) 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.

7) 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

8) 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

9) 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 shaers 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

10) Calculate the intrinsic value of shares of O Ltd. and P Ltd.:

Particulars	O Ltd.	P Ltd.
Fixed assets	110	50
Investments	16.25	25.00
Current assets	40.25	3.25
Miscellaneous expenditure	8.50	9.25
	175.00	**87.50**

Investments of O Ltd. represents 1,25,000 shares of P Ltd. Investments of P Ltd. are considered worth Rs. 30 Lakhs. The intrinsic value of the shares of O Ltd. and P Ltd. are:

a. Rs.59 and Rs.15 per share respectively
b. Rs.60 and Rs.15 per share respectively
c. Rs. 63.40 and Rs. 16.85 per share respectively
d. Rs. 60.70 and Rs.16.85 per share respectively

Part Two

Answer any 4 questions out of six. **(4x 20 = 80 marks)**

11) a) State and explain the Related Party Relationships to which disclosures are enumerated in AS – 18, Related Party Disclosures.

(5 marks)

b) There are inherent limitations to the process of Accounting. However, the qualify of information is improved through the application of Fundamental Accounting Assumptions and other conventions including Prudence, Substance Over Form, etc. Explain and comment on the above statement.

(15 marks)

12) a) Differentiate between the two types of amalgamation prescribed under AS-14, Accounting for Amalgamations, with reference to the conditions to be satisfied and accounting treatments prescribed.

(10 marks)

b) Highlight the differences between the following Accounting Standards issued by ICAI and the corresponding International Accounting Standard (issued by IASB):

1. AS 2 & IAS 2; 2. AS 9 & IAS 18,
3. AS 10 & IAS 16; 4. AS 24 & IAS 5 (10 marks)

13) The balance sheet of R Ltd. at 31st March 2008 was as follows:

	Rs.		Rs.
Share Capital		Intangibles	68,000
Authorised	14,00,000	Freehold Premises at cost	1,40,000
Issued and subscribed capital		Plant and equipment at cost	
64,000 8% Cumulative preference shares of Rs.10 each fully paid	6,40,000	less depreciation	2,40,000
64,000 equity shares of Rs. 10 each, Rs. 7.5 paid	4,80,000	Investments in shares in Q Ltd. at cost	3,24,000
Loans from directors	60,000	Stocks	2,48,000
Sundry Creditors	4,40,000	Debtors	3,20,000
Bank Overdraft	2,08,000	Deferred Revenue expenditure	48,000
		Profit and loss A/c	4,40,000
	18,28,000		**18,28,000**

The arrear of preference dividends amount to Rs.51,200.

A scheme of reconstruction was duly approved with effect from 1st April 2008 under the conditions stated below:

1. The unpaid amount on the equity shares would be called up.
2. The preference shareholders would forego their arrear dividends. In addition, they would accept a reduction of Rs.2.5 per share. The dividend rate would be enhanced to 10%.
3. The equity shareholders would accept a reduction of Rs.7.5 per share.
4. R Ltd. holds 21,600 shares in Q Ltd. This represents 15% of the share capital of that company. Q Ltd. is not a quoted company. The average net profit (after tax) of the company is Rs.2,50,000. The shares would be valued based on 12% capitalization rate.
5. A bad debt provision at 2% would be created.
6. The other assets would be valued as under:

	Rs.
Intangibles	48,000
Plant	1,40,000
Freehold Premises	3,80,000
Stocks	2,50,000

7. The profit and loss account debit balance and the balance standing to the debit of the deferred revenue expenditure account would be eliminate.d
8. The directors would have to take equity shares at the new face value of Rs.2.5 per share in settlement of their loan.
9. The equity shareholders, including the directors, who would receive equity shares in settlement of their loan.
10. The Preference shareholders would take up one new preference share for every four held.
11. The authorized share capital would be restated to Rs.14,00,000.
12. The new face values of the shares - preference and equity will be maintained at their reduced levels.

You are required:

a. to prepare the necessary ledger accounts to effect the above; and
b. to prepare the balance sheet of the company after reconstruction.

(20 marks)

14)

a) The following are the balance sheets of Big Ltd. and Small Ltd. for the year ending on 31st March 2008.

(Figures in crores)

	Big Ltd.	Small Ltd.
Equity share capital – in equity shares of Rs.10 each	50	40
Preference share capital – in 10% preferences shares of Rs.100 each	-	60
Reserves and surplus	200	150
	250	250
Loans – secured	100	100
Total funds	**350**	**350**
Applied for:		
Fixed assets (At cost less depreciation)	150	150
Current assets less current liabilities	200	200
Total	**350**	**350**

The present worth of fixed assets of Big Ltd. is Rs.200 crores and that of Small Ltd. is Rs.429 crores. Goodwill of Big Ltd. is Rs.40 crores and of Small Ltd. is 75 crores. Small

Ltd. absorbs Big Ltd. by issuing equity shares at par in such a way that intrinsic networth is maintained.

Goodwill account is not to appear in the books. Fixed assets are to appear at old figures.

(a) Show the balance sheet after absorption.

(b) Draft a statement of valuation of shares on intrinsic value basis and prove the accuracy of your workings.

(10 marks)

b) In preparing the consolidated balance sheet of A Ltd. as on 31st December 2007, you are required to show clearly what amount if any, you would include in respect of B Ltd. with regard to:

i. Cost of control / reserve:

ii. Profit or Loss; and

iii. Minority Interest

when 40,000 of the shares then in issue of B Ltd. were acquired at a cost of Rs.60,000 on 31st Dec 2005; A Ltd. participated in the bonus issue but not in the proposed dividend of Rs.9,000.

The balance sheet of B Ltd. as on 31st December, 2007 showed:

	Particulars	Rs.
a.	Share capital, authorized and issued of Re.1 each	80,000
b.	Undistributed profits	24,000
c.	7% Debentures	40,000

The Profit and loss appropriation accou,t for four years 31st December, 2007 were as follows:

	Particulars	2004	2005	2006	2007
a.	Balance at the beginning of the year	16,000	22,000	43,000	28,000
b.	Bonus issue of 1 share for every 4 shares – 1st January 2006	-	-	(16,000)	-
c.	Profit for the year (loss)	14,000	30,000	7,000	(4,000)
d.	Profits available for appropriation	30,000	52,000	34,000	24,000
e.	Proposed dividends	(8,000)	(9,000)	(6,000)	-
f.	Balance carried forward	22,000	43,000	28,000	24,000

15) On 1st April, 2007 Alpha Limited paid Rs.1,10,000 for 90% of the issued capital to Beta Limited. The assets and liabilities of two companies as ib 31st March, 2008 were as follows:

Assets	Alpha Ltd.	Beta Ltd.
Goodwill	20,000	6,000
Fixed assets	94,000	96,000

Current assets	30,000	18,000
Investment – at cost	1,56,000	-
Total	**3,00,000**	**1,20,000**
Liabilities		
Issued share capital – (Re.1 each fully paid)	1,80,000	60,000
General Reserve – 1st April 2007	45,000	20,000
Profit and Loss Account	36,000	20,500
Current Liabilities	39,000	9,500
6% Debentures held by Alpha Ltd.	-	10,000
Total	**3,00,000**	**1,20,000**

1. On April 1, 2007 the opening credit balance of Alpha Ltd.'s profit and loss account was Rs.26,000. Out of this balance, a 10% dividend was paid subsequently.

2. The Profit and Loss account of Beta Ltd. showed the following:

Particulars	**Rs.**	**Rs.**
Balance b/f on April 1, 2007	22,000	
Net Profit for the year ended 31st March, 2008	12,000	34,000
Less: Dividend paid		
Final for the year ended 31st March, 2007	9,000	
Interim for the half-year ended September	4,500	(13,500)
Balance c/f on 31st March, 2008		20,500

3. Included in the stock-in-trade of Beta Ltd at Balance sheet date were goods purchased from Alpha Limited for Rs.6,000 on which there was a profit of 50% on cost of Alpha Limited.
4. All dividends received by Alpha Ltd. have been correctly recorded in the books of account.

Prepare a Consolidated Balance Sheet as on 31st March, 2008 and show your workings.

(20 marks)

16) Prepare the consolidated Balance sheet as on December 31, 2007 of group of companies M Ltd., N Ltd., O Ltd. Their balance sheets on that date are given below:

Liabilities	**M Ltd.**	**N Ltd.**	**O Ltd.**
Share capital (share of Rs.100 each)	1,25,000	1,00,000	60,000
Reserves	18,000	10,000	7,200
Profit and Loss A/c	16,000	4,000	5,000

Sundry Creditors	7,000	3,000	-
M Ltd.	-	7,000	-
O Ltd.	3,300	-	-
Total	**1,69,300**	**1,24,000**	**72,200**

Assets	**M Ltd.**	**N Ltd.**	**O Ltd.**
Fixed assets	28,000	55,000	37,400
Investments in shares -			
- N Ltd.	85,000	-	-
- O Ltd.	-	53,000	-
Stocks	22,000	6,000	-
Debtors	26,300	10,000	31,500
- NLtd.	8,000	-	-
- M ltd.	-	-	3,300
Total	**1,69,300**	**1,24,000**	**72,200**

Other information:

i. M Ltd. holds 750 shares in N Ltd. and N Ltd. holds 400 shares in O Ltd. These holdings are acquired on 30th June, 2007.

ii. On 1st January, 2007 the following balances stood in the books of N Ltd. and O Ltd.

	N Ltd. Rs.	O Ltd. Rs.
Reserves	8,000	6,000
Profit and Loss account	1,000	1,000

iii. O Ltd., sold goods costing Rs.2,500 to N Ltd. for Rs.3,100. These goods still remain unsold.

(20 marks)