ADVANCED ACCOUNTING (FINANCIAL REPORTING) MODEL QUESTION PAPER

Instruction: Answer All the Questions

1. Answer all of the following –

(a) The following is the extract from the Balance Sheets of Popular Ltd: (Rs. in Lakhs)

Liabilities	31.3.2004	31.3.2005	Assets	31.3.2004	31.3.2005
Share Capital	500	500	Fixed Assets	550	650
General Reserve	400	425	10% Investments	250	250
Profit & Loss Account	60	90	Stock	260	300
18% Term Loan	180	165	Debtors	170	110
Sundry Creditors	35	45	Cash and Bank	46	45
Provision for Tax	11	13	Fictitious Assets	10	8
Proposed Dividend	100	125			
Total	1,286	1,363	Total	1,286	1,363

Additional Information –

1. Replacement Value of Fixed Assets were Rs.1,100 Lakhs on 31.03.04 and Rs.1,250 Lakhs on 31.03.05 respectively.
2. Rate of Depreciation adopted on Fixed Assets is 5% p.a.
3. 50% of the Stock is to be valued at 120% of its Book Value.
4. 50% of the Investments were Trade Investments.
5. Debtors on 31st March 2005 include Foreign Debtors of $35,000 recorded in the books at Rs.35 per US Dollar. The Closing Exchange Rate was $ 1 = Rs. 39.
6. Creditors on 31st March 2005 include Foreign Creditors amounting to $ 60,000 recorded in the books at $ 1 = Rs.33. The Closing Exchange Rate was $ 1 = Rs. 39.
7. Profit for the year 2004 – 05 included Rs.60 Lakhs being Government Subsidy which is not likely to recur.

8. Rs.125 Lakhs of Research and Development Expenditure was written off to P & L A/c in the current year. This expenditure was not likely to recur.
9. Future Maintainable Profits (pre–tax) are likely to be higher by 10%.
10. Tax rate during 2004–05 was 50%, effective future tax rate will be 40%.
11. Normal Rate of Return is expected 15%.

One of the Directors of the Company Arvind, fears that the Company does not enjoy a Goodwill in the prevalent market conditions. Critically examine this and establish whether Popular Co. has or has not any Goodwill.

If your answers were positive on the existence of Goodwill, show the leverage effect it has on the Company's result.

Industry Average Return was 12% on Long–Term Funds and 15% on Equity Funds.

8 Marks

(b) What the items of expenditure that are considered as Borrowing Cost? 3 Marks

(c) Discuss the relaxation in disclosure and reporting requirements prescribed in Accounting Standards afforded to Level II Enterprises. 5 Marks

2. Answer all of the following –

(a) On 30th September 2003, Beta Enterprises Ltd was incorporated with an Authorised Capital of Rs.50 Lakhs. Its first accounts were closed on 31st March 2004 by which time it had become a Listed Company, with an Issued, Subscribed and Paid Up Capital of Rs.40 Lakhs in 4 Lakh Equity Shares of Rs.10 each.

The Company started off with two lines of business viz. Engineering Division and Chemicals Division, with equal asset base w.e.f 01.04.2004. The Ceramics Division was started by the Company on 1st April 2005. The following data is gathered from the Company's books for the year ended 31st March 2006.

Trial Balance as on 31st March 2006 (Rs. 000s)

Particulars	Dr.	Particulars	Cr.
Cost of Sales of Engineering Division	2,600	Sales of Engineering Division	6,000
Cost of Sales of Chemicals Division	4,300	Sales of Chemicals Division	8,000
Cost of Sales of Ceramics Division	900	Sales of Ceramics Division	1,500
Administration Costs	2,000	Depreciation on Fixed Assets	1,500
Distribution Costs	1,500	Trade Creditors	500
Interim Dividend Paid	1,200	Equity Capital in Shares of Rs.10 each	4,000
Fixed Assets at Cost	9,000	Retained Profits	1,000
Stock on 31st March 2006	400		
Trade Debtors	440		
Cash at Bank	160		
Total	22,500	Total	22,500

Additional Information:

- Administation Costs should be split between the divisions in the ratio of 5 : 3 : 2.
- Distribution Costs should be spread over divisions in the ratio of 3 : 1 : 1.
- Directors have proposed a final dividend of Rs.8 Lakhs.
- Some of the users of Ceramics Division are unhappy with the products and have lodged claims against the Company for damages of Rs.7.5 Lakhs. The Claim is hotly contested by the Company on legal advice.
- Fixed Assets worth Rs.30 Lakhs were added in the Ceramics Division on 01.04.2005. Fixed Assets are written off over a period of 10 years on Straight Line Basis, in the books. However, for Income Tax purposes, Depreciation at 20% on Written Down Value of the assets is allowed by the Income Tax Authorities.
- Income Tax Rate may be assumed at 35%.
- During the year, Engineering Division had sold to Alpha Ltd, goods having a sales value of Rs.25 Lakhs. Mr.Gamma, the Managing Director of Beta Enterprises Ltd owns 100% of the issued Equity Shares of Alpha Ltd. The Sales made to Alpha Ltd were at normal selling prices of Beta Enterprises Ltd.

You are required to prepare the Profit and Loss Account for the year ended 31st March 2006 and a Balance Sheet as on that date. Your answer should include Notes and Disclosures as per Accounting Standards. 12 Marks

(b) A University receives two grants – one from the Ministry of Human Research to be used for AIDS Research. This grant is for Rs.45,00,000, which includes Rs.3,00,000 to cover indirect expenses incurred in administering the grant. The second grant of Rs.35,00,000 received from a reputed Trust is to be used to set up a centre to conduct seminars on AIDS related matters from time to time. During the year, it also received Rs.5,00,000 worth of equipment donated by a well-wisher to be used for AIDS research. During the year 2003-04, the University spent Rs.32,25,000 of the Government Grant and incurred Rs.3,00,000 Overhead Expenses. Rs.28,00,000 were spent from the grant received from the Trust.

Show the necessary Journal Entries in the books of the University. 4 Marks

3. Answer all of the following –

(a) ASE a Stock Exchange organized as an Association of Persons was demutualised and converted into ASE Ltd pursuant to an agreement with the Securities Exchange Board of India. As per the terms of the agreement, the trading rights of the members of the erstwhile ASE (AOP), were to be purchased by ASE Limited in consideration for issue of shares of ASE Ltd. Also the trading rights acquired by the ASE Ltd was to be leased out to the members of erstwhile ASE (AOP). ABC Ltd was a member of the Erstwhile ASE AOP holding trading rights and pursuant to the agreement with SEBI surrendered his trading rights to the newly formed ASE Ltd, in consideration for shares issued to him and the same trading rights were allotted back to ABC Ltd pursuant to the lease agreement. The particulars of the transaction were as follows –

Particulars	Amount Rs. Crores
Fair Value of the Trading Rights	45
Carrying amount of the Trading Rights	50
Fair Value of Shares issued	55
Annual Lease Rentals	8
Period of Lease	8 years
Unexpired life of the Trading Right	10 years
Lessee's Incremental borrowing Rate	10%
Lessee's Cost of Capital – IRR	12%
Annuity Factor – 10% for 8 years	5.335
Annuity Factor – 12% for 8 years	4.968

Show the Extract of Balance Sheet at the end of the accounting year assuming that the Sale and Lease Back Transaction was entered into in the beginning of the Accounting Period. 7 Marks

(b) Following are the Balance Sheets of H Ltd and its only subsidiary S Ltd as at 31.03.2009 –

(Rs.Lakhs)

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
Equity Share Capital (Rs.10)	125	40	Fixed Assets	250	100
Capital Reserve	20	—	Investments	75	—
Capital Redemption Reserve	—	10	Current Assets	375	140
Free Reserves	320	75			
15% Debentures	100	50			
Current Liabilities	135	65			
Total	700	240	Total	700	240

H Ltd purchased 3 Lakh shares in S Ltd on 01.07.2008 for Rs.60 Lakhs. On that date S Ltd had Rs.40 Lakhs in its free reserves. S Ltd had bought back 20% of its shares on 01.10.2008 at the then prevailing market price of Rs.25 per share. The buy back was sourced out of accumulated profits.

Remaining investments of H Ltd includes investment in 30% of Equity of A Ltd, an unlisted Company, acquired on 01.04.2008, when its net worth was Rs.40 Lakhs. On 31.03.2009, its net worth was Rs.50 Lakhs.

Current Liabilities of S Ltd includes Bills Payable of Rs.2 Lakhs to H Ltd, of which H Ltd had discounted Rs.1.20 Lakhs with its bankers.

S Ltd had sold goods costing Rs.5 Lakhs at Rs.7 Lakhs to H Ltd on 01.04.2008. The entire goods are still lying in stock as at the above Balance Sheet date.

Find out the amounts of Capital Reserve / Goodwill on consolidation. Also find out, the amount of Group Reserves to be incorporated in the Consolidated Balance Sheet and the Extent of Minority Interest. 9 Marks

4. Answer all of the following –

(a) Given below is the Balance Sheet of ADAG Ltd as at 31st December, consisting of two divisions —

Liabilities	Rs.Lakhs	Assets	Rs.Lakhs
8.00 Crore Equity Shares of Rs.10 each	8,000	Fixed Assets	
10 Lakh 5% Preference Shares of Rs.100 each	1,000	Tangible Fixed Assets	26,000
General Reserve	15,500	Intangible Fixed Assets	500
Profit & Loss A/c	8,500	Capital Work in Progress	12,500
Securities Premium	5,000	Investments	
15% Term Loans	12,500	In Mutual Funds	500
12% Debentures	7,500	In Lands	1,500
Working Capital Loan	5,000	Current Assets	
Current Liabilities	7,000	Advances and Deposits	5,000
		Current Receivables	6,500
		Inventories	7,000
		Cash and Bank	10,500
Total	70,000	Total	70,000

Other Information:

1. The Company has two divisions – Electronic Retail and Telecommunication Tower Business.
2. Telecommunication Tower is a newly started division, whose assets and liabilities are as follows —

Tangible Fixed Assets	5,000
Intangible Fixed Assets	500
Investment in Land	1,500
Advances	4,000
Bank Balances	6,000
15% Term Loans	7,000
Current Liabilities	4,000

3. The Company in its EGM has decided to demerge the Telecommunication Tower Business into a new Company, AB Teletowers Ltd (ABTL) at the following terms —
   (a) Consideration will be paid on Net Assets basis directly to the shareholders by issue of adequate number of equity shares at Rs.10 per share.
   (b) Investment in Land will be transferred at Rs.2,500 Lakhs
4. In its EGM 10% of its Equity Shareholders opposed the Demerger, and based on Court Ruling, their shares will be bought back before demerger at the prevailing market price of Rs.75 per Share.
5. The buy back would be funded by sale of investments at Rs.800 (Lakhs), realization of Short Term Deposits of Rs.800 Lakhs (included in Advances).

Required —

- Journal Entries in the books of ADAG Ltd
- Balance Sheet of AB Teletowers Ltd.

(b) Balance Sheet of these companies as on 30th June of a financial year is as follows:

Particulars	Brahma Ltd	Vishnu Ltd	Shiva Ltd

Tangible Fixed Assets at Cost Less Depreciation	5,00,000	4,00,000	3,00,000
Goodwill	–	60,000	–
Other Assets	2,00,000	2,80,000	85,000
Total Assets	7,00,000	7,40,000	3,85,000
Liabilities:			
Issued Ordinary Share Capital shares of Rs.10 each	4,00,000	5,00,000	2,50,000
Profit and Loss Account	1,50,000	1,10,000	60,000
10% Debentures	70,000	–	40,000
Sundry Creditors	80,000	1,30,000	35,000
Total Liabilities	7,00,000	7,40,000	3,85,000
Average Annual Profits before Debenture Interest	90,000	1,20,000	50,000
Professional Valuation of Tangible Assets on 30th June	6,20,000	4,80,000	3,60,000

1. The Directors in their negotiations agreed that (i) the recorded Goodwill of Vishnu Ltd is valueless; (ii) The Other Assets of the Brahma Ltd are worth Rs.30,000; (iii) the valuation of 30th June in respect of Tangible Fixed Assets should be accepted; (iv) these adjustments are to be made by the individual Company before the completion of the acquisition.

2. The acquisition agreement provides for the issue of 12% Unsecured Debentures to the value of the Net Assets of the companies Brahma Ltd, Vishnu Ltd and Shiva Ltd and for the issuance of Rs.10 nominal value Ordinary Shares for the capitalized average profits of each acquired Company in excess of the Net Assets contributed. The Capitalization rate is taken at 10%.

You are required to calculate Purchase Consideration and show the Purchase Consideration as discharged.

5. Answer all of the following –

(a) In a reporting period (calendar year) Pathanga Ltd a listed company, announced a scheme to buyback a maximum of 5% of its Equity Shares (of Rs. 10 Each) at a price of Rs. 25 per share. The market price of the shares immediately prior to the buyback is Rs. 22. The following additional information is given.

Particulars	This Year	Last Year
Net Profit	Rs. 8,00,000	Rs. 6,00,000
Number of Shares on January 1	1,00,000	1,00,000
Bought–back and cancelled on 30th September	(4,000)	–

Also, a share split of 1:1 was announced during the reporting period on the 1st of December. Compute the Basic EPS.

(b) Compute the Loss on Impairment for the following situations –

Figures in Rs. Crores

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Carrying in Amount	42	18	25	85
Expected Annual Cash Flow –Pre Tax – Useful life being 5 years with no salvage value	14	5	7	24
Net Selling Price	50	28	45	75

The Cost of Capital of 14% can be assumed. A uniform tax rate of 30% is applicable across the four situations. Find out the amount of impairment Loss to be recognized in the reporting period.

6. Answer all of the following –

(a) Distinguish between Permanent Differences and Temporary Differences 4 Marks

(b) Briefly discuss about the Expert Advisory Committee 4 Marks

(c) X Ltd has a practice of not including reimbursement as part of its taxable services for the purpose of Levy of Service Tax. The Company is aware that Service Tax Department is frequently raising demand on assesees rendering the said class of Service for the Service Tax Component on reimbursement and the chances of the X Ltd coming under assessment is more likely than not. The total amount of levy in case the assessment is opened would be to the tune of Rs 6 Lakhs. X Ltd can also recover the amount of such service tax paid to the department from its customers and it is estimated that 90% of the amount of tax paid on assessment can be certainly recovered from its customers. Considering the situation X Ltd asks your opinion on the disclosure requirements in the financials of the company. You may Advise X Ltd considering the provisions outlined in AS 29 and AS 9. 4 Marks

(d) Mr. A, is the Managing Director or PQR Ltd. His purchases from the company amount to Rs. 2,00,000 every month for the year ended 31.03.2009. His term of managing director of the company came to end on 31.12.2008, and he was not re appointed on the expiry of the term. Now considering the facts of the case, state the transactions that are required to be disclosed as Related Party Transactions during the year ended 31.03.2009. 4 Marks

(e) Describe the major issues in Environmental Accounting. 4 Marks

The answers to the above questions and the Scheme of Valuation for the above paper will be uploaded on the 20th of April, 2009.